

County of San Benito
Board of Supervisors Presentation on
Fact Finding Report
January 21, 2014

Consideration of Fact Finders Non Binding Recommendation

- On January 9, 2014 the Fact Finding Chair David Weinberg issued the Fact Finding Panel's non binding fact finding decision and recommended the parties agree to the original tentative agreement between the County and SEIU that SEIU had voted down with minor changes.
- Both SEIU and the County's Panel members dissented with the findings of the Panel Chair.

Action Before the Board Today

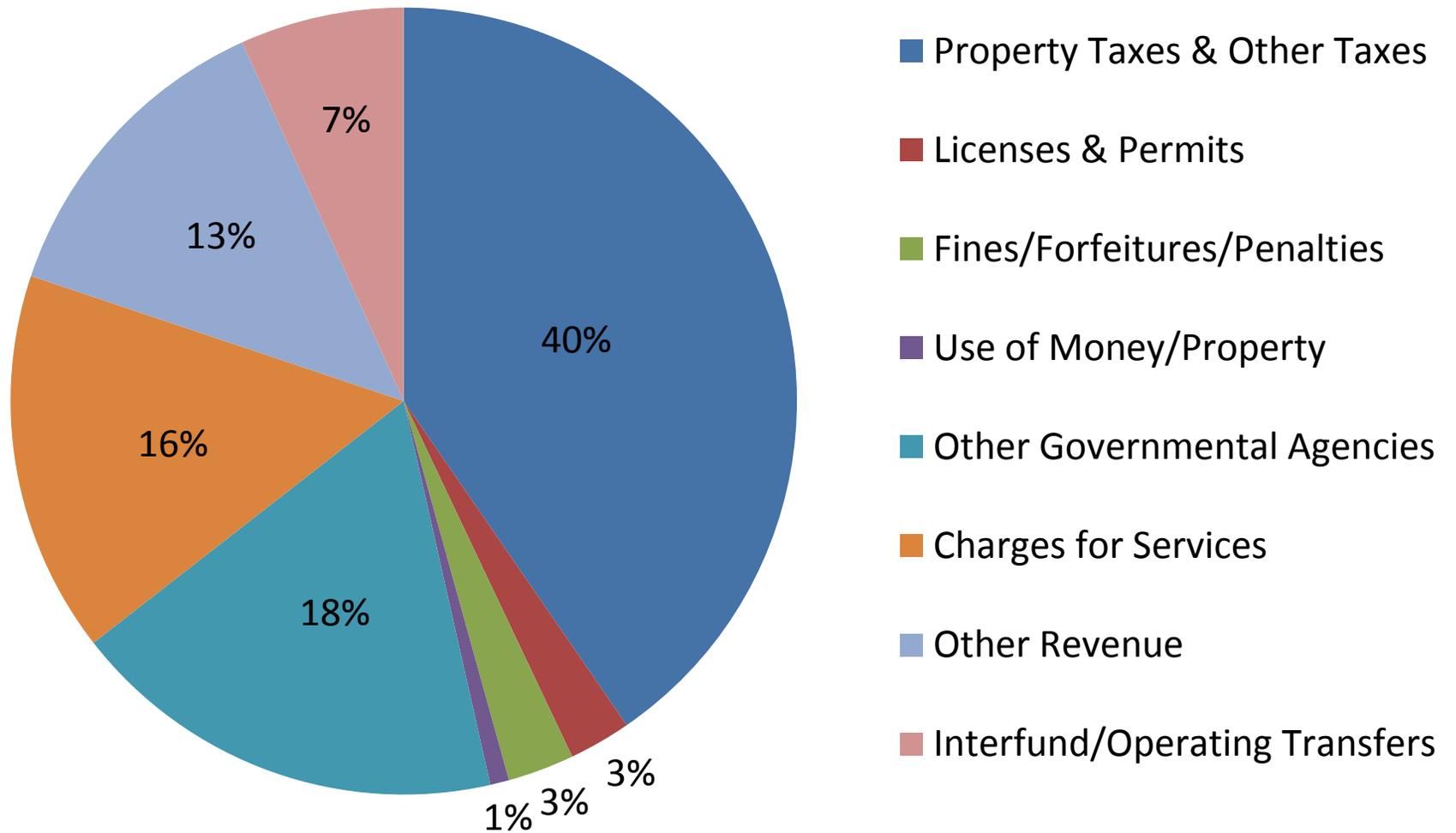
- Option 1: Adopt the non binding recommendations of the Fact Finding Panel Chair and unilaterally implement those provisions that are allowable by law or
- Option 2: Adopt the resolution unilaterally implementing the County's Last Best and Final Offer

County Overview and Challenges

- Major Economic Challenges
 - County is facing an approximately \$6.1 million budget deficit
 - \$2.2 million General Fund deficit
 - \$3.9 million Non-General Fund deficit
 - Addressing deficit through use of one-time funds in current fiscal year
 - No guarantee that same solution will be available going forward
 - Depleting reserves to address on-going deficits
 - Key cost drivers for County – CalPERS/Health Care Costs

General Fund Revenues

FY2013-14 (Budgeted)

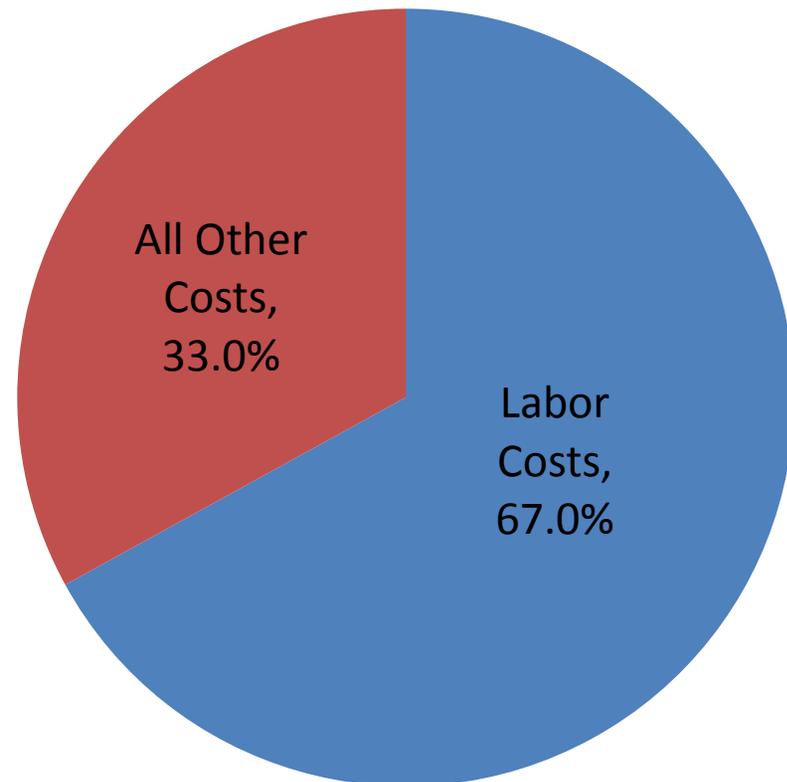


Source: County of San Benito, FY2013-14 Adopted Budget

Labor Costs

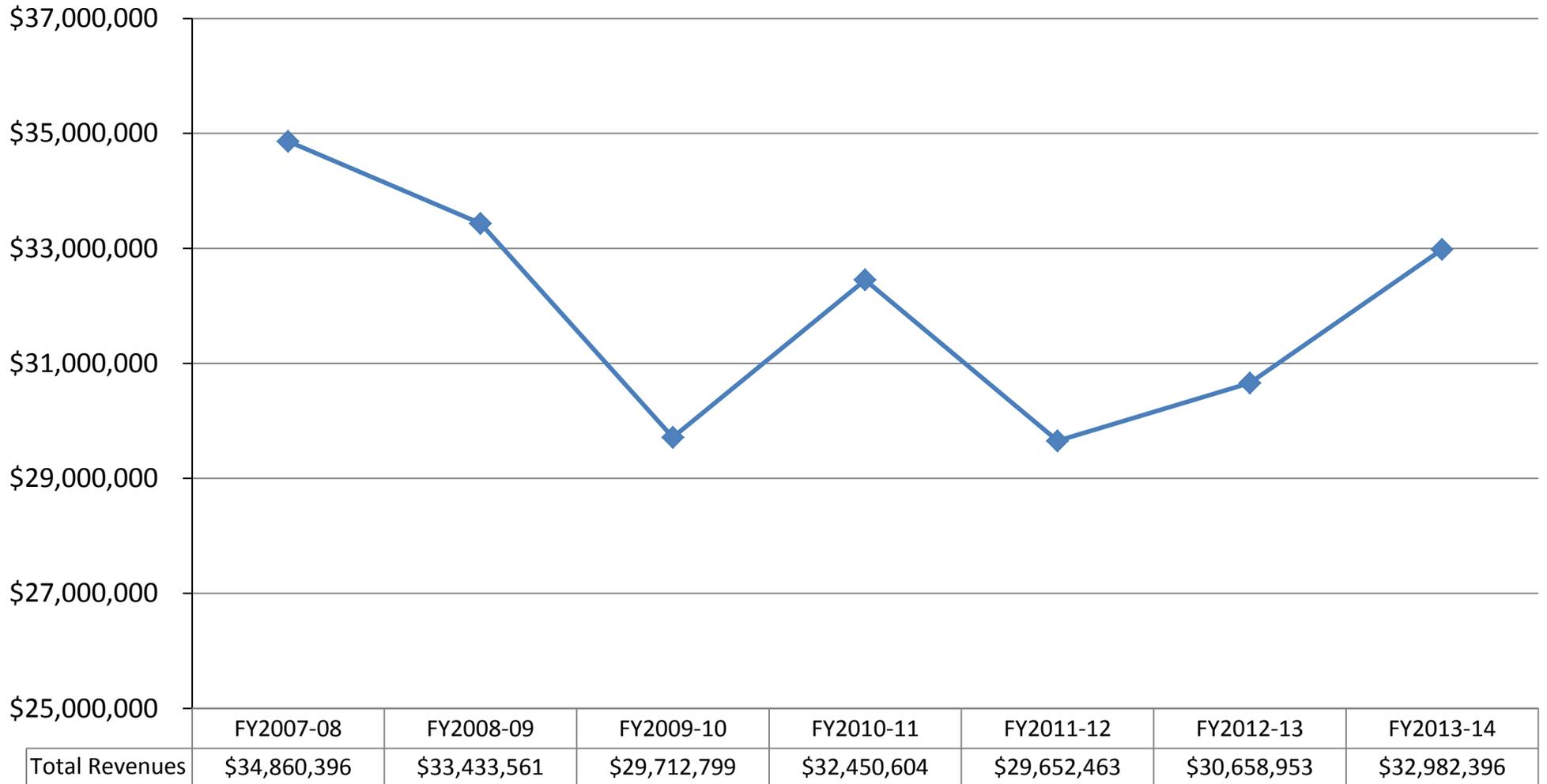
- Workforce related costs (salaries, active and retiree medical, pensions, compensated absences, workers' compensation, etc.) account for 67.0% of the County's total expenditures
 - 67.3% of General Fund expenditures
- As such, workforce cost reductions must be part of any effort to move the County toward a structurally sound and sustainable operating budget

Workforce Costs as % of Total Expenditures
FY2013-14 Budget



General Fund Revenues

Total Revenues



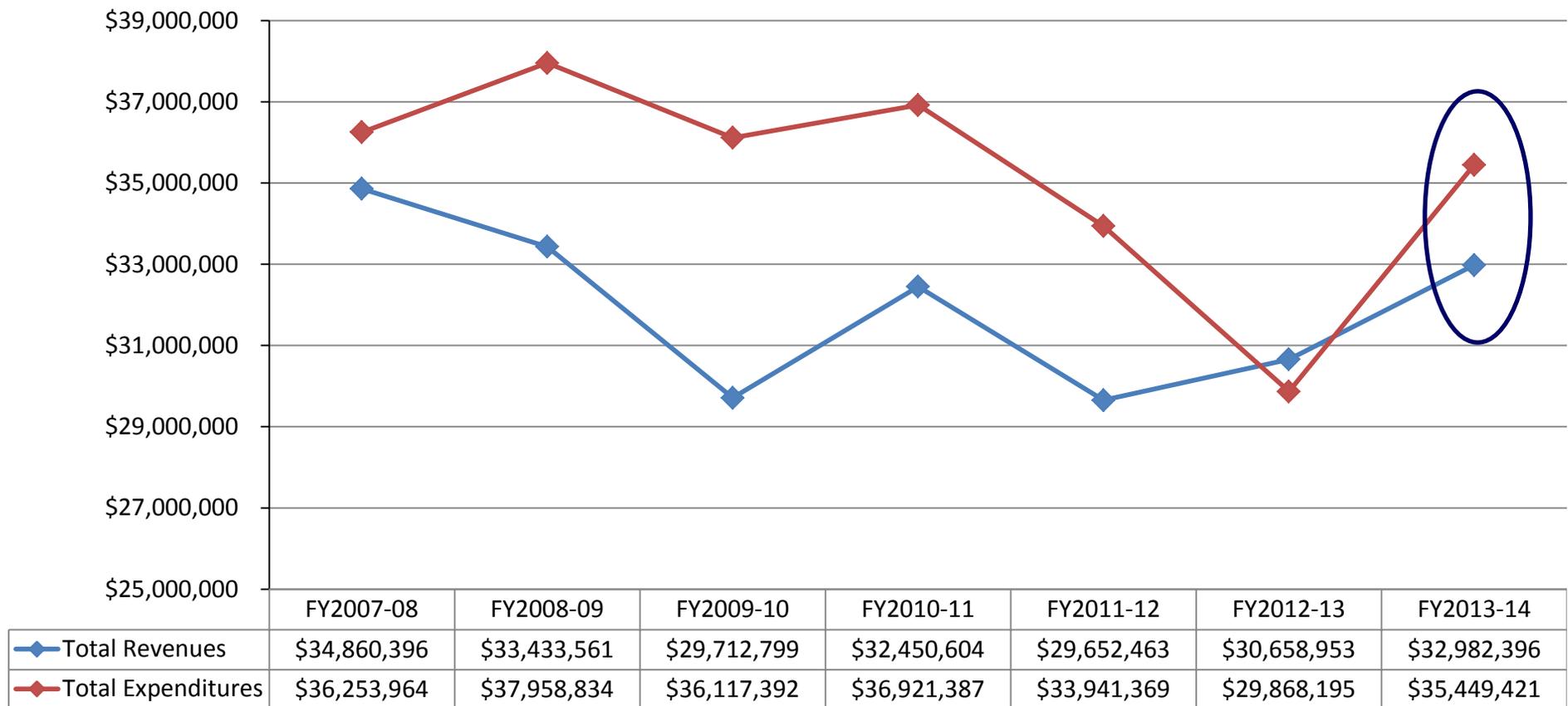
Source: County of San Benito, Adopted Budgets, FY2007-08 through FY2013-14

General Fund Revenues

- Revenues peaked in FY2007-08 at approximately \$34.8 million
- By FY2011-12, revenues dropped by **15%** to \$29.6 million and have yet to recover fully

General Fund Revenues Versus Expenditures

- For 6 of the past 7 years, General Fund expenditures have exceeded General Fund revenues



Source: County of San Benito, Adopted Budgets, FY2007-08 through FY2013-14

Non-General Fund Revenues versus Expenditures

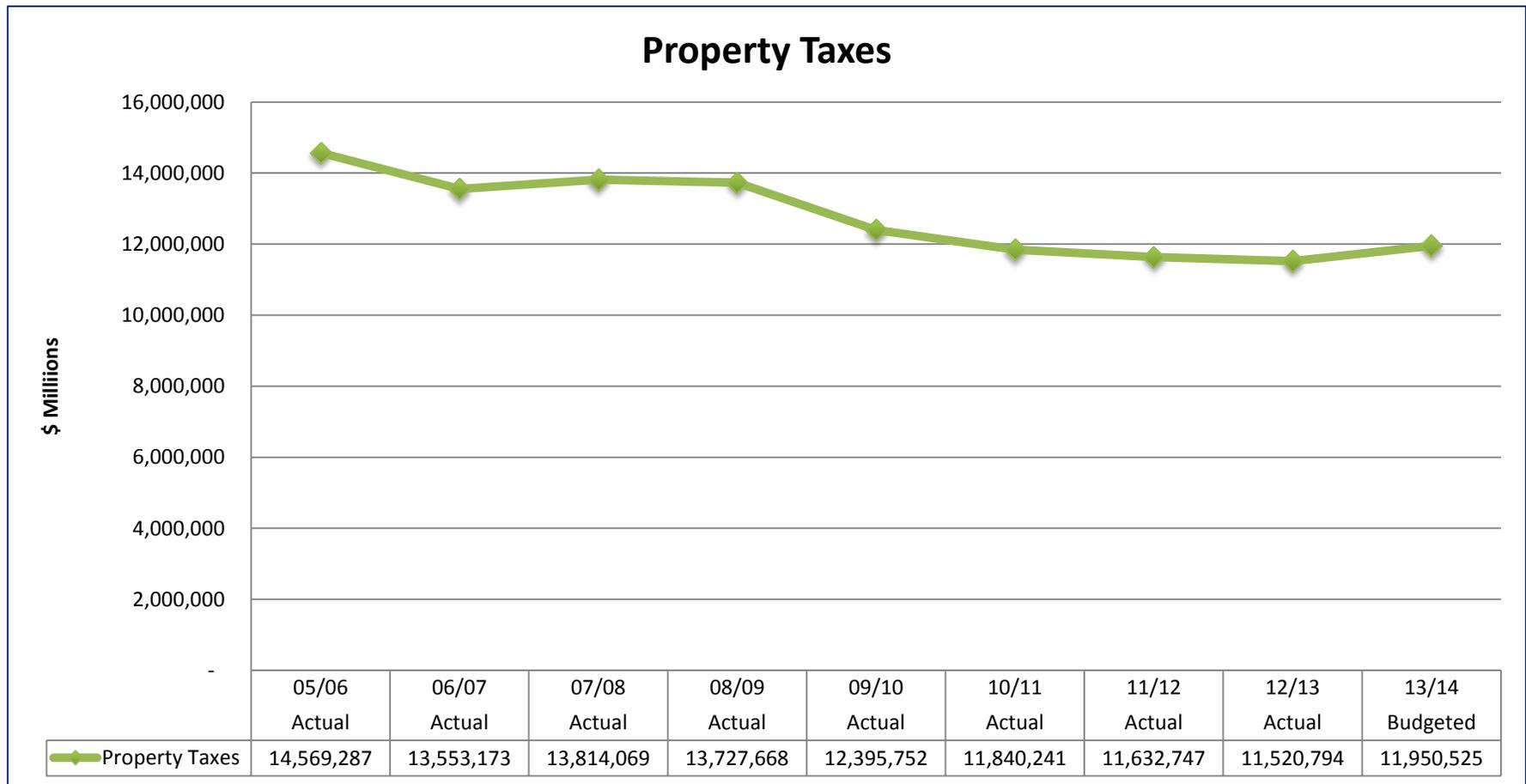
- Non- General Fund revenues have stayed largely static over the past six years while expenditures have grown



Source: County of San Benito, Adopted Budgets, FY2007-08 through FY2013-14

Declining Property Taxes

- Despite slight bump in housing market nationally, the County's property tax revenue sources continue to be depressed
- Property taxes and other taxes account for the largest source of General Fund revenues. As of FY2013-14, property tax revenues were \$11.9 million, more than **21.9%** below the peak level of \$14.6 million achieved in FY2005-06



Source: County of San Benito, Adopted Budgets, FY2005-07 through FY2013-14

Declining Property Taxes

■ Good news

- Assessed valuations are expected to increase

■ Bad news

- Because the inflation rate is down, the County will not realize the full value of increased property taxes
 - The County realizes approximately **\$0.10** for every dollar of property tax
 - Only Yolo County receives less per dollar of property tax than San Benito

Source: Office of the Assessor, County of San Benito, 2013 Annual Report; California State Board of Equalization 2011-12 Annual Report (<http://www.boe.ca.gov/annual/annualrpts.htm>)

Total Budget Shortfall FY2013-14

Revenues	\$72,992,882
Expenditures	\$79,179,498

Shortfall	\$6,186,616
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General Fund Shortfall	\$2.2 million
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Non-General Fund Shortfall	\$3.9 million
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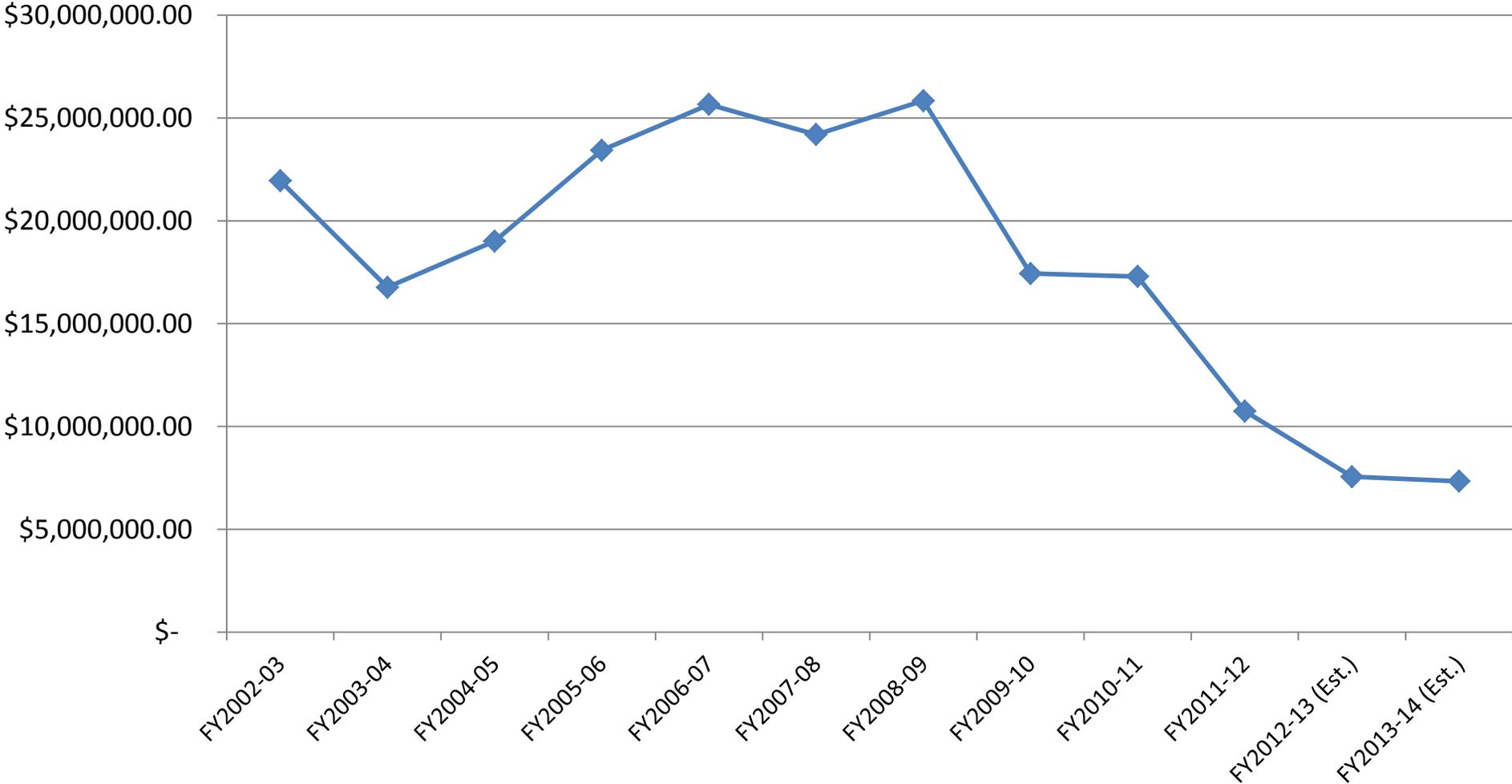
Source: County of San Benito, FY2013-14 Adopted Budget

County's Plan to Address General Fund Shortfall

- Health and Human Services Agency to repay \$1.6 million of excess “maintenance of effort” from General Fund
- Combination of reserves and rollover from FY2012-13 to cover remaining deficit of \$1 million
 - These are one-time funds being used to address an on-going structural deficit
 - Structural deficit remains. However, one-time funds have been expended

General Fund Reserves

■ General Fund reserves have decreased by **71%** since FY2008-09



Source: County of San Benito, Comprehensive Annual Financial Report, 2012; County of San Benito, FY2013-14 Adopted Budget

General Fund Reserves

- Over the past 6 years, the County has used an average of \$3.0 million of its General Fund reserves to cover its budget deficit
- At this pace, the County will deplete its General Fund reserves in the next 2 to 3 fiscal years
- Government Code § 53760.5
 - “The resolution [to declare fiscal emergency and seek bankruptcy protection] shall make findings that the public entity is or will be unable to pay its obligations within the next 60 days”

Reserves

- The Government Finance Officers Association (GFOA) recommends that governments establish a formal fund balance policy that defines an appropriate fund balance level as it relates to their specific financial circumstance
 - At a minimum, GFOA recommends that governments maintain a General Fund reserve of no less than 2 months of General Fund operating revenues or expenditures. For most governments, this minimum target would fall somewhere between 15-20% of General Fund revenues or expenditures
 - For the County, this would equal approximately 17% of expenditures

- Nationally, credit rating agencies view reserve levels as an important factor in their rating methodologies. A healthy fund balance can be reflective of a structural budget balance and provide a local government with additional financial flexibility during uncertain economic times

Sources: *GFOA Best Practice Appropriate Level of Unrestricted Fund Balance in the General Fund, 2009*

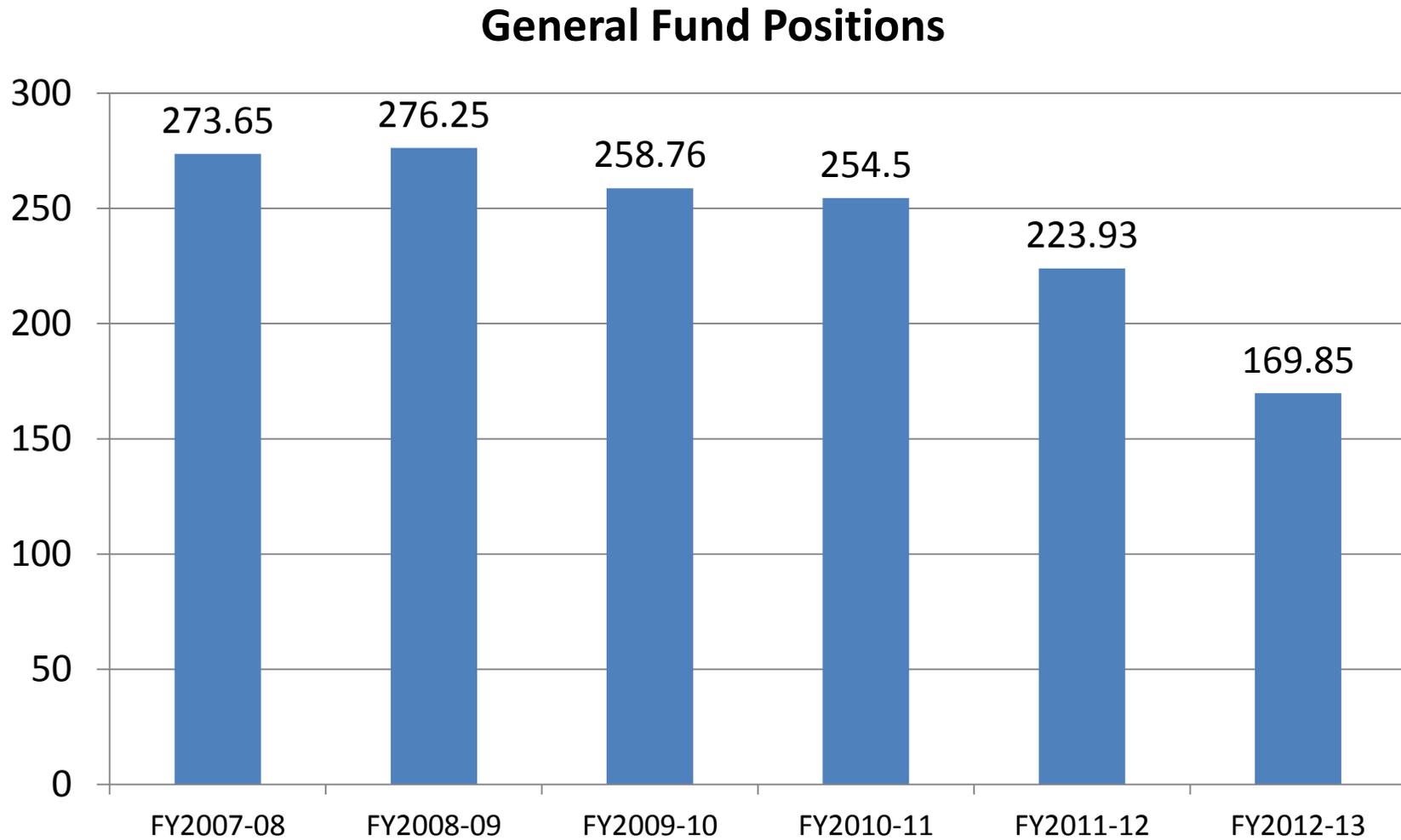
Reserves

- Maintaining appropriate reserve levels is critical for the financial health of counties
 - Counties are essentially extensions of the state, primarily providing Sheriff, Health & Human Services, Courts, and Jail services.
 - As a result, they are impacted even more dramatically than cities by actions at the state level and state finances (state aid funds many of the counties services)
 - Counties are also the providers of basic “city” services in unincorporated areas and generally rely on the same revenue sources (property and sales tax). As such, it is important to maintain an appropriate reserve level (volatility, constraints on revenue raising capacity)
- As discussed in a recent Moody’s report, fund balances for California counties largely remained stable during the Great Recession
- This was not true for San Benito County as its reserve levels have dropped **71%** since FY2008-09

Source: Moody’s Investor Service, *California State and Local Governments, An Update*, dated August 6, 2013

Service Level Erosion

- The County has lost over 100 General fund positions since FY2007-08



Source: County of San Benito, Adopted Budgets, FY2007-08 through FY2013-14

Service Level Erosion

- These staffing reductions have had a negative impact on County government's ability to serve the public

- Since 2009:
 - County Clerk office hours reduced by **56%**
 - Treasurer's office hours reduced by **46%**
 - Assessor's office hours reduced by **46%**
 - Library hours reduced by **41%**
 - Planning and Public Works Departments' hours reduced by **29%**
 - County Counsel and District Attorney office hours reduced by **22%**
 - Portions of the Agricultural Department office hours reduced by **60%**
 - Sheriff's Office hours reduced by **20%**

Service Level Erosion

- Other reductions in service include:
 - Number of sheriffs' deputies cut in half since FY2011-12
 - The Auditor's Office has **0** accountants
 - Resulted in late submission of County's CAFR
 - Assessors' Office lost **30%** of its staff
 - Impact on County's ability to collect taxes, which in turn has an adverse impact on County revenue
 - Planning Department has lost approximately **50%** of its staff
 - Unable to complete County's General Plan and keep up with new housing developments in the County
 - IT Division has one of the lowest ratios of IT employee to county employee in California
 - **0.9 IT employees for every 100 County employees**
 - Inyo County – approximately 1/3 the size of San Benito County – has twice as many IT employees and nearly 3x the budget of San Benito County's IT department
 - Similarly, Siskiyou County, which has approximately 20% fewer residents , has twice as many IT employees and more than 3x the budget of San Benito County's IT department

Service Level Erosion

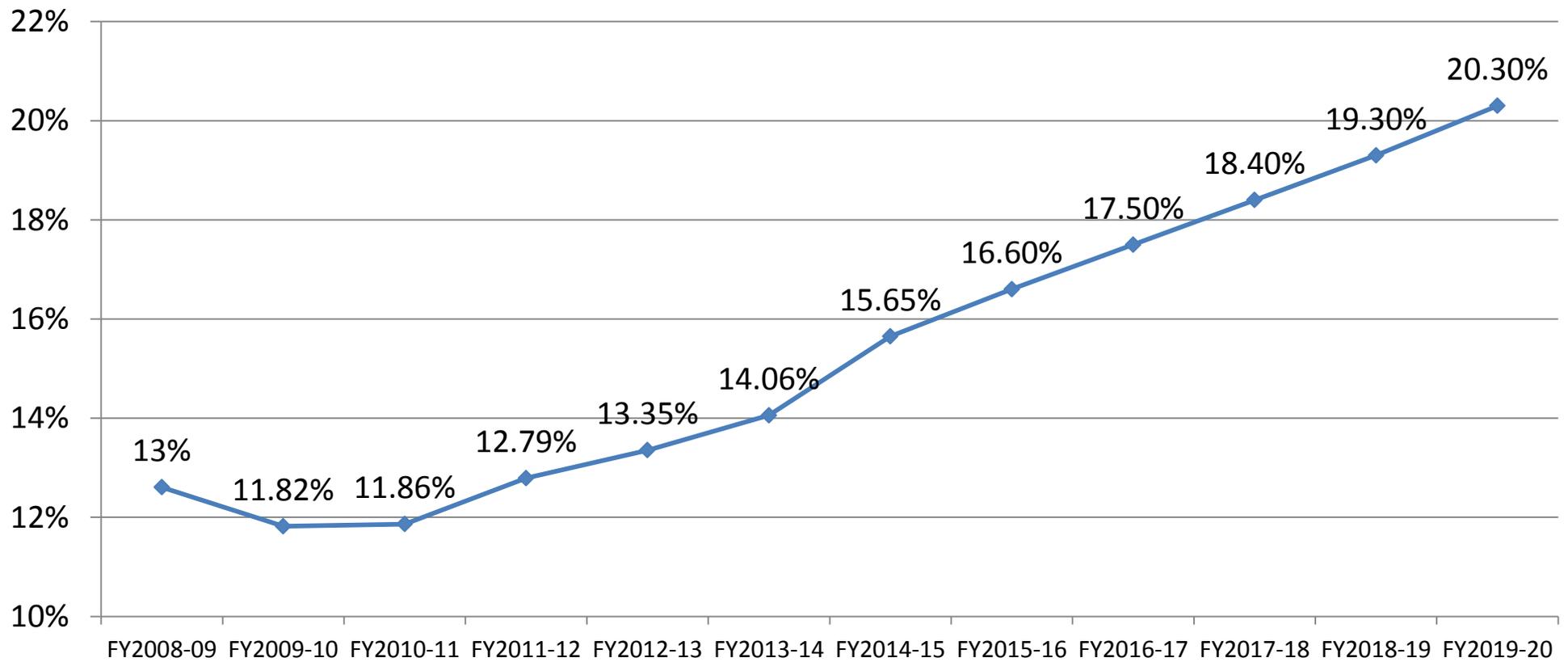
- Deferred Infrastructure Improvements
 - The structural budget deficit has forced the County to defer maintenance on critical infrastructure.
 - These projects are expensive, and must be planned for annually
 - An in-house study performed in 2010 estimated that to bring the entire road system into a 'state of good repair' would cost \$48,221,824
 - The amount of money to keep the roads in the existing state of repair at that point in time was identified at a cost of \$5.6 million
 - The annual base funding for road repair is \$400,000

Service Level Erosion

- Specific deferred maintenance projects include:
 - Courthouse renovation costs (Elevator, HVAC, Plumbing) - \$800,000
 - Jail (HVAC, Plumbing) - \$700,000
 - Juvenile Hall (HVAC, Plumbing, Finishes) - \$200,000
 - Public Health Building (Electrical, Seismic, Roofing) - \$75,000
 - DA/Probation Building (HVAC-Flooring) - \$110,000
 - Ag Commissioner's Buildings (HVAC, Roofing, Electrical) - \$150,000
 - Public Works Southside Yard Complex (Mechanics Shop & Sign Shop Replacement) - \$500,000
 - Library (HVAC, Electrical, Roofing, Finishes) - \$150,000
 - Sheriff's Office / County Permit Center (Roofing) - \$50,000
 - Bertha Briggs Building (Parking Lot, Plumbing, Roof) - \$80,000
 - Veterans Memorial Park (Parking lot, Restrooms, Lighting) – \$260,000
 - Historical Park (Removal of dead trees, Restrooms, Well) – \$40,000

PERS Rate Increases

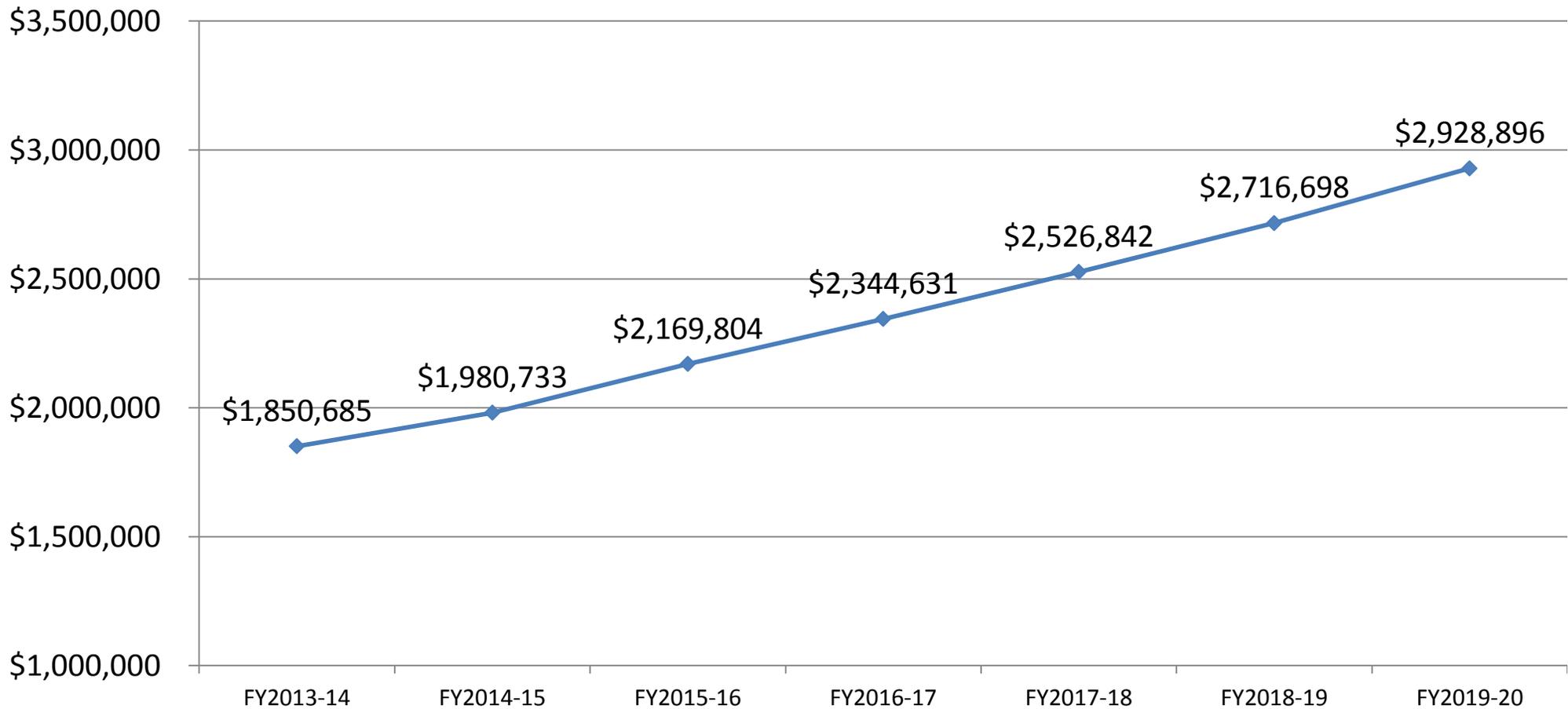
- CalPERS estimates that the County's contribution to CalPERS as a **percentage of payroll** is projected to increase by **44%** between FY2012-13 and FY2019-20
- Assuming an average 2.5% wage increase each year, the County estimates that its PERS contribution will total nearly **\$3.0 million** in FY2019-20, which exceeds their current fiscal year's pension contributions by approximately **\$1.0 million**



Source: CalPERS Annual Valuation Reports of Miscellaneous Plan of the County of San Benito, dated October 2011, October 2012 and October 2013

PERS Rate Increases

- Assuming a 2.5% average wage increase each year, based on the current estimated CalPERS rates, the County's pension contribution will grow by approximately **\$1.0 million** by FY2019-20



Source: CalPERS Annual Valuation Reports of Miscellaneous Plan of the County of San Benito, dated October 2011, October 2012 and October 2013

Bargaining Background with SEIU Local 521

SEIU Bargaining Unit Overview

- Approximately 245 authorized positions under FY2013/14 Approved Budget
- Average Wage of Unit Members, All Funds: \$50,200

	General Fund	Non-General Funds	All Funds
1% Base Wage	\$28,100	\$96,300	\$124,400
1% Base Wage plus Rollups	\$38,700	\$148,500	\$187,200
1% Total Comp	\$44,400	\$169,800	\$214,200

Bargaining History

- On June 3, 2013, SEIU sent the County a demand to bargain and a request for information
- Parties had approximately 10 bargaining sessions from July through October 2, 2013
- Parties reached tentative agreement on approximately 30 issues
- On October 2, 2013, SEIU demanded that the County issue its last, best and final offer by October 4, 2013 or else SEIU would file an unfair labor practice charge against the County for delay

Bargaining History

- On October 4, 2013, the County issued its last, best and final offer
- On October 8, 2013, the County declared impasse
- Also on October 8, 2013, SEIU rejected the County's last, best and final offer and obtained strike authority
- SEIU and the County agreed to participate in mediation on October 28, 2013
- Also on October 28, 2013, SEIU requested fact-finding
- On November 6, 2013, the Parties participated in mediation and a **tentative agreement** was reached
- On November 18, 2013, SEIU rejected the tentative agreement

County's Last, Best and Final Offer

- ***Employee Pension Contribution***
 - Increase employee contribution from current level of 0.0% to 7.0%, equal to approximately ½ of the normal cost of the County's miscellaneous pension plan, or equivalent salary reduction

- ***Health benefits***
 - For both active and retired employees, County to contribute a flat rate, comprised of PEMHCA minimum plus an additional contribution towards a cafeteria plan
 - Total contributions:
 - \$474.61 for Employee Only
 - \$949.22 for Employee plus one
 - \$1213.83 for Employee plus family
 - Eliminate dual coverage
 - Eliminate CalPERS § 22893 vesting schedule

- ***Wages***
 - One-time wage reduction that represents savings from beginning of contract to when agreement is reached; approximately 1.5%
 - Eliminate Step G for new hires
 - Reopener regarding new payroll system implementation

- ***Leave***
 - Reduce sick leave cash-out upon retirement from 50% to 25% for new hires

- ***All executed tentative agreements***

- ***Term***
 - One year

Source: County of San Benito, Last, Best and Final Offer, dated October 4, 2013

Tentative Agreement

■ *Employee Pension Contribution*

- Increase employee contribution of 5.0% in year 1
- Increase employee contribution by an additional 2.0% in year 2

■ *Health benefits*

- For both active and retired employees, County to contribute a flat rate, comprised of PEMHCA minimum plus an additional contribution towards a cafeteria plan
 - Total contributions:
 - \$550 for Employee Only
 - \$1050 for Employee plus one
 - \$1315 for Employee plus family
- Eliminate CalPERS § 22893 vesting schedule

Source: Union Supposal #2, executed by County of San Benito and SEIU, dated November 6, 2013

Tentative Agreement

▪ *Leave*

- Reduce sick leave cash-out upon retirement from 50% to 25% for new hires
- Holiday closure of non-essential departments from 12:00 pm on 12/24 through 12/31
 - Employees paid for four (4) days
- Employees in essential departments shall be given 4 float days to use in the preceding two weeks or during January 2014/15 as applicable

▪ *Wages*

- Eliminate Step G for new hires

▪ *Term*

- Two years

▪ *All executed tentative agreements*

▪ *Pending PERB Charges*

- Withdraw with prejudice pending unfair labor practice charge regarding pre-set condition imposed by County upon ratification of tentative agreement by both parties
- Pending unfair labor practice charge relating to overtime to be held in abeyance and County and SEIU to meet after January 2, 2014 but no later than July 31, 2014 to resolve the unfair labor practice charge

SEIU Requested Fact Finding and AB 646 Fact-Finding Criteria

1. State & federal laws applicable to employer
2. Local rules, regulations, or ordinances
3. Stipulations by parties
4. Public interest & welfare, and public agency's financial ability
5. Comparability of employment conditions with those in other agencies
6. Cost of living
7. Overall total employee compensation (e.g. wages, pension & benefits)
8. Other facts normally taken into consideration
 - Internal Equity
 - Parties reached a tentative agreement on November 6

Key Issues in Dispute

- ***Critical Issue 1: Retirement***
 - Employee contribution increase from 0.0% to 7.0%, or equivalent salary reduction
- ***Critical Issue 2: Health Benefits***
 - Flat rate contribution to active and retiree health
 - Elimination of dual coverage
- ***Critical Issue 3: Cost Containment***
 - Reduction in sick leave cash out
 - Elimination of Step G for new employees
 - Eliminate CalPERS § 22893 vesting schedule
 - One-time, 0.5% wage decrease for every quarter that contract agreement is not reached for savings not yet realized

Critical Issue 1: Retirement

- Status quo
 - Union’s members contribute **0.0%** to their pension costs
 - County’s miscellaneous pension plans
 - 2% at 55 for “classic” members
 - 2% at 62 for new members
- County’s last best and final proposal
 - Increase employee contribution to 7.0% (or equivalent salary reduction)
- Union’s proposal
 - Increase employee contribution to 4.0% for the two year term

Critical Issue 1: Retirement

- Why is this increase necessary?
 - State policy – Standard for employees to pay 50% of normal cost
 - Cost savings
 - There is an on-going deficit in the County’s budget – this savings will help the County balance its budget
 - Pension costs are expected to increase significantly in the next five years
 - Cost sharing by SEIU will allow the County to manage this liability
 - The County estimates savings of **\$430,000** (half-year estimate)
 - External Comparability
 - To the extent the comparator counties make any contributions to the employee share of pension costs, most contribute significantly less than San Benito.
 - Internal Equity:
 - Within bargaining unit: New employees have been required to pay 6.50% immediately upon hiring per PEPRA
 - Within County: SEIU pays *nothing* towards its pension costs, while other units pay at least 4.0% and have done so, in some cases, since FY2011-12
 - Public Interest
 - There is a public interest *per se* that public employees pay some portion of their pension costs
 - Public has a right to ask the County to have its “house in order” before it seeks additional revenue from its residents

Critical Issue 1: Retirement

- **PEPRA Section 20516.5**

(a) Equal sharing of normal costs between a contracting agency or school employer and their employees *shall be the standard*. It shall be the standard that employees pay at least 50 percent of normal costs and that employers not pay any of the required employee contribution [emphasis added]

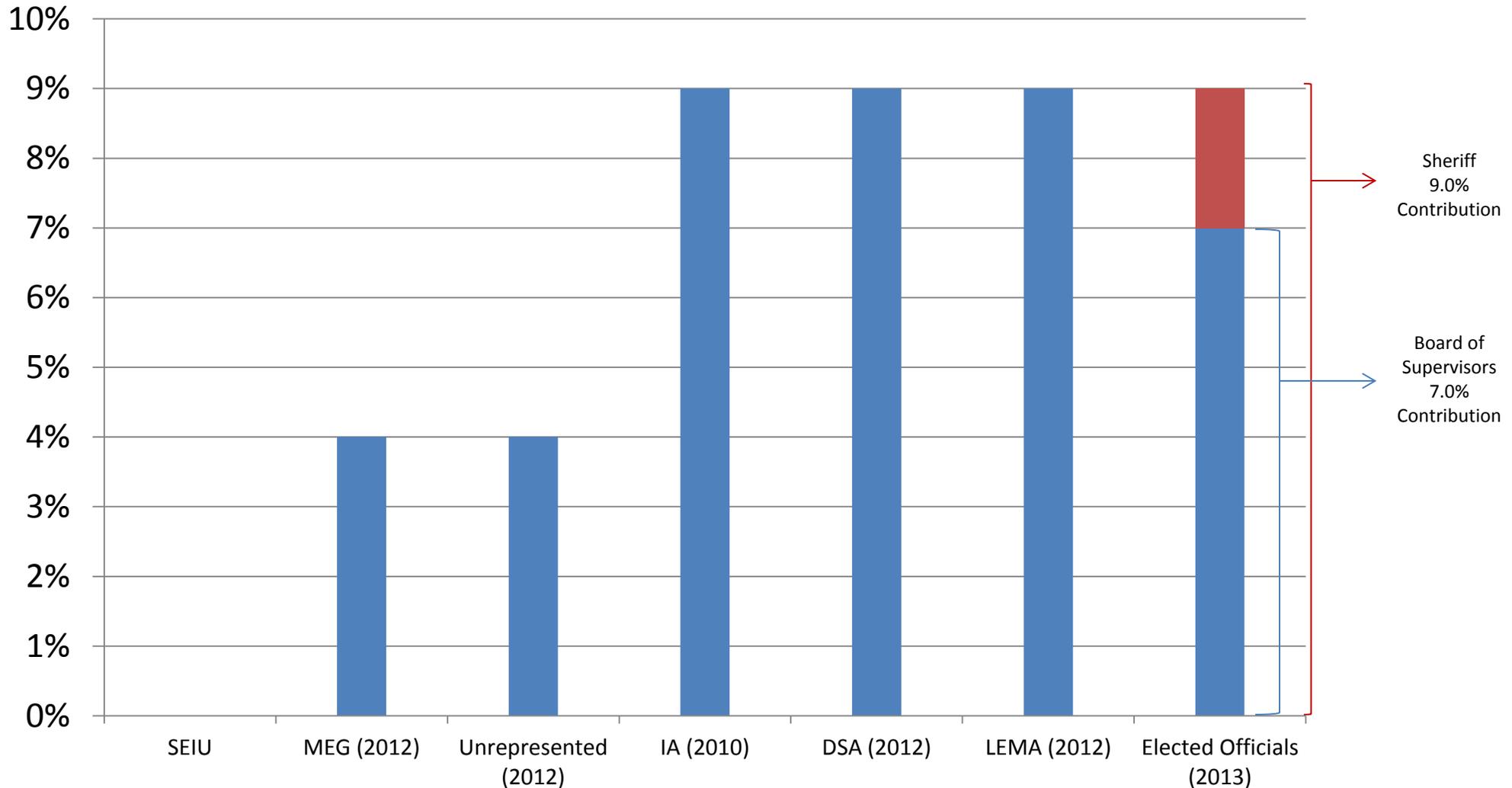
- Supports the County's proposal to increase SEIU members' contribution to their pension expenses
- New hires have been paying one-half of normal cost of their pension plan, equal to 6.50% of base wage, immediately upon hiring per PEPRA

Critical Issue 1: Retirement

- What does a funding ratio of 68.7% mean (81.5% on an actuarial basis)? As of June 30, 2012, the Miscellaneous Plan had:
 - Present value of projected benefits: **\$140.1 million**
 - Accrued liability for retirees & survivors of **\$118.8 million**
 - The market value of assets was **\$81.6 million**
- **Difference between benefits payable to retirees & survivors and dollars saved = \$37.2 million deficit**
- **Not only are there insufficient funds to pay the benefits earned by existing retirees, there is not a single dollar saved for active employees**

Source: CalPERS Annual Valuation report of Miscellaneous Plan of the County of San Benito, dated October 2013

Pension Contributions By Bargaining Unit



Source: County Memoranda of Understanding; Board of Supervisors Resolutions

Critical Issue 2: Health Benefits

- Status Quo for Actives and Retirees
 - County contributes the following base amounts on account of health insurance premiums
 - Employee Only: \$649.78
 - Employee + 1: \$1,041.83
 - Employee + Family: \$1,213.83
 - To the extent PERS raised premiums after January 1, 2008, the County agreed to increase its contributions as follows:
 - The County contributed an additional amount equal to the increase in the gross monthly premium for employee-only coverage for the lowest cost PERS plan available and applied this amount to all three tiers of coverage for all health plans.
 - The County and the employee shared equally any remaining increase in premiums

Critical Issue 2: Health Benefits

- County's health care proposal
 - Reduction in active/retiree benefit
 - For both active and retired employees, County to contribute a flat rate, comprised of PEMHCA minimum plus an additional contribution
 - Total contributions:
 - \$474.61 for Employee Only [\$119 PEMHCA minimum plus \$355.61]
 - \$949.22 for Employee plus one [\$119 PEMHCA minimum plus \$830.22]
 - \$1213.83 for Employee plus family [\$119 PEMHCA minimum plus \$1094.83]
 - Elimination of dual coverage
 - Employees are eligible for “in lieu” payments if they are covered by medical insurance of spouse/domestic partner who is also a County employee
 - The County is proposing to eliminate this option for employees whose “alternate insurance” is through a spouse/domestic partner who receives insurance through the County

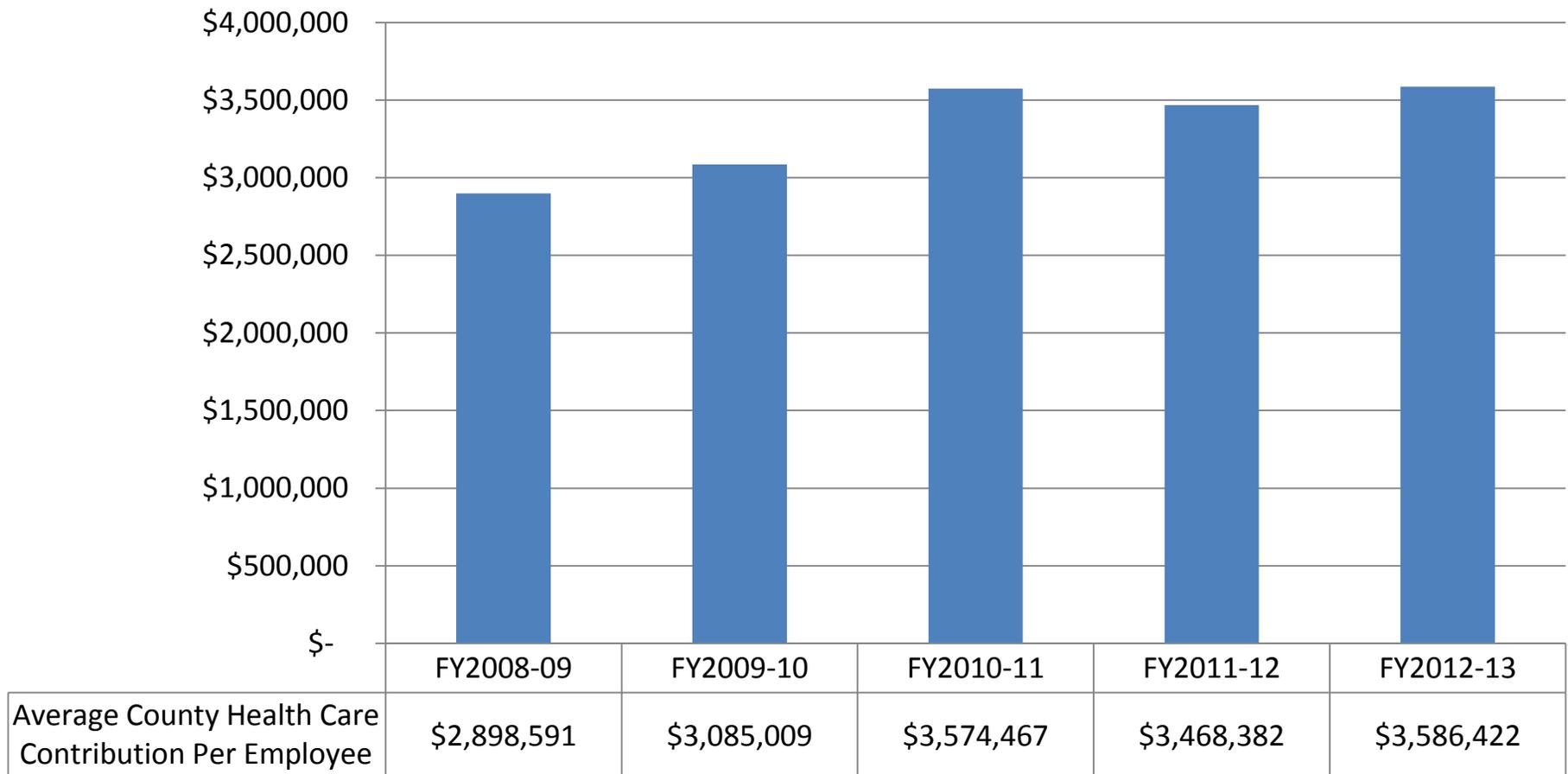
Critical Issue 2: Health Benefits

- Rationale for County's offer
 - Cost Savings
 - Policy
 - Reduction in OPEB liability
 - External Comparability

Critical Issue 2: Health Benefit

- Although the County has lost over 100 employees from the General Fund alone since 2009, its health premium contributions have increased by approximately **\$700,000** during this same period

Annual Health Care Expenditures



Source: County of San Benito, General Ledger; Adopted Budget FY2013-14, Sch. 9

Health Benefit Costs

- The County's average cost per employee for health insurance has risen by approximately **62%** since FY2008-09
 - Average cost per employee in FY2008-09: **\$480.09**
 - Average cost per employee in FY2012-13: **\$776.69**

- County proposal will save approximately **\$270,000** (half-year estimate) in the first year of the agreement
 - This savings will likely be on-going as any increase in the County's contribution will be subject to negotiation as part of successor MOUs
 - Assuming (i) no increase in the County's current proposed contributions and (ii) an 8% increase in medical premiums, the County estimates that it will save approximately **\$775,000** in FY2014-15 based on its current proposal

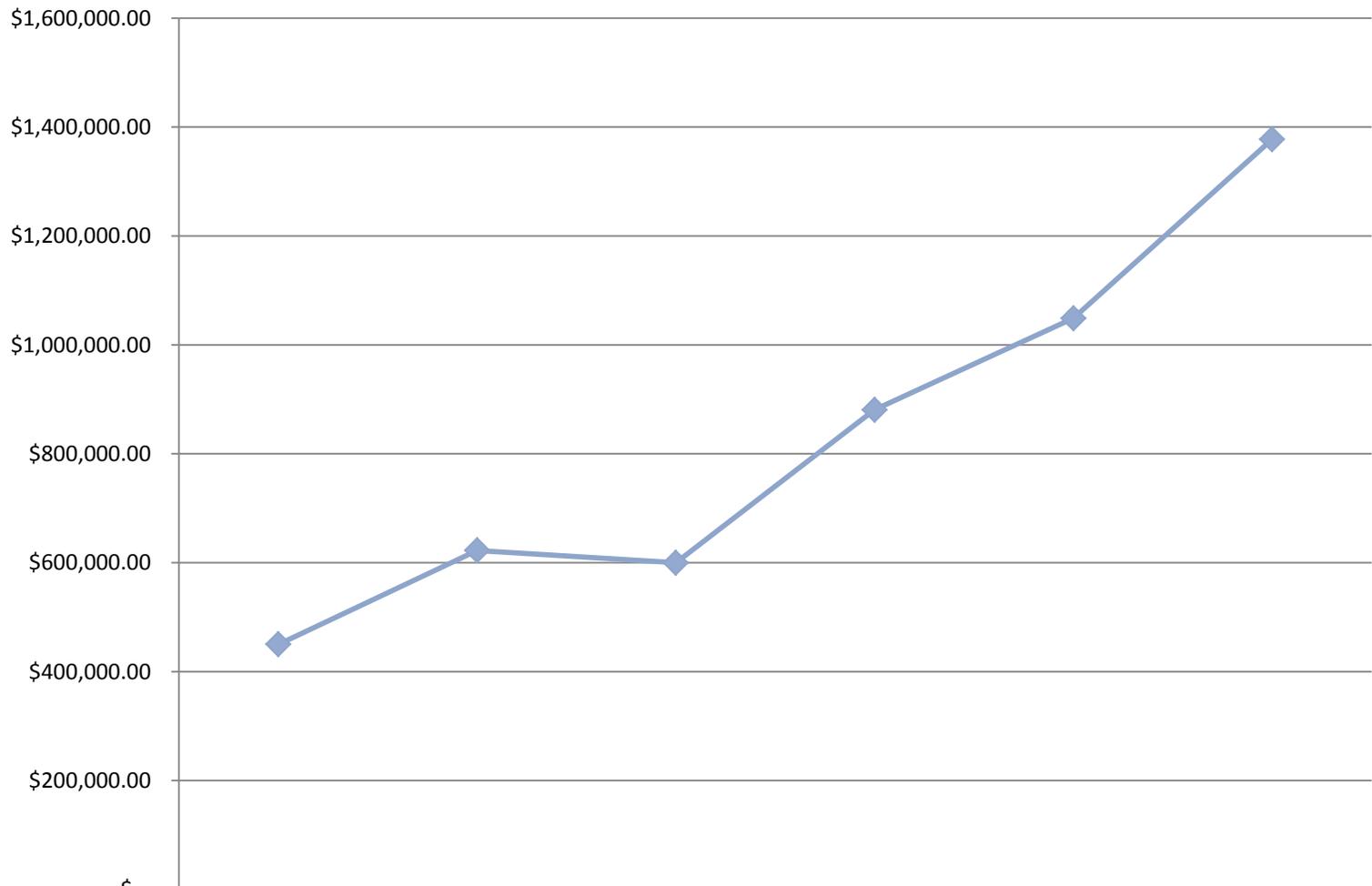
Critical Issue 2: Health Benefits

- Policy
 - AB 646 states that the fact-finding panel shall consider “The overall compensation presently received by the employees, including direct wage compensation, vacations, holidays, and other excused time, insurance and pensions, medical and hospitalization benefits, the continuity and stability of employment, and all other benefits received”
 - Everything is on the table during negotiations
 - As a result – there should not be any automatic escalator in the MOU
 - Consistent with this policy, in its current round of negotiations with all other bargaining units, the County has proposed a flat dollar contribution for active and retiree health

Source: Gov. Code 3505.4(d)(7)

Critical Issue 2: Health Benefit

Annual Pay-Go Costs for Retiree Health Care



	FY2007-08	FY2008-09	FY2009-10	FY2010-11	FY2011-12	FY2012-13
RETIREE MEDICAL CONTRIBUTIONS	\$450,069.56	\$622,615.13	\$599,988.58	\$880,761.32	\$1,048,798.71	\$1,377,713.94

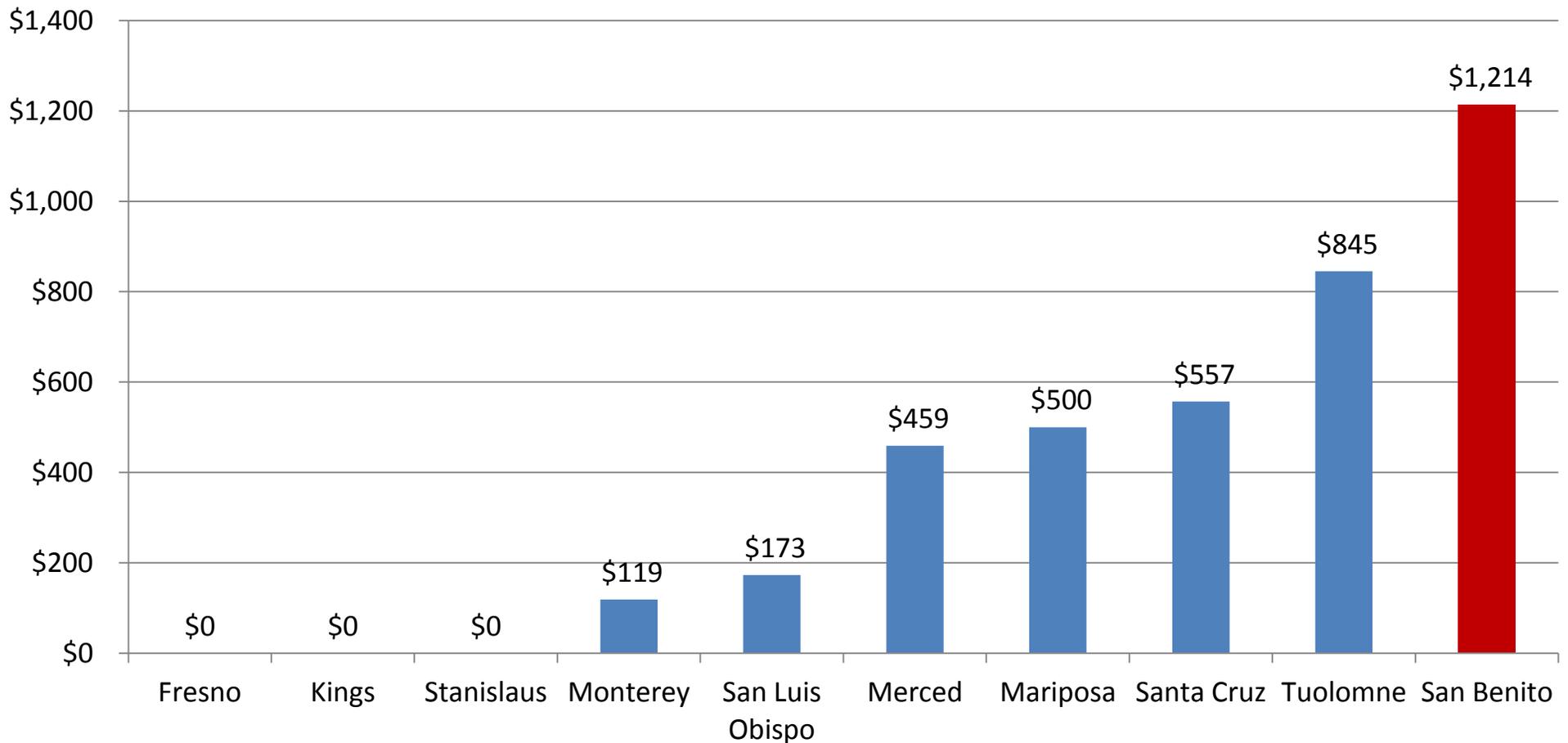
Source: County of San Benito, Adopted Budget FY2013-14

Critical Issue 2: Health Benefit

- External Comparability

- The County's retiree medical benefit is well in excess of market

Retiree Medical Contribution



Critical Issue 3: Cost Containment

- Cap sick leave payout upon retirement *for new hires* at 25%
 - Currently, employees can cash out 50% of accrued but unused sick leave upon retirement
 - The County is not seeking to impact already accrued sick leave
 - However, it needs to manage this unfunded liability going forward
 - Over the past five years, the County has paid out approximately \$400,000 on account of sick leave cash outs

Critical Issue 3: Cost Containment

- Elimination of Step G for new hires
 - Effective October 2009, the County negotiated the addition of an additional step on the SEIU salary range
 - 5% increase on Step F
 - Employees qualify for Step G once they have been at Step F for thirty-six months

Critical Issue 3: Cost Containment

- Reopener to discuss elimination of CalPERS § 22893 vesting schedule
 - Effectively serves as an automatic escalator of County contributions to retiree health costs
 - County has no ability to control its level of contributions
 - No SEIU member has retired under this schedule

Critical Issue 3: Cost Containment

- 1.5% Wage Reduction: savings of **\$119,740**
 - County’s Proposal
 - To ensure that the County realizes the annualized savings related to 7% employee pick up of employee share the following will occur if no agreement is reached by September 30, 2013

If Agreement reached between October 1, 2013 and November 30, 2013	0.5% wage decrease
If Agreement reached between December 1 and January 31, 2014	1.0% wage decrease
If Agreement reached between February 1, 2014 and April 30, 2014	1.5% wage decrease
If Agreement reached between May 1, 2014 and June 30, 2014	2.0% wage decrease

Factfinder's Recommendations vs. LBFO

Factor	Factfinder's Recommendation	County's LBFO
Pension Contribution	5%, effective immediately 2% effective 10/1/14 (CANNOT IMPLEMENT)	7%, effective immediately
Healthcare Contribution	EE Only: \$550 EE + 1: \$1050 EE + Family: \$1315	EE Only: \$474.61 EE + 1: \$949.22 EE + Family: \$1213.83 Eliminate dual coverage
Wage Reduction	None	1.5%
§22893 Vesting Schedule	Reopener to discuss elimination CANNOT IMPLEMENT	Eliminate
Step G	Eliminate for new hires	Eliminate for new hires
Sick Leave	Reduce cash out cap from 50% to 25% for new hires, if other groups agree to similar reduction	Reduce cash out cap from 50% to 25%
Other items previously agreed to by executed TA	Incorporate	Incorporate
Holiday Closures	Close non-essential departments over Christmas/New Year's in 2013 and 2014; provide float days to employees in essential departments CANNOT IMPLEMENT	No closure
ULPs	Withdraw ULP regarding pre-set condition Agree to meet to settle ULP regarding overtime CANNOT IMPLEMENT	Can implement withdrawal of ULP
Term	2 years CANNOT IMPLEMENT only implement new terms and conditions as new status quo	1 year CANNOT IMPLEMENT TERM only implement new terms and conditions as new status quo