

CITY OF SAN JOSÉ

Labor Negotiations Update

October 17, 2011

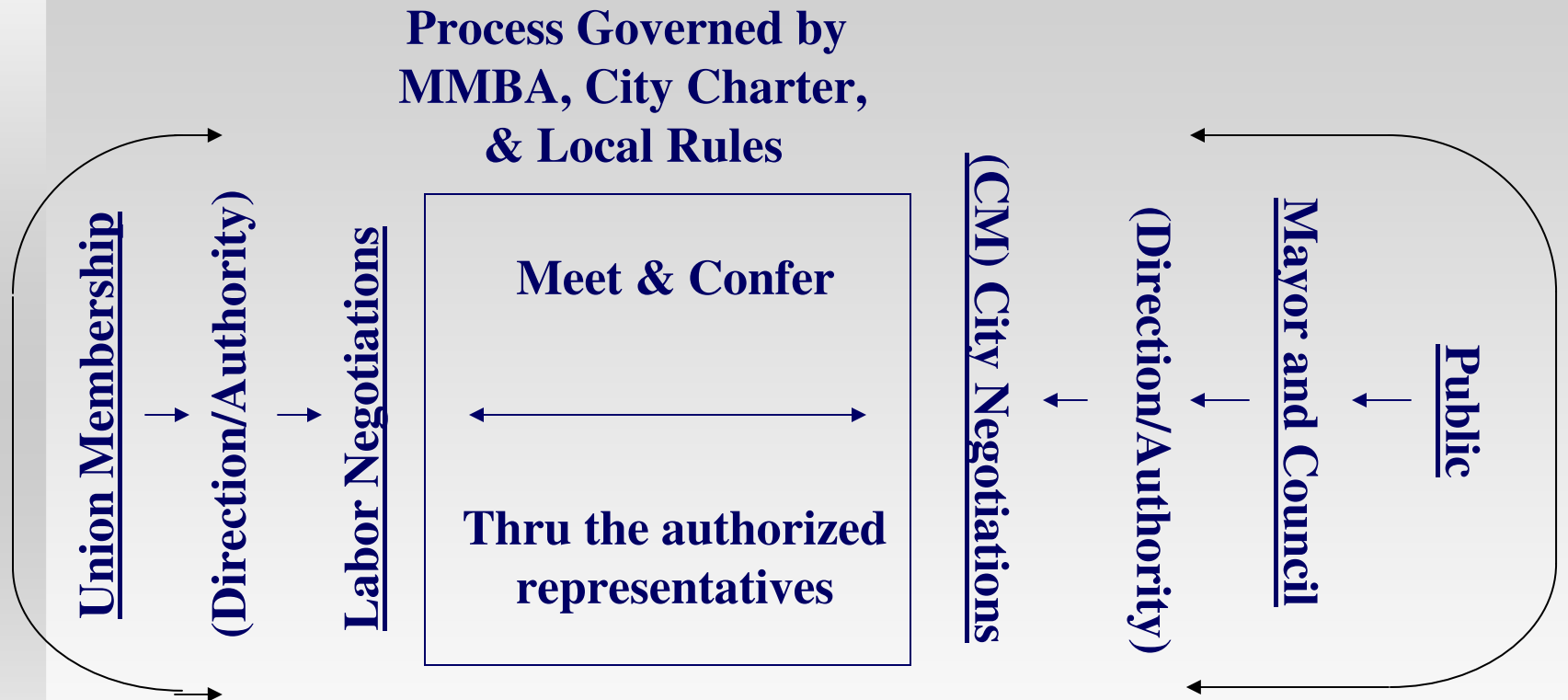
Labor Relations Information

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>

Labor Negotiations



Fiscal Reform Plan Goal

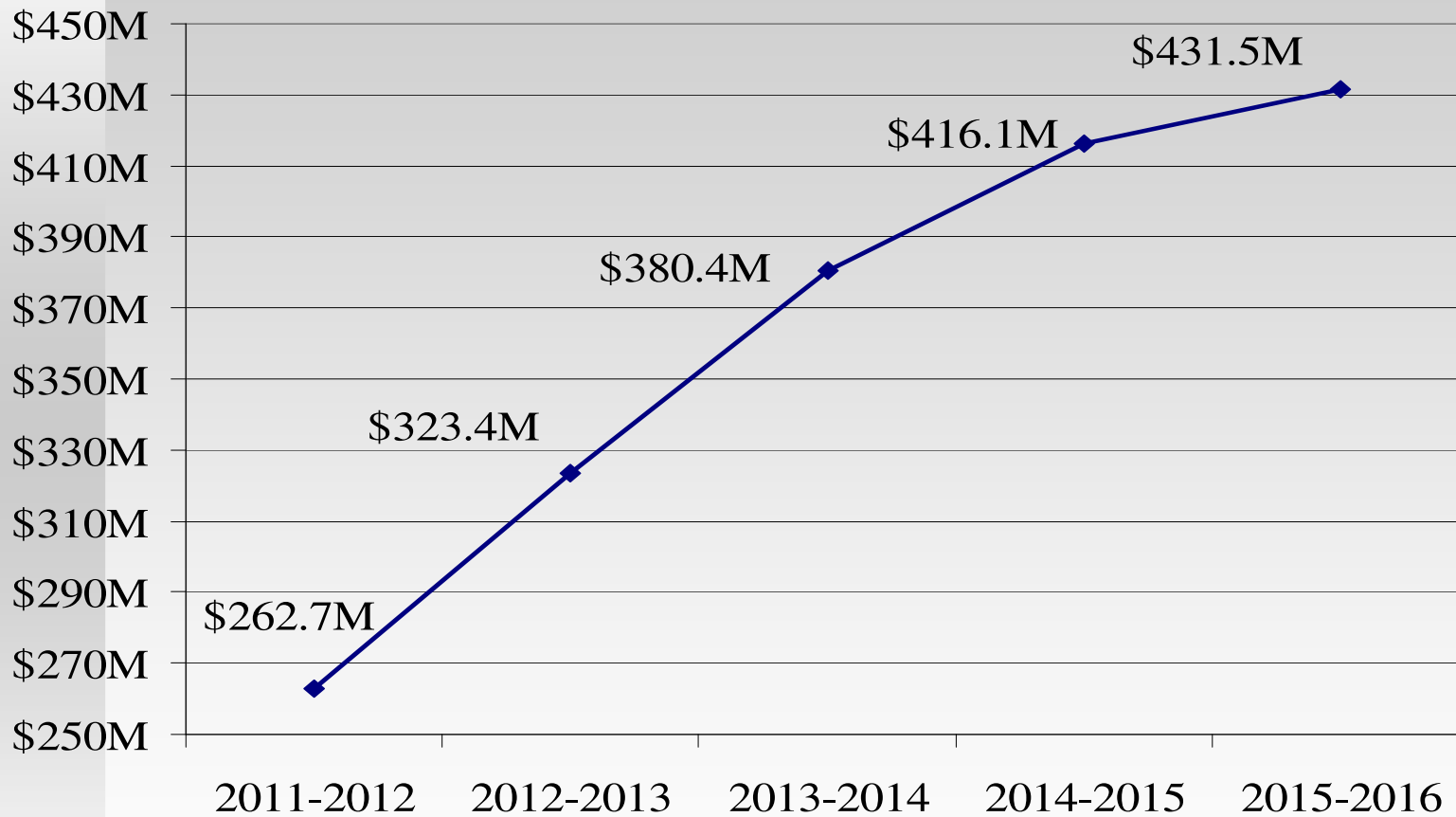
City Council Direction

- Develop a plan to achieve \$216 million in General Fund savings in five years through cost reductions and/or new revenues
- Keep retirement costs at the Fiscal Year 2010-2011 level
- Restore/keep Police, Fire, libraries and community centers to the January 1, 2011, level
- Open the libraries, community centers, and fire stations built or under construction and the police substation within five years

City Council Direction

- Cost Savings From:
 - Reducing compensation for existing employees
 - Avoiding increases in retirement costs beyond the amounts paid for this fiscal year
 - Reforming workers' compensation and disability retirement systems
 - Reducing costs for sick leave payouts, vacation buybacks, and overtime pay
 - Modifying healthcare plans and cost sharing
 - Organizational changes and efficiencies

Updated Retirement Contribution Projections (Pension & Retiree Healthcare)



Note: Based on Cheiron's Estimates of August 2011 (All Funds)

Fiscal Reform Plan- UPDATED

Retirement Savings Needed

Fiscal Year	ALL FUNDS Retirement Costs
2015-2016^[1]	\$431.5 million
2010-2011	\$186.0 million
Difference	\$245.5 million

^[1] These are projected costs and are subject to change.

Budget Projections

General Fund Shortfalls Expected to Continue into the Future

2012-2016 General Fund Forecast

(Based on Feb 2011 Forecast, Updated for 2011-2012 Adopted Budget*)

(\$ in Millions)

	2012-2013	2013-2014	2014-2015	2015-2016	Total
Projected Annual Shortfall **	(\$78.2 - \$115)	(\$25.1)	(\$10.0)	(\$0.1)	(\$113.4 - \$150)

* Does not include: cost-of-living salary increases; additional impacts from future changes in actuarial assumptions or retirement benefit levels that could impact the City's required retirement contributions; unmet/deferred infrastructure and maintenance needs; Development Fee Programs; or one-time revenues/expenses. Assumes continued pre-payment of City's annual retirement contribution.

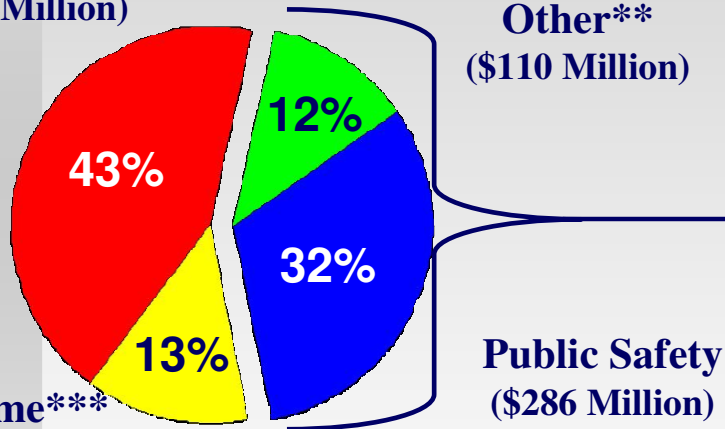
** Annual budget shortfall attributed to each fiscal year. Assumes shortfalls addressed with ongoing solutions. Any portion of the annual shortfall solved on a one-time basis would carry over to the following year. The 2012-2013 budget shortfall figure includes \$35 million from one-time solutions carried over from 2011-2012.

Unacceptable Service Reductions/ Eliminations Remain

**2011-2012
Adopted General Fund Budget
(\$906 Million)**

**2011-2012
Discretionary Expenditures
(\$396 Million)**

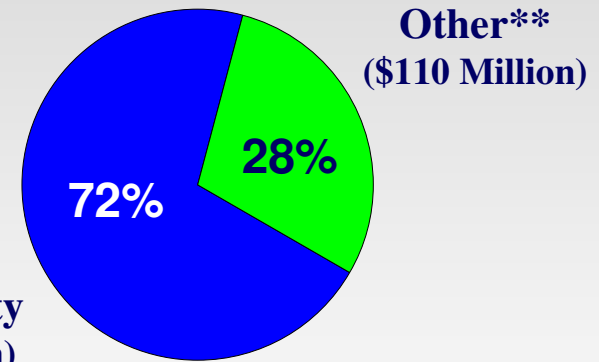
**Non-Discretionary*
(\$390 Million)**



One-Time*
(\$120 Million)**

**Public Safety
(\$286 Million)**

**Public Safety
(\$286 Million)**



Other
(\$110 Million)**

* Non-Discretionary includes annual retirement contributions, grants, reimbursements (incl. gas tax), fee-supported activities, debt service, insurance, workers' compensation, sick leave payments upon retirement, contractually required facility subsidies, Mayor, City Council, Council Appointees, and other non-discretionary items.

** Other includes PRNS; Library; Information Technology; Transportation; Public Works; Finance; Human Resources; PBCE; Economic Development; Mayor, City Council and Council Appointees Offices; and other expenditures.

*** One-Time includes contingency reserve, encumbrance reserve, earmarked reserves, one-time grants, and expenditure rebudgets.

Fiscal Reform Plan Savings- General Fund

Areas of Savings	Estimated 2012-2013 Savings	Estimated 2013-2014 Savings	Estimated 2014-2015 Savings	Estimated 2015-2016 Savings
Workers' Compensation Offset	\$0 M*			
Sick Leave Payout	\$9.5 M			
Overtime		\$1.2 M		
SRBR	\$3.7 M			
Retiree Healthcare		\$13.9 M		
Additional Retirement Contributions/Opt-In Program	\$16.3 M	\$16.3 - 78 M**		
1% COLA (retiree pensions)	\$30 M**			
<i>Subtotal</i>	<i>\$59.5 M</i>	<i>\$31.4 - 93.1 M</i>		
Revenues (full-year values)	\$38.3 M		\$10.0 M	
TOTAL SAVINGS	\$97.8 M	\$31.4 - 93.1 M	\$10.0 M	

* Workers' Compensation Offset savings will be to the Retirement Plans. It is unknown how much of that will be passed onto the City through contribution rate changes.

** Savings assumes a 6.75% earnings assumption

Labor Negotiations Status Update

Sick Leave Payout

Sick Leave Payout Status

Bargaining Unit	Sick Leave Payout Status
MEF	Eliminated effective January 1, 2012
CEO	Eliminated effective January 1, 2012
OE#3	Eliminated effective January 1, 2012
IBEW	Eliminated effective January 1, 2012
IAFF, Local 230	Union proposal to use to purchase retirement service credit
POA	Union proposal to use to purchase retirement service credit
ALP	Union proposal to eliminate only for future hires Status quo or purchase retirement service credit for current employees
ABMEI	Union proposal to cap maximum amount of payout at \$40,000 per employee
AEA	No proposals received
CAMP	No proposals received
AMSP	No proposals received

Retirement Reform

Retirement Reform Negotiations

Bargaining Unit	Ballot Measure “Seal Beach”	Retirement Reform
AEA, CAMP AMSP	Framework- October 31, 2011	
POA & IAFF, Local 230	Framework- October 31, 2011	
ALP	Target: October 31, 2011	Ongoing
ABMEI	Target: October 31, 2011	Ongoing
MEF, CEO	Target: October 31, 2011	
IBEW	Target: October 31, 2011	
OE#3	Target: October 31, 2011	

Framework Agreement with POA, Local 230, AEA, CAMP and AMSP

“The parties agree to meet and confer in good faith and agree to complete the negotiation process by October 31, 2011. If the parties are unable to reach an agreement on retirement reform and/or related ballot measure(s) by October 31, 2011, the parties shall proceed to impasse, pursuant to the procedures outlined in the Employer-Employee Relations Resolution (EERR) #39367.”

How Are Defined Benefit Costs Determined?

“The actuarial assumptions do not determine the ‘actual cost’ of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received.”

- The Segal Company

What Are The Primary Components Of The Benefits That Affect Costs?

1. Retirement Age
2. Benefit Formula
3. Maximum Benefit
4. Final Salary Calculation
5. Cost-of-Living Adjustments (COLA)
6. Survivorship Benefits
7. Retiree Healthcare Benefits
8. Disability Retirements
9. Supplemental Benefits (SRBR)

Retirement Reform Proposal

Association of Legal Professionals (ALP)

Supplemental Retiree Benefit Reserve (SRBR)

- Eliminate SRBR

Retirement Proposals

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

**Association of Engineers and Architects,
IFPTE Local 21**

**City Association of Management Personnel,
IFPTE Local 21**

**Association of Maintenance Supervisory Personnel
IFPTE Local 21**

Timeline

June 3, 2011	1 st Negotiation Session with IFPTE
June 20, 2011	1 st Negotiation Session with POA and IAFF Local 230
Tuesday, September 27th	Negotiations were scheduled with POA and IAFF Local 230, but were cancelled by the unions that day.
Wednesday, September 28th	Proposals first received by City's negotiating team an hour prior to press conference.
Friday, September 30th	First meeting with IFPTE. Union requested City's questions on proposals in writing prior to responding.
Wednesday, October 5th	Second meeting with IFPTE. Union provided responses to initial questions. First meeting with IAFF Local 230 and POA.
Wednesday, October 12th	Meeting with POA and IAFF Local 230, including Local 230 and City's actuaries.
Friday, October 14th	Meeting with POA and IAFF Local 230, including representatives from CalPERS and actuaries.

AEA, AMSP & CAMP Proposal

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

AEA, AMSP & CAMP Proposal

Voluntary Election Program (Opt In)-Pension Only		
	Current Benefit	IFPTE Local 21 Proposal
Accrual Rate	2.5% per year	2.0% per year (future years)
Age/Years of Service	55 w/5 years, or 30 years at any age	Age 60 w/10 years (phased in)
Final Average Salary Calculation	Highest Year	Average of highest 36 months
COLA	3% fixed (annually)	CPI capped at 2%
Normal Cost	8:3 Split	Status Quo
Unfunded Liability	City pays 100%	Status Quo
SRBR	Available	Eliminate

AEA, AMSP & CAMP Proposal

New Employees-Pension Only		
	Current Benefit	IFPTE Local 21 Proposal
Accrual Rate	2.5% per year	2% per year
Age/Years of Service	55 w/5 years, or 30 years at any age	Age 60 w/10 years
Final Average Salary Calculation	Highest Year	Average of highest 36 months
COLA	3% fixed (annually)	CPI capped at 2%
Normal Cost	8:3 Split	50:50 Split
Unfunded Liability	City pays 100%	Status Quo
SRBR	Available	Eliminate

IAFF, Local 230 & POA Proposal

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

IAFF, Local 230 & POA Proposal

Voluntary Election Program (Opt In) – Pension Only		
	Current Benefit	POA/IAFF, Local 230
Maximum Benefit	90%	90%
Accrual Rate	POA 2.5% - 4% per year IAFF, Local 230 2.5% - 3% per year	<i>PERS 3% at 55</i> 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 50 w/5 years
Final Average Salary Calculation	Highest Year	Highest paid consecutive 36 months
COLA	3% fixed (annually)	CPI capped at 3%
Normal Cost	8:3 Split	Employee pays 10%; City pays difference
Unfunded Liability	City pays 100%	
SRBR	Available	Eliminate

IAFF, Local 230 & POA Proposal

New Employees-Pension Only		
	Current Benefit	POA/IAFF, Local 230
Maximum Benefit	90%	Status Quo
Accrual Rate	POA 2.5% - 4.0% IAFF, Local 230 2.5% - 3%	PERS 2% at 50 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 50 w/5 years of service
Final Average Salary Calculation	Highest Year	Highest paid consecutive 36 months
COLA	3% fixed (annually)	CPI capped at 2%
Normal Cost	8:3 Split	Employee pays max 10%; City pays difference
Unfunded Liability	City pays 100%	
SRBR	Available	Eliminate

Police Pension Benefit Comparison

	Police	CalPERS 3% @ 55	Police	CalPERS 3% @ 55
Max. Benefit	90%	90%	90%	90%
Yrs of Service	Age 50		Age 55	
19	N/A	45.60%	N/A	57%
20	N/A	48.00%	50%	60%
21	N/A	50.40%	54%	63%
22	N/A	52.80%	58%	66%
23	N/A	55.20%	62%	69%
24	N/A	57.60%	66%	72%
25	70%	60.00%	70%	75%
26	74%	62.40%	74%	78%
27	78%	64.80%	78%	81%
28	82%	67.20%	82%	84%
29	86%	69.20%	86%	87%
30	90%	72.00%	90%	90%

San Jose: 1-20 yrs: 2.5% per year; 20-30 yrs: 4% per year

CalPERS: 3% @ 55; 2.4% - 3.0% per year based on age

Fire Pension Benefit Comparison

	Fire	CalPERS 3% @ 55	Fire	CalPERS 3% @ 55
Max. Benefit	90%	90%	90%	90%
Yrs of Service	Age 50		Age 55	
19	N/A	45.60%	N/A	57%
20	N/A	48.00%	60%	60%
21	N/A	50.40%	63%	63%
22	N/A	52.80%	66%	66%
23	N/A	55.20%	69%	69%
24	N/A	57.60%	72%	72%
25	75%	60.00%	75%	75%
26	78%	62.40%	78%	78%
27	81%	64.80%	81%	81%
28	84%	67.20%	84%	84%
29	87%	69.20%	87%	87%
30	90%	72.00%	90%	90%

San Jose: 1-20 yrs: 2.5% per year; at 20 years: 3% for all years

CalPERS: 3% @ 55; 2.4% - 3.0% per year based on age

Normal Cost Comparison

	Current Normal Cost	Union Estimated Normal Cost for Opt In	Union Estimated Normal Cost for New Employees
POA	37.58%	33.73%	28.94%
IAFF Local 230	38.74%	33.86%	29.07%
IFPTE Local 21	17.44%	10.45%	10.45%

Areas of Savings

**New Employees
(Tier 3)**

**Current Employees
(Tier 1)**

**Opt In Program
(Tier 2)**

IFPTE Local 21 Estimated Savings - Pension

\$Millions	FY 11	FY12	FY 13	FY 14	FY 15	FY 16
1. Base line	\$88.0	\$90.3	\$107.9	\$122.6	\$133.7	\$137.8
2. Known Gains	\$88.0	\$90.3	\$94.4	\$107.4	\$116.5	\$117.1
3. 0% Opt In*	\$88.0	\$90.3	\$94.4	\$106.1	\$113.7	\$112.6
4. 100% Opt In	\$88.0	\$90.3	\$74.7	\$85.9	\$94.0	\$93.6
5. Tier 3 Savings (3.-2.)			\$0.0	(\$1.3)	(\$2.8)	(\$4.5)
6. Tier 2 Savings (4.-3.)			(\$19.7)	(\$20.2)	(\$19.7)	(\$19.0)
7. Total Savings (4.-1.)			(\$33.2)	(\$36.7)	(\$39.7)	(\$44.2)

* All new hires will go into “opt in” plan. All current employees will stay in current plan.

Federated Preliminary June 30, 2011

Valuation Results - CHEIRON

- Discount rate:
 - Currently 7.95% moving to 7.75%
 - Cheiron recommending 7.25%
- Demographic changes (termination, reduced refund rates, mortality, etc.)
- If System Board adopts recommended changes 2012/13 contribution = \$111 million compared to \$90.3 million

POA/Local 230 Estimated Savings - Pension

\$Millions	FY 11	FY12	FY 13	FY 14	FY 15	FY 16
1. Base line	\$99.1	\$132.0	\$153.1	\$177.3	\$195.1	\$201.4
2. Known Gains	\$99.1	\$114.0	\$125.1	\$142.7	\$153.4	\$152.8
3. 66% Opt In	\$99.1	\$114.0	\$111.1	\$115.6	\$120.1	\$124.6
4. Savings from Known Gains (2.-1.)	\$0.0	(\$18.0)	(\$28.0)	(\$34.6)	(\$41.7)	(\$48.6)
Tier 2 Savings	\$0.0	\$0.0	(\$13.9)	(\$16.1)	(\$16.4)	(\$16.9)
Tier 3 Savings	\$0.0	\$0.0	\$0.0	\$0.0	(\$1.0)	(\$2.1)
Misc. Savings*	\$0.0	\$0.0	(\$0.1)	(\$11.0)	(\$15.9)	(\$9.2)
Total Pension Savings (3.-1.)	\$0.0	(\$18.0)	(\$42.0)	(\$61.7)	(\$75.0)	(\$76.8)

*Savings from setting AVA equal to MVA and the effects of fresh starting the UAL bases (except Benefit improvement bases). Effect of the fresh starting benefit improvement bases is included in Tier 2 savings.

Information provided by CalPERS

Minimum of a 9 month process

1. CalPERS to develop a team
2. Provide CalPERS demographic data
3. Agreement on assumptions used for opt in participation
4. CalPERS performs valuation (3-4 months)
5. CalPERS provides contribution rates
6. Agreement on transfer of assets between P&F Board and CalPERS

Information Provided by CalPERS

7. Execute contract with CalPERS
8. Transfer of assets occur- assets would likely need to be liquidated
9. Opt in period (30-90 days)
 - Unclear if before or after execution of contract
10. CalPERS performs another valuation based on actual opt in enrollment
 - Could later adjust rates

Comparison of Savings

- Use same assumptions
- Not factoring credit for positive experience and resetting amortization period
- Not factoring higher than anticipated contribution changes that are recommended by Cheiron in the experience analysis for FY 12-13 (Federated)

Proposal Comparison- Total ALL FUNDS Savings

Area of Savings	City Proposal	Unions Proposals*
New Employees	\$0 M	\$2.9 M
Current Employees and Retirees	\$39.7 M	\$0 M
Opt In Program/Additional Retirement Contributions	\$54.9 M- \$99.3 M	\$0 M - \$44M
SRBR	\$4.7 M	\$0 M
Retiree Healthcare	\$17.9 M	\$0.8 M
TOTAL	\$117.2 M - \$161.6 M	\$4 M – \$47 M

***Note: Does not include offset of incentives and cost to close the plan.
SRBR savings included in opt in**

Next Steps

- Continue negotiations per Council direction

Conclusion