

STOCKTON CITY COUNCIL

RESOLUTION BY THE CITY COUNCIL OF THE CITY OF STOCKTON ADOPTING AN ACTION PLAN FOR FISCAL SUSTAINABILITY

By City Council Resolution No. 10-0166, adopted on May 26, 2010, the City declared a state of emergency based on fiscal circumstances; and

The City is committed to implementing a plan that will restore long term fiscal integrity for the benefit of the City's citizens; and

The City desires that its Action Plan be transparent and understandable throughout the community; and

The City values its employees and wants to compensate them fairly and appropriately; and

The City's labor contracts include a host of costs and features that create inappropriate escalating and unfunded liabilities; and

The City desires to clearly articulate a plan that will serve as the blueprint for future labor negotiations; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF STOCKTON, AS FOLLOWS:

1. The City Council of the City Stockton hereby adopts the attached Action Plan for Fiscal Sustainability.

2. The City Manager is authorized to take such actions as are appropriate to carry out the intent of this Resolution.

PASSED, APPROVED and ADOPTED JUN 22 2010

Ann Johnston
ANN JOHNSTON, Mayor
of the City of Stockton



ATTEST:
[Signature]
KATHERINE GONG MEISSNER
City Clerk of the City of Stockton
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City Atty:
Review *[Signature]*
Date June 17, 2010

ACTION PLAN FOR FISCAL SUSTAINABILITY AS ADOPTED BY THE CITY COUNCIL OF THE CITY OF STOCKTON JUNE 22, 2010

Introduction

The City of Stockton ("the City") faces immediate and long term challenges caused in part by escalating and unfunded costs in its labor agreements. The City greatly values its employees and the services they provide to the community. However, labor costs have escalated exponentially and unfairly, particularly when compared to the more modest wage and benefit programs covering the majority of the City's citizens. It is unacceptable that some of the City's labor unions have insisted on higher wages and benefits at a time of recession - when the City's unemployment rate is approximately 22%, and the median household income for a family of four is just over \$63,000.

This ten point Action Plan is intended to serve as a policy blueprint for the City's labor relations program. The City is committed to abiding by the Meyers-Milias-Brown Act ("MMBA"), and will continue to negotiate in good faith, seeking partnerships whenever reasonably possible with labor. This Action Plan shall serve as the benchmark for future objectives with labor.

Issues and Action Plan Principles

Issue No. 1 – Transparency / Hidden Costs:

The City's labor agreements contain embedded costs and obligations that are often difficult for citizens to identify or understand. For example, the City's payroll system carries over 100 different "additional pay" codes ranging from "assignment pay" to "longevity pay" and others. In many instances, these are simply disguised forms of

regular salary. These additional pays make it difficult for the public to evaluate and understand the overall compensation of City employees.

Action Plan Principle No. 1: The City shall reduce or eliminate “additional pay” categories. “Additional pays” will be authorized only when the additional pay is absolutely essential to the performance of special job tasks that are not encompassed within the job description. The City shall ensure that all compensation packages are fully, accurately and simply costed out, with total costs displayed to the public so that city residents can understand and evaluate the pay at issue. Unless there are exigent circumstances as determined by the City Council, labor agreements containing cost increases shall be publicized and made available at least two weeks prior to adoption.

Issue No. 2 – Transparency / Side Letters: The City is aware of certain “side agreements,” other informal memoranda memorializing understandings between departments and labor unions and “past practices” alleged to bind the City. Such “side agreements” and allegedly binding “past practices” are inappropriate because they increase costs, and detract from two critical principles: (1) the public has a right to know the contractual arrangements and obligations affecting public employees; and (2) pursuant to state law, labor commitments by a public agency must be approved by the City Council.

Action Plan Principle No. 2: No side agreements or past practices shall be binding on the City unless the agreement or practice is approved in public by the City Council. New labor agreements shall supersede all previous agreements and practices, and shall not contain language preserving previous agreements or practices.

Issue No. 3 – Salary Formulae: Various City labor agreements contain wage and salary formulae that mandate automatic wage increases regardless of economic reality based upon compensation paid in other cities and/or changes in the cost of living. For example, the Police Officers Association (“POA”) recently filed a grievance to enforce a wage formula that the POA contended required the City to give a 23% wage increase as of July 2008. The salary formula itself required the City to compare salaries from communities that have little or marginal relevance to Stockton, including Irvine, Glendale, Anaheim, Chula Vista and Bakersfield. The City eventually settled, resulting in a retroactive wage *increase* of 15% at a time when the City was in the midst of a financial crisis, and many of the City’s citizens were suffering from layoffs and reduced pay.

The Fire Union is currently asserting the right to an 8.5% raise based on a similar salary formula, which confers automatic adjustments based on irrational comparisons to communities including Anaheim, Fresno, Garden Grove, Huntington Beach, Pasadena, San Bernardino, Santa Ana and Torrance. In addition, the fire contract would provide for a 3.6% increase based upon a cost of living formula.

Action Principle No. 3: The City’s labor agreements shall not provide for automatic wage adjustments that are premised on formulae or automatic cost of living inflators.

Issue No. 4 – Fairness and Parity: The City’s labor agreements have staggered terms, meaning that they expire at different times. This results in a “ratcheting effect” – i.e., the next union to negotiate looks to the last agreement and attempts to negotiate a better agreement. It also results in differing benefit structures and work rules. And, it

makes it difficult to ensure across-the-board fairness in City-wide programs that should be given uniform treatment.

Action Principle No. 4: The City shall strive to have its labor agreements expire at the same time – particularly with public safety unions.

Issue No. 5 – Contribution to Health and Welfare Benefits: Many of the City's employees make no contribution toward health benefits. For example, City firefighters pay nothing for health coverage, regardless of whether they are single, married or in a family plan costing over \$1000 per month. This situation is in stark contrast to the vast majority of the City's residents, many of whom must contribute toward their health care, and some of whom have no health care coverage at all. The situation is not only costly and out-of-step with other jurisdictions, it is unfair.

Action Principle No. 5: The City shall require its employees to make reasonable contributions toward the cost of health care coverage provided through the City.

Issue No. 6 - Health Plan: The City currently offers only one health plan, a self-insured plan, with the plan design itself embedded into various labor contracts. Because the plan elements are embedded into labor contracts, it is cumbersome for the City to make changes that provide efficiencies and savings, even when those changes have little fiscal impact on employees and retirees. In addition, because the City only offers one plan – a quality plan that has a relatively high cost – City employees have no health care choices.

Action Principle No. 6: The City shall offer one or more additional health care insurance plans. The City's contributions shall be negotiated based on the lowest cost plan made available by the City.

Issue No. 7 – Retirement: City employees are guaranteed a specific, annual pension at retirement. The City currently pays 100% of the retirement contribution to the California Public Employee's Retirement System (CalPERS) for all employees. The City contribution is expected to exceed 20% of the City's payroll costs over the next few years for non-safety employees and 40% for safety employees. In addition, current retirement is based on the highest year of salary earned. This practice is inconsistent with both public and private sector employers.

Regular, non-safety employees receive lifelong pensions calculated using a formula of "2% at age 55."

- Regular City employees with 30 years of services receive 60% of their highest year's salary for life.
- Regular City employees with 20 years of service receive 40% of their highest year's salary for life.
- Retirees receive an annual COLA of up to 5% a year.

Safety employees receive "3% at age 50." Upon retirement, an employee will annually receive 3% of their highest year's salary, multiplied by the number of years of service.

- Safety employees with 30 years receive 90% of their highest year's salary for life.

- Safety employees with 20 years of service receive 60% of their highest year's salary for life.
- Safety retirees receive an annual COLA of up to 2% a year.

Action Principle No. 7: The City will require its employees to contribute a fair share of their pension costs. CalPERS sets a required "employee" contribution: currently 7% for non-sworn employees, and 9% for sworn employees. City employees shall pay the entire employee contribution. In addition, the City shall negotiate "cost share" agreements with employees to share the total burden of city pension costs, as provided under PERS rules. Further, the City shall negotiate to establish a "second tier" pension benefit for new employees entering the workforce, costing less than the current plans and reducing overall City costs over the long run.

Issue No. 8 – Time Off Benefits: Currently, City employees receive paid time off for holidays, vacation days, and sick days. Employees can accumulate up to 8 weeks of vacation annually. Vacation time is converted to cash through "sell-back," or at termination or retirement. Employees can accumulate an unlimited amount of sick leave; half of an employee's sick leave is converted to cash at retirement and the other half can be added to years of service for the calculation of the retirement benefit. Staffing shortages, furloughs and closed Fridays create larger banks of accumulated vacation time that must be paid out when not used. The budget impact is often unpredictable and unmanageable, which reduces the City's ability to deliver services to the public.

Action Principle No. 8: The City will establish vacation use work rules that limit the accumulation of vacation time and provide for use with management approval to

ensure that the needs of the public take priority and overtime is minimized. The rules shall also limit the practice of converting vacation and sick leave to cash to situations when such cash-out is legally required. The City shall evaluate the current leave programs and implement reasonable reforms consistent with programs in the public and private sectors.

Issue No. 9 - Work Rules: The labor contracts, and informal department policies, contain staffing work rules that limit management discretion and are highly inefficient. The Fire Union contract, for example, contains a variety of staffing mandates that purport to remove any discretion on the part of the City to adapt to the needs of the service and modernize. For example, the labor contract provides that fire trucks must be staffed by five firefighters, when the vast majority of jurisdictions safely operate fire trucks with four persons, and the contract contains numerous other dictates that hamper the Fire Chief's ability to manage the workforce efficiently.

Action Principle No. 9: The City shall regain its management rights to supervise, manage and direct its workforce. The City shall not enter into labor contracts that contain inflexible staffing requirements or unreasonable restrictions on the City's management rights.

Issue No. 10 – Overtime: The City's overtime practices are out-of-step with the federal Fair Labor Standards Act ("FLSA"). In some highly publicized cases, employee overtime has *exceeded* employee base pay. There are opportunities for abuse when employees take sick or other leave that require the callback of another employee at overtime rates.

Action Principle No. 10: The City shall restructure its labor agreements to bring overtime obligations in line with the minimums required by the Fair Labor Standards Act. The City shall minimize the use of unnecessary overtime.

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