TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES

DATE: DECEMBER 18, 2006 CMR: 450:06

SUBJECT: APPROVAL OF RESOLUTIONS ADOPTING A COMPENSATION PLAN FOR MANAGEMENT AND PROFESSIONAL PERSONNEL, AMENDING THE SALARIES AND BENEFITS OF CERTAIN COUNCIL APPOINTEES, AND AMENDING THE MERIT SYSTEM RULES AND REGULATIONS

RECOMMENDATION

This report recommends Council approval of the attached resolutions adopting a compensation plan for Management and Professional Personnel and Council Appointees effective for the pay periods including July 1, 2006 through June 30, 2007. Also recommended is approval of the attached resolution amending the Merit System Rules and Regulations to incorporate the 2006-2007 compensation plan for Management and Professional personnel.

BACKGROUND

In 2003, the Management and Professional employees took the lead in addressing the City’s financial challenges by having no salary increase and accepting a 1% salary decrease through a mandatory furlough. Management and Professional employees also accepted a cap for health insurance at PERS Choice, moving from PERS Care; prorating benefits for new part time employees; and a two-tier retiree health program, raising the vesting requirement for eligibility for retiree medical benefits from 5 years to 20 years for new hires. By implementing a cap on medical benefits for Management and Professional employees the City has avoided an estimated $2.6 million in costs since 2003. Furthermore, through the furlough efforts since 2001 Management and Professional employees have saved $1.4 million in salary costs. In 2004, Council approved a 3% salary increase for the Management and Professional employees, offset again by a mandated furlough equivalent to a 1% salary reduction. The Management and Professional employees were the only employee group that fully participated in this significant cost-saving measure in that year. In 2005, the City Manager recommended a minimal adjustment for the Management and Professional employees group: 3% control point increase effective July 1, 2005 for all Management and Professional classifications; followed by a 1% control point increase effective January 1, 2006 to all Management and Professional classifications.
DISCUSSION

The Management and Professional group includes 254 active employees. A committee comprised of one employee from each department provided the City Manager with feedback and concerns on behalf of the Management and Professional employees. The City Manager recommends:

- A 0% increase salary control point increase between July 1, 2006 through January 5, 2007 and 3% increase between January 6, 2007 and June 30, 2007. One percent of this 3% increase will be awarded based on merit and at the discretion of the department heads. The remaining two percent of salary increase will be deducted in order to offset the increased cost of the 2.7 percent @ 55 retirement benefit. The latest Bay Area CPI, reported in September, was 3.8 percent. This is the factor that is generally considered the benchmark for salary increases.

- Public Safety managers already receiving the 3% @ 50 pension formula will receive a 3% salary control point increase.

- Reduce the maximum medical premium payment for future retirees from the highest health plan (PERSCare) to the second most expensive plan offered (currently Blue Shield HMO) effective January 1, 2007.

- Increase the pension formula from 2.0 percent @ 55 to 2.7 percent @ 55 effective January 6, 2007. Effective January 6, 2007, all employees in the Management and Professional group will pay 2.0 percent of the employee share of the PERS pension expense, reducing the annual cost to the City to 5.0 percent. This benefit change is expected to increase the number of employee retirements in 2007 and as a result, may provide some opportunity for restructuring within the organization. Over 50 percent of the Management and Professional group are age 50 or over.

- Protect active employees and families who exceed $2M lifetime benefit under the PERS Choice health plan.

- Effective January 2007, increase orthodontic coverage from $1,500 to $2,000 and add composit fillings for posterior teeth.

- Add language to clarify that night shift premium goes only to those assigned to work a full night shift.

- Expand allowable use of bereavement benefits to include step-parents, step-child, niece and nephews.

These salary range adjustments and benefits changes are consistent with those already granted to SEIU. Other changes included in the compensation plan have been made in order to clarify existing benefits, policies or processes. A change to allow the use of existing sick leave for family leave from 6 to 9 days is also included in the compensation plan consistent with changes to the recent SEIU agreement, but does not reflect an increase in salary or benefits.

RESOURCE IMPACT

The Council previously approved a CalPERS contract amendment for the pension increase to 2.7% @ 55 for all miscellaneous employees, including management and professional employees. The six-month cost for the proposed Management and Confidential Compensation Plan control point
increase (beginning January 2007) is $573,000, including salary and benefits, representing $290,000 in General Fund cost and $283,000 in enterprise and other fund costs. The two percent share of the pension expense that employees will pay represents $382,000 of the control point increase. The remaining 1 percent ($191,000) is the net cost to the City for the control point increase in this contract. The total increase for the contract is 3.63 percent on an annual basis in fiscal year 2006-07. The 2006-07 Adopted Budget includes funding for this expense in the General Fund salary contingency. Staff traditionally transfers the enterprise and other funds’ portion of the salary contingency funding to those funds as part of the mid year report and budget amendment ordinance (BAO). Accordingly, staff will propose this as part of the 2006-07 midyear report and BAO in winter 2007.

POLICY IMPLICATIONS

The action recommended by this report is consistent with City Council direction.

ENVIRONMENTAL REVIEW

This is not a project under the California Environmental Quality Act (CEQA).

ATTACHMENTS

Attachment A – Resolution Adopting a Compensation Plan for Management and Professional Personnel
Attachment B - Resolution Amending the Merit System Rules and Regulations
Attachment C - Redline version of Compensation Plan

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