



**REVISED**

Agenda Item:

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## **COUNCIL COMMUNICATION City Manager's Office**

### **GENERAL INFORMATION**

Agenda Date: 01/23/06  
Agenda Item Type: Receive/File

Communication No.: 06-048  
Roll Call No.:

Submitted by: Richard Clark, Acting City Manager

### **SUBJECT—**

Supervisory, Professional and Management (SPM) employees' compensation changes for FY07.

### **SYNOPSIS—**

This action is to receive and file the following changes for SPM employees:

- Increase the salary structure of SPM employees by 3.5% effective July 1, 2006.
- Increase funding in the Post Employment Health Plan in two stages to \$750 per year.
- Increase funding of the Section 125 Medical Spending Account from \$360 to \$480.
- Increase the City's deferred compensation match from 4% to 4.5%.
- Provide a one-time payment of \$400 to each full time SPM employee, excluding department directors, prior to March 31, 2006.

### **FISCAL IMPACT—**

This change impacts both the current budget year and future budget years. In FY06, \$125,000 has been allocated for the one-time \$400 payments. This change has been integrated into the amended budget. The impact of FY07 benefit changes is \$220,000, which has been incorporated into the recommended budget.

### **RECOMMENDATION—**

Approval

### **BACKGROUND—**

In recent years as the City has faced financial constraints, SPM employees have led the way in accepting changes to health insurance benefits and making contributions to health care premiums. Generally, these

changes were made in advance of other employee groups with bargaining agreements in place. SPM employees accepted these changes with an understanding that the City would negotiate with the bargaining units, to impasse if necessary, to make similar changes to remaining employees' benefits. The City has accomplished this with the exception of the most recent CIPEC and police union agreements in which no contributions to health care premiums were obtained. In this case, rather than negotiating contributions for premiums, staff was able to negotiate voluntary changes to plan design, which resulted in significant health care cost savings.

The SPM Board has worked with Human Resources to evaluate what shrinkage in pay and benefit differential has occurred between the various union groups and the SPM employees as the health plan and other changes have been implemented, dating back to 2000. The SPM Board has agreed that the erosion in the difference in pay and benefits with the various unions amounts to 1.24%, ignoring the special incentives provided to CIPEC (1% increase in pay) and the police union (\$400 bonus). Additionally, the Police Burial Association representative is concerned that the difference on the deferred compensation between union positions and SPM positions is 2%, as opposed to what was once 4% when the police union did not have a deferred compensation program.

Based on this information, the following changes are recommended:

1. Effective July 1, 2006, provide a 3.5% salary increase for SPM employees.
2. Effective July 1, 2006, increase the City's contribution to Flexible Spending Accounts to \$480 annually from the current level of \$360 annually. This will match the CIPEC union's level of contribution.
3. Increase the City's contribution to the Post Employment Health Plan (VEBA) from \$540 annually to \$600 annually. This will eliminate an annual administrative fee charged by Nationwide to each employee.

Also, as of July 1, 2006, SPM will receive other provisions contained in the various bargaining agreements such as on-call pay, shift differential, clothing allowance increase, bilingual pay increase, bomb squad pay increase, and partial reimbursement for generic drug co-payments for a period of twenty-four months for SPM employees. Most of these items only impact Police Department personnel.

These changes are also recommended to become effective on January 1, 2007:

1. Increase the PEHP (VEBA) contribution from \$600 to \$750 per year; and
2. Increase the deferred compensation match from 4.0% to 4.5%. This will maintain the 2% differential between the unions (CIPEC and Police) and SPM employees.

Additionally, based upon the health insurance savings derived this fiscal year (FY06) from the early change by the CIPEC union, a one-time payment of \$400 is recommended for each full-time SPM employee other than elected officials and department directors. This payment will be made on or before March 31, 2006.

The sum of all these changes will completely close the 1.24% gap noted by the SPM Board. The changes will also address the concern that SPM employees have not been recognized for their earlier move on health insurance. The total impact on the FY07 budget for these changes is approximately \$220,000.

These recommendations are made in light of the potential impact to the City of the recent litigation concerning franchise fees. However, it is vitally important that the City maintain its credibility with SPM

employees. A decision to delay, defer or cancel these economic improvements will confirm the sense among SPM employees that the City unfairly turns to them to resolve budget shortfalls.