

INFORMATION CALENDAR November 27, 2012

To: Honorable Mayor and Members of the City Council

From: Christine Daniel, City Manager

Submitted by: Teresa Berkeley-Simmons, Budget Manager

Subject: Status Report - Employee Benefits: Tough Decisions Ahead

#### **SUMMARY**

On November 16, 2010, the City Auditor issued the report <u>Employee Benefits: Tough Decisions Ahead (Audit Report) (PDF)</u>. The objective of the report was to prepare an easy-to-read informational report addressing the City's underfunded liabilities related to employee benefits, illustrate the impact these liabilities have on budgeting and staffing due to the annual benefit costs, and offer possible solutions to address the pressures caused by increasing costs for these benefits.

The City Auditor's report focused on CalPERS, Police Employees Retiree Income Plan (Police Retiree Medical), and Sick Leave and Vacation Payout. The report contained several options for the City Manager's consideration and several policy related recommendations for the Council's consideration (see Background section below).

As requested by the City Auditor, the City Manager agreed to adopt in principle the City Auditor's recommendations by September 2011. The City Manager also agreed to report on implementation of the recommendations by September 2012. On November 16, 2010, the City Manager presented to Council a report titled <a href="Employee Benefits: Tough Decisions Ahead - Response to Audit Report (Item #17)">Item #17)</a><sup>2</sup>. On June 26, 2012, the City Manager presented to Council another report titled <a href="Status Report - Employee">Status Report - Employee</a> Benefits: Tough Decisions Ahead (Item #46)<sup>3</sup>.

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http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level 3 - City Council/2010/11Nov/2010-11-16 Item 13 Employee Benefits Tough Decisions Ahead-Auditor.pdf

<sup>&</sup>lt;sup>2</sup> <a href="http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level3-City-Council/2010/11Nov/2010-11-16">http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level3-City-Council/2010/11Nov/2010-11-16</a> Item 17 Employee Benefits Tough Decisions.pdf

<sup>&</sup>lt;sup>3</sup> <a href="http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level3-City-Council/2012/06Jun/2012-06-26">http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level3-City-Council/2012/06Jun/2012-06-26</a> Item 46 Status Report - Employee Benefits.pdf

This information item summarizes action taken since the June 2012 Council report. Four of the five audit recommendations are now implemented, and the final, open recommendation is partially implemented. Another status report will be submitted to the Council by June 30, 2013.

## CURRENT SITUATION AND ITS EFFECTS

On July 31, 2012, the Council adopted Resolution No 65,847 established <u>Council's Policies for Negotiating and Monitoring Employee Benefits (Item #1)</u> <sup>4</sup>. These are formal policies for negotiating and monitoring employee benefits and benefit funding levels. The purpose of the policies is aimed at increasing the transparency of City benefits and compensation, to the extent consistent with law.

## **BACKGROUND**

The City Council has historically relied on a number of policies regarding contract negotiations to protect the City's short and long-range economic health.

- a. Assure that labor organizations and their members are treated fairly and with respect.
- b. Negotiate in good faith and within the process established by the parties including honoring the traditional confidentiality of the negotiation process.
- c. Negotiate contracts based on a "Total Compensation Package" model (changes in current and future salary, and health and welfare benefits) within the City's overall financial conditions.
- d. Any Equity Adjustments to base salary must be included in the overall Total Compensation Package. Council policy has been to establish salary ranges at the median of comparable jurisdictions.
- e. Assure that the City's Total Compensation salary and benefit package is competitive in the marketplace, is fair to existing employees and is competitive with public employers in the Bay Area so that the City is able to recruit and retain quality candidates particularly in critical classifications.
- f. Negotiation of employee benefits should include consideration of uniformity across bargaining units to the extent this is compatible with state law, enhances transparency and is efficient to administer, while at the same time not resulting in an overall increase in costs. Consideration of uniform benefits will not be utilized as a peremptory tool to negotiate compensation or benefits, as such would be contrary to the spirit and intent of bargaining in good faith.
- g. Include the sustainability of benefits as part of negotiating considerations.
- h. Conduct regular actuarial studies of major unfunded benefit liabilities including CalPERS, retiree health care, etc.
- i. Use long-term, multi-year strategies to achieve sustainability of contributions and an appropriate funded status for each benefit to reduce unfunded liabilities.
- j. Consider options within CalPERS including a two tier plan and other options.

http://www.ci.berkeley.ca.us/Clerk/City Council/2012/07Jul/City Council 07-31-2012 – Special Meeting Annotated Agenda.aspx

These policies were formally adopted on July 31, 2012.

The audit recommendations and responses are as follows:

#### Auditor's Recommendation:

 Council should adopt formal policies for negotiating, awarding, and monitoring employee benefits and benefit funding levels. This should include a policy to take into consideration the costs to administer new and existing benefits.

Status: Implemented

# City Manager's Response:

A formal policy was adopted by Council on July 31, 2012, with Resolution No. 65,847-N.S.

## **Auditor's Recommendation:**

2. Council should adopt policies aimed at increasing the transparency of City benefits and compensation, to the extent consistent with existing law. This should include a policy to attempt to simplify pay and benefits rules, which could also reduce costs and complexity.

Status: Implemented

# City Manager's Response:

A formal policy was adopted by Council on July 31, 2012, with Resolution No. 65,847-N.S.

#### **Auditor's Recommendation:**

3. Budget reports should include some additional information on the analysis of funding levels for each employee-benefit. This includes detail and explanation for target funding ranges. For CalPERS, provide information on the possible need for additional funding. Changes in CalPERS demographic assumptions, as well as the smoothing mechanism used by CalPERS, are expected to result in a higher unfunded liability percentage. Incorporate this information into standard reports prepared for Council.

Status: Partially Implemented

# City Manager's Response:

On May 29, 2012, Item #39 City Manager's Report of Projections of Future City Liabilities<sup>5</sup> was approved by the City Council, (Resolution No. 65,748-N.S.), requiring the City Manager to develop and publish a biennial report of current City liabilities and projections of future liabilities. The report is designed to aid the Council, the public and staff in preparation of the City's biennial budget. The report will be published initially in February 2013 and subsequently in February of the second year of the City's biennial budget.

## **Auditor's Recommendation:**

4. Formalize the policy to perform an actuarial study prior to approving a significant new benefit, as Human Resources states has been done since 1998. The City Manager should document exceptions.

Status: Implemented

## **City Manager's Response:**

A formal policy was adopted by Council on July 31, 2012, with Resolution No. 65,847.

### **CONTACT PERSON**

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http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level 3 - City Council/2012/05May/2012-05-29 Item 39 City ManagerZs Report of Projections.pdf