



COUNTY OF SONOMA

HUMAN RESOURCES DEPARTMENT

ANN GOODRICH, HR Director

Employment • Classification • Employee Relations • EEO • Training • Risk Management

Date: July 28, 2008
To: All SEIU 1021 Employees
CC: All County Department Heads
Board of Supervisors Members
From: Ann Goodrich, Human Resources Director
Subject: SEIU 1021 Negotiations and County's Offer

This memo is to provide you with an update on the status of negotiations between the County and SEIU 1021, and is in response to numerous requests from employees for information.

Status of Negotiations

The County and SEIU 1021 have been bargaining since February 14, 2008. SEIU started with 100 proposals. The County typically calculates the total cost of a union's proposals. But in this case due to the unusually long SEIU list, the County only calculated the cost of 17 proposals at a cost of \$44.1 million, which is a 26% increase in cost. We simply stopped costing out proposals beyond that. The current MOU expired on June 30 with no new agreement. Today, despite 27 bargaining sessions over 5 months, SEIU has 20 issues on the table representing a cost of more than \$40.1 million annually, which represents a 23.5% increase.

Summary of County Proposals

The County's economic proposal is summarized below:

- The County has proposed to pick up 2% of employee's retirement contribution which is slightly less than a 3% COLA in take home pay effective upon agreement.
- The County has proposed to dedicate \$500 for medical insurance per month, effective 6/1/09.
- The County has proposed a new \$600/per month cash allowance for each employee. Each employee can use their personal preference on where to use it e.g. extra take home pay, deferred compensation, extra insurance costs, etc. This extra cash is part of the base wage for calculating retirement benefits.
- Finally, we are proposing to deal with the \$414 million unfunded retiree health liability by transitioning all retirees, beginning on June 1, 2009, over five years to a \$500/ per month contribution to retiree health plus the current Medicare part B reimbursement of \$96.40 a month.

We believe the County proposal is fair, especially at a time when our FY 08-09 proposed budget is eliminating/unfunding 120 positions and the Fiscal Year 09-10 will likely be dramatically worse than



that. We have also not taken into account what the state will do to us as a result of their budget problems. The rationale for each major County proposal is below and we have included details on a few others.

Impasse Reached

On July 14th, with 26 unresolved issues the County felt compelled to initiate the impasse process provided by the Employee Relations Policy. It became increasingly apparent that the parties were deadlocked and that substantial differences existed between the SEIU proposals and what the County's full economic offer was on the table.

Despite discussions about the economic difficulties facing all California counties, Sonoma's own economic challenges and SEIU's involvement with the Joint Labor Management Benefits Committee (JLMBC) for the past 2 years, the parties remain far apart. The County emphasized in those extensive discussions that in order to maintain its current employee/retiree medical program, the County would jeopardize its ability to continue to fund essential public services and the viable options to address the County's \$414 million unfunded liability for retiree medical benefits (OPEB) would need to occur.

Given the expiration of the contract, the fact that the County's offers are effective upon agreement and do not include any retroactivity and the lack of substantial movement since the end of May, the County initiated the impasse process to move the process along by seeking assistance from the State Mediation and Conciliation Services. The County hopes that the use of a 3rd party, a mediator from the State Mediation Services can bring the parties together and a new contract can be agreed to. While the State Mediator indicated her availability on July 22 and the County was available, SEIU declined to meet on that day. Instead, there was a mediation session held on July 23 and sessions are scheduled for July 28 – 30.

County Proposals on the Table

A summary list of all of the County and SEIU's issues that are at impasse has been posted for your information on the County's website at

<http://www.sonoma-county.org/hr/countyoffertoseiu.htm>

Additionally at that website you will find copies of the County's full July 9th proposal, the County's total compensation study conducted on all SEIU benchmark classifications, and the County's Impasse Policy.

The Major Components of the County's Proposal are Summarized Below

Term: The County is proposing a 2 year term

Salary increases:

Year 1

In lieu of an across the board salary increase for all classifications, the County is proposing a 2% pick up of the employee contribution to retirement (pension pick up) to go into effective the pay period after ratification by both parties. **The County's offer is not retroactive.**

- This offer is made for several reasons. First, our goal for all employees, whether they be management or line staff, is to transition to 100% of the average for our labor market comparators. All market adjustments and COLA's etc. for all employees are driven from that premise. In total compensation surveys conducted for negotiations, all but 3 of SEIU's benchmark classifications are over market in salary only comparisons and all were over in total compensation comparisons (see website for survey). This is in part due to the fact that over the 5 years of the last MOU, Sonoma's increases in salaries have exceeded the CPI by 6.2% (see website). Also, when we negotiated the recently expired contract some six years ago, the County granted substantial equity increases to bring everyone's salary closer to the 100% average.
- The one area in the total compensation study for SEIU classes where Sonoma County shows below the market is in the area of pension pick up (this is where the employer pays some share of the employee's retirement cost(s)). The County is attempting to right size its compensation, increasing in areas it is on the low side and managing increases in areas where we are considerably over market.
- A 2% pension pick up gives an employee very close to the same take home pay as slightly less than a 3% salary increase would.

The County will consider market adjustments for any position that is below 100% of the labor market, if the proposal to change the medical benefits is agreed to. This proposal is not different from how management is being treated or other unions.

Year 2:

Effective December 2009, the County will pay an additional 1% of the employee contribution to retirement (pension pick up which gives the same take home pay increase as a 1.25% salary increase), plus a 1% across the board salary increase.

New \$600.00 Cash Allowance Effective June 1, 2009

The County is offering a new compensation component effective June 1, 2009 in the form of a \$600.00 per month (\$7200 a year) flat cash allowance, (prorated for part time employees) for each permanent employee in the bargaining unit. This allowance, like your regular salary, is paid in cash or can be used by you on a pretax basis in the County's IRS 125 programs like additional medical, dental, life insurance purchases, dependent care, or towards deferred compensation contributions.

- This new pay component represents approximately a 12.77% increase in pay based on the average salary for the SEIU unit. This new cash allowance will be included in the employee's base salary for retirement purposes and will increase the employee's retirement allowance in the future when they retire. For example an employee making \$40,000 a year, will have the \$7,200 included in retirement wages which equals an 18% increase in their retirement benefits. As cash, this amount is "venturable" and considered as additional compensation for retirement purposes.
- The County is attempting to equalize the benefits between employees by giving the same amount of cash for a medical insurance contribution and the same amount of cash allowance for employees for them to use for any purpose. This approach gives employees

in lower paid classifications a greater percentage increase than to higher paid employees. The 75% of SEIU members see either a net increase in take home pay or see the same take home pay under this proposal.

100% Market Survey Adjustments

Again, consistent with the County's policy with all other units, the County proposes effective in December 2009 to move all SEIU benchmarks to 100% of the market average (based on the March 2008 survey) in salary only if agreement is reached on the County's Health Proposal as was done with other units. This would then be the policy goal in future surveys for this group.

Medical Insurance for Active Employees

The County proposes effective upon agreement to change its contributions for employee medical from 85% of any plan to 85% of lowest cost plan. This would only be in effect until May 31, 2009. The current contributions above the Kaiser plan would be frozen at the current 2008 – 2009 rates. We also propose to make the co-pays and deductible changes that have already been implemented for unrepresented management and other bargaining units. (Kaiser \$10 office visit co-pay for example). The County Health Plan rates are not changing for the FY 08-09, only PacifiCare rates are. Thus, only those in that one plan will experience a change

Effective 6/1/2009, the County proposes changing its contribution to a maximum flat dollar amount of \$500.00 a month regardless of plan choice or coverage type.

- Currently the County spends on medical insurance between \$3800 a year on one employee (who is single and chooses the least expensive health plan) to \$18,200 for another employee who chooses the most expensive plan and has employee plus two or more dependents. This is a considerable difference in cost from one employee to the next (4 times from the lowest to the highest). Since the County cannot afford to continue to pay the increasing costs of medical insurance under our current benefit system, we are challenged by the most equitable way to treat all employees. We believe that treating all the employees in the same way is the most equitable way to deal with this problem. Almost every comparator county in our marketplace took measures, years ago, to pay less for the most expensive medical plans as an attempt to manage runaway medical inflation.

For employees whose total plan premium is under \$500 like single employees under Kaiser for example, the County contribution will cover the full cost and the employee will not have any out of pocket premium costs.

Medical Benefits for Future Retirees Hired Before January 1, 2009

Effective at the beginning of the new contract through May 31, 2009, the County is proposing to continue the 22 year past practice of providing the same retiree medical contribution as what is provided to unrepresented management employees. This benefit is currently 85% of the lowest cost plan.

Starting on June 1, 2009 the County's contribution will transition to a flat \$500 a month towards the cost of medical insurance, notwithstanding what plan is selected or coverage type.

- However, understanding the effect this change will have on existing retirees the County has agreed it will gradually reduce from our current contribution amounts over a five year

period starting on 6/1/09 and ending on 5/31/2013. This will allow retirees several years to adjust to the change in the county's contributions.

- The County's goal is to preserve a fiscally sustainable retiree medical benefit program, not only for current retirees but for employees who will retire many years from today. The County's retiree medical benefits are some of the highest in the state and will still be higher than what most public agencies or private employers provide even when they are reduced to \$500 a month.

In February 2008, the Board directed staff to return with an AD HOC COLA policy for any future medical increases. The County is mindful of not exacerbating the current OPEB liability through formulating an ad hoc COLA policy that provides a process for the County to consider future increases that are fiscally sustainable.

Retiree Medical Benefits for Future Employees Hired On or After January 1, 2009

In order to control the future growth of the County's retiree health (OPEB) liability which directly impacts the amount of contributions the County can make for current retirees and current employees for retiree medical, the County is proposing to discontinue the current retiree medical benefit program for any employee hired after January 1, 2009. Instead, the County will offer these new employees a defined retiree medical contribution plan. The County will contribute a flat amount of \$50.00 per month for a full time employee into a deferred compensation program. And just like a deferred compensation program those monies over the employee working life grow through investments.

Upon retirement, eligible employees would receive those funds for their use towards purchasing retiree medical benefits. This approach would ensure funds are allocated on an ongoing basis to ensure future financial sustainability of the program which also results positively for the County by not increasing its future unfunded other post employment benefit liability.

Elimination of Dual coverage

Effective June 1, 2009 employees and retirees who are married or are domestic partners with other employees or retirees will no longer be allowed to double cover themselves and their dependents on County medical plans. This reduces the unfunded liability and brings our practices in line with almost every other employer in the state

Summary

The County's proposal here is the same structure that is either already in place or is in the process of implementation for the County management related to salary and benefit structure based on a pay structure consistent with its labor market.

The County believes that its offer is a fair and equitable one given the economics of county government and the challenges facing us in dealing with growing costs for medical insurance and the County's obligations to fund retiree medical benefits (OPEB). The County is committed to working through the negotiations process and is hopeful that both parties can work out its differences in mediation and bring these negotiations to a successful conclusion.