THE ECONOMICS OF LABOR NEGOTIATIONS

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CALPELRA
2018 ANNUAL CONFERENCE

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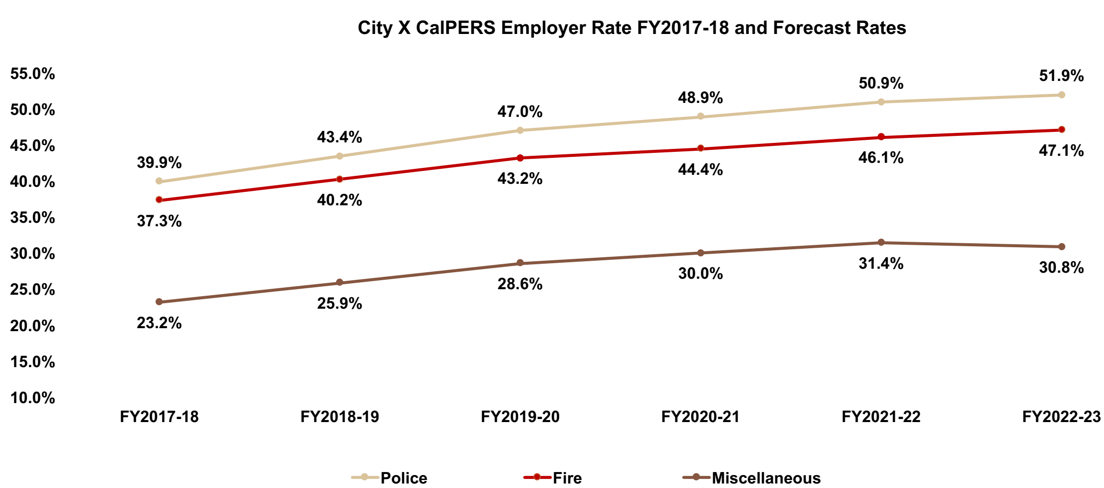
TOP TEN: NUMBERS TO KNOW IN BARGAINING

1. CalPERS Rate/Trend
2. Cost of Doing Nothing
3. Projected 5-Year Surplus/(Deficit)
4. 114 (Months Since the Last Recession)
5. Reserve level/trend
6. CPI
7. Drift (External/Internal Comparators)
8. Median Household Income / Median Home Value
9. Average Pay and Benefits Cost for the Unit
10. True Cost of 1%

(11.) Extra Credit

THE TOP TEN

#1: CALPERS



#1: CALPERS: PROJECTED BUDGET IMPACT

- 2006/07 and 2017/18:
  - General Fund budgets and CalPERS contributions from League survey data
- 2024/25 Projection:
  - GF budgets projected from 2017/18 assuming 3% annual growth
  - CalPERS contributions from CalPERS data adjusted by Bartel Associates for new tiers and 2016/17 investment gain
  - Assumes 100% of Safety contributions paid from GF
  - Misc GF contributions allocated on Misc % of GF payroll x projected positions / actual positions

#1: CALPERS: PROJECTED BUDGET IMPACT

CALPERS CITY 2006/07 CONTRIBUTIONS AS % GENERAL FUND BUDGET BY COUNTY

League of California Cities, "Retirement System Sustainability Study and Findings", January 2018

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CALPERS CITY
2017/18
CONTRIBUTIONS
AS % GENERAL
FUND BUDGET
BY COUNTY

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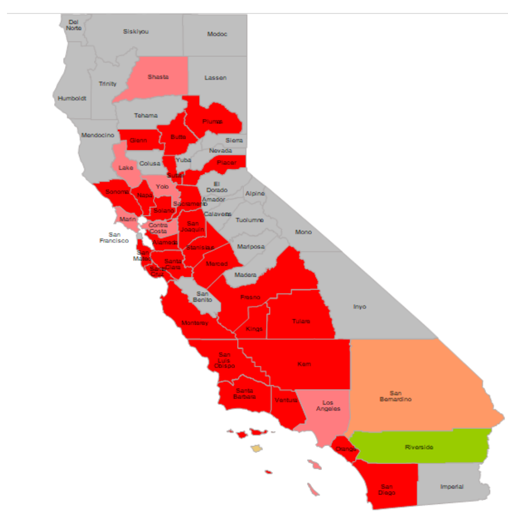


League of California Cities, "Retirement System Sustainability Study and Findings", January 2018

#2: COST OF DOING NOTHING: EXAMPLE

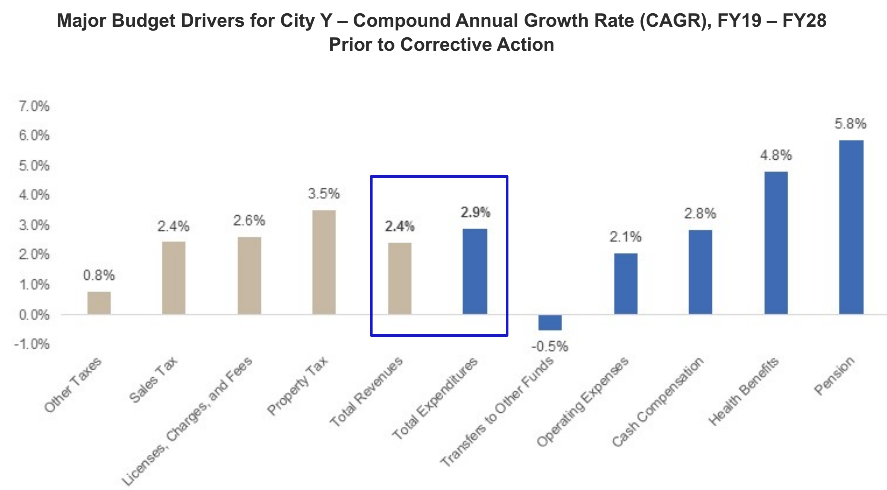
- Before considering increases to wages and premiums, the City's cost of status quo is affected by the increases in contributions toward the unfunded accrued liability (UAL)
- Over the term of the proposed agreement, the City's cumulative increase in total employee cost before wages and premiums will be **6.0%** of total compensation, and will continue to climb to **8.6%** of total compensation in the two years following the proposed contract term
- Even without any further increases for active or retiree benefits, status quo costs are expected to increase at an average rate of **1.5%** year over year (YoY) over the term of the proposed agreement

	Current	FY2017-18	FY2018-19	FY2019-20	FY2020-21	*FY2021-22*	*FY2022-23*
Wages	$17,899,842	$17,899,842	$17,899,842	$17,899,842	$17,899,842	*$17,899,842*	*$17,899,842*
Premiums	$551,206	$551,206	$551,206	$551,206	$551,206	*$551,206*	*$551,206*
Pension	**$4,908,598**	**$5,125,562**	**$5,656,749**	**$6,185,929**	**$6,678,614**	***$7,116,555***	***$7,445,012***
Benefits	$6,019,983	$6,019,983	$6,019,983	$6,019,983	$6,019,983	*$6,019,983*	*$6,019,983*
Total	**$29,379,629**	**$29,596,593**	**$30,127,780**	**$30,656,960**	**$31,149,644**	***$31,587,586***	***$31,916,043***
YoY % Increase	**--**	**0.74%**	**1.79%**	**1.76%**	**1.61%**	***1.41%***	***1.04%***
Cumulative Increase	**--**	**0.74%**	**2.55%**	**4.35%**	**6.02%**	***7.52%***	***8.63%***

#3: PROJECTED 5-YEAR SURPLUS/(DEFICIT)

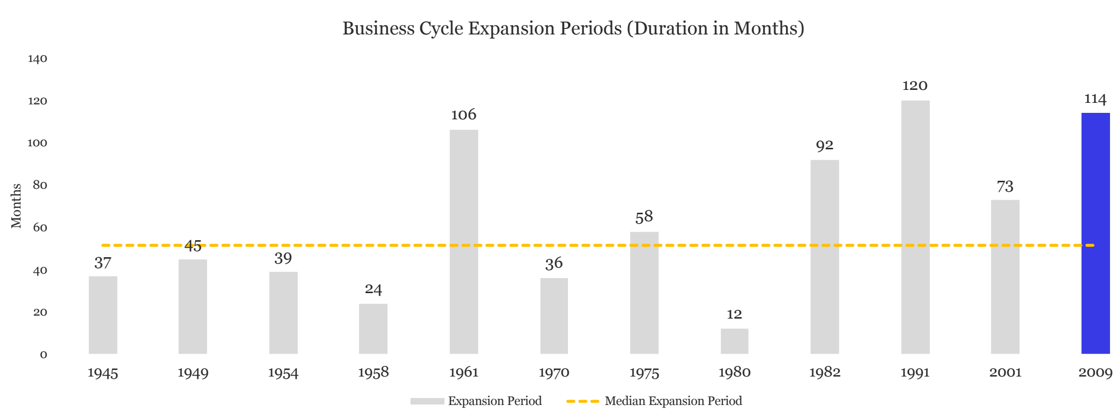
	FY19 Budget	FY20 Proj.	FY21 Proj.	FY22 Proj.	FY23 Proj.	FY24 Proj.	FY25 Proj.	FY26 Proj.	FY27 Proj.	FY28 Proj.
Operating Revenues	$135.9	$139.3	$142.1	$145.0	$147.8	$151.6	$155.8	$159.8	$163.9	$168.1
Operating Expenditures	$138.6	$140.5	$144.6	$149.4	$154.9	$158.9	$164.2	$168.5	$174.3	$178.6
Net Operating Results	($2.8)	($1.2)	($2.5)	($4.4)	($7.1)	($7.2)	($8.3)	($8.7)	($10.4)	($10.5)
Operating Reserve	$9.6	$8.4	$5.8	$1.4	($5.6)	($12.8)	($21.2)	($29.9)	($40.3)	($50.8)

#3: PROJECTED 5-YEAR SURPLUS/(DEFICIT): DRIVERS



#4: 114 (MONTHS SINCE THE LAST RECESSION)

Since 1945, the average expansionary period lasted **58.4 months** across 11 business cycles. The current expansion has lasted **114 months** as of December 2018



Source: National Bureau of Economic Research

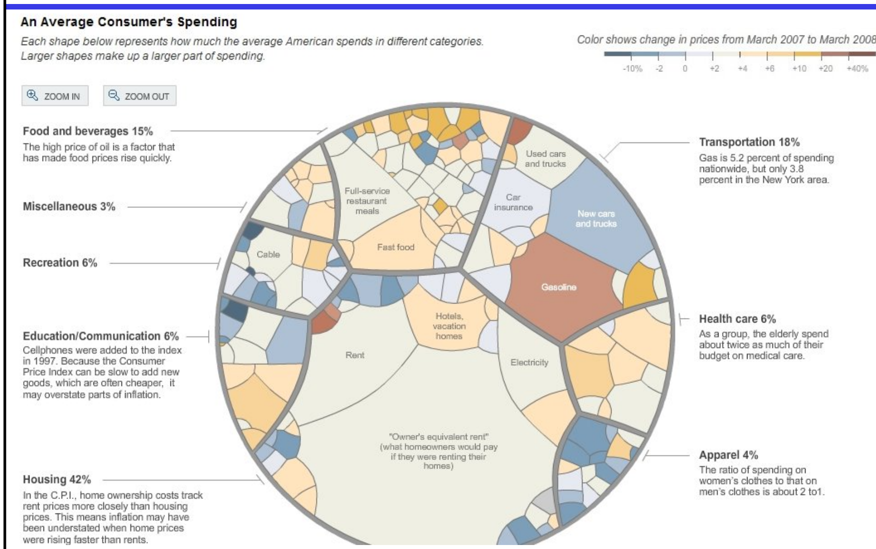
#5: RESERVE LEVEL/TREND

- Is there an adopted local policy?
- The Government Finance Officers Association (GFOA) nationally recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of <u>no less than</u> two months of regular general fund operating revenues or regular general fund operating expenditures
- Actual reserve level should be based on locally specific circumstances
  - <u>California-Specific Risks</u>
    - Limited revenue flexibility
    - Designated Responsibilities – For Counties, for example, State has shifted responsibility and funding to incarcerate and rehabilitate certain low-level offenders who earlier were a state responsibility
  - <u>Community-Specific Risks</u>
    - Known economic transitions?
    - Natural Disaster Exposure (fire, mudslides, earthquakes)
- This late into the business in the business cycle, it is prudent to carry higher reserve levels

The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance.

- GFOA Best Practice: "Fund Balance Guidelines for the General Fund"

#6: CPI: "MARKET BASKET" CONCEPT



Source: New York Times, All of Inflation's Little Parts (5/3/2008)

#6: CPI: WHOSE MARKET BASKET?

- **CPI-U: All Urban Consumers**
  - Excludes rural, nonmetropolitan areas, farm families, persons in the Armed Services, and those in institutions (e.g., prisons, mental hospitals)
  - Approx. 87% of U.S. population
- **CPI-W: Wage and Clerical Workers**
  - More than half of household income from hourly clerical or wage occupations and at least one household member employed 37 weeks of last 12 months
  - Excludes retirees, self-employed, unemployed, professional, managerial, and technical workers, etc.
  - Approx. 32% of U.S. population
- **Geographies**
  - National
  - Regional (e.g., West)
  - Area (e.g., Los Angeles-Long Beach-Anaheim, San Francisco-Oakland-Hayward, Riverside-San Bernadino-Ontario, San Diego-Carlsbad

"Metropolitan areas indexes have a relatively small sample size and, therefore, are subject to substantially larger sampling errors.

Metropolitan area and other sub-components of the national indexes (regions, sub-classes) often exhibit greater volatility than the national index."

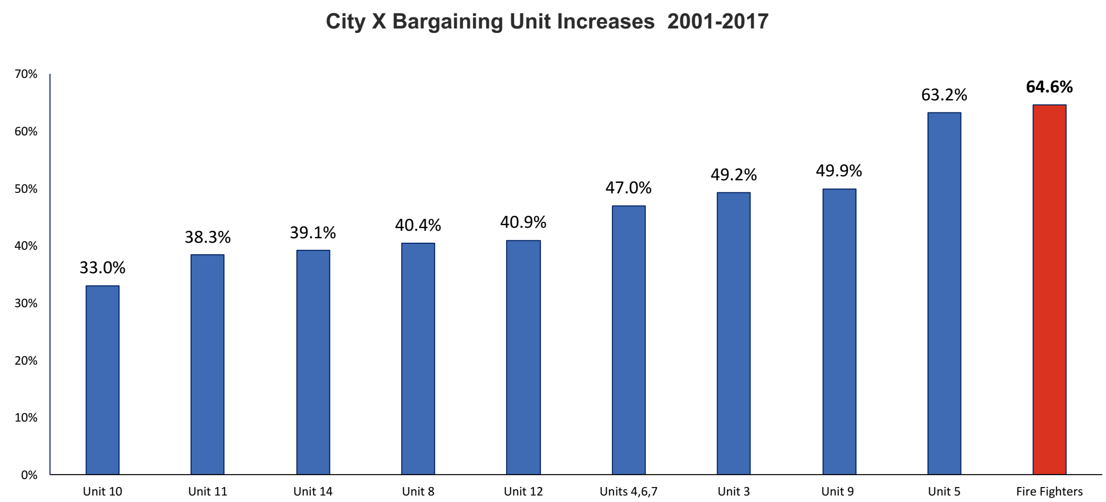
#6: CPI: "UPPER BOUND" MEASURE

- **Potential limitations of CPI as a measure of "cost of living"**
  - New product bias
  - Retail outlet bias
  - Quality change bias
  - Substitution bias (among brands, across time, within category, across categories)
- **BLS approaches (selected)**
  - Hedonic regression
  - Chained CPI-U (C-CPI-U)

"Traditionally, the CPI was considered an upper bound on a cost-of-living index in that the CPI did not reflect the changes in buying or consumption patterns that consumers would make to adjust to relative price changes…

The C-CPI-U was created to more closely approximate a cost-of-living index by reflecting substitution among item categories."

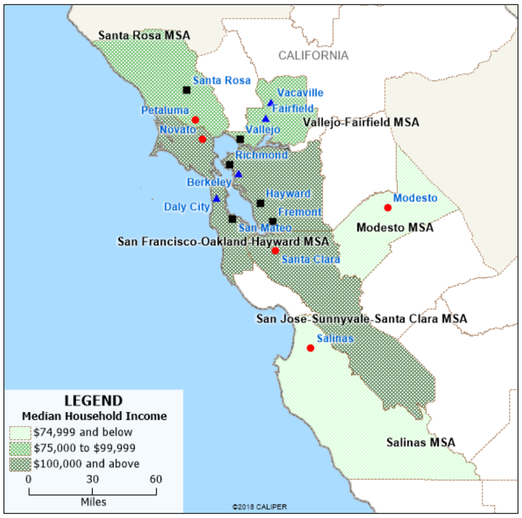
#7: DRIFT (INTERNAL/EXTERNAL)



#7: DRIFT (INTERNAL/EXTERNAL)

	Contract End	FY2018-19	FY2019-20	FY2020-21
Fremont	**6/30/2019**	*3.0%*	*TBD*	*TBD*
Hayward	**12/31/2018**	*0.0%*	*TBD*	*TBD*
Modesto	**6/30/2018**	*TBD*	*TBD*	*TBD*
Novato FPD	**6/30/2020**	*2.0%*	*2.0%*	*TBD*
Petaluma	**12/31/2017**	*TBD*	*TBD*	*TBD*
Richmond	**6/30/2022**	*TBD*	*TBD*	*TBD*
Salinas	**12/31/2019**	*4.0%*[1]	*TBD*	*TBD*
San Mateo	**8/24/2019**	*3.5%*	*2.5% above median of survey*	*TBD*
Santa Clara	**12/16/2017**	*TBD*	*TBD*	*TBD*
Vallejo	**6/30/2012**	*5.0%*[2]	*TBD*	*TBD*

#8: MEDIAN HOUSEHOLD INCOME / MEDIAN HOME VALUE



Metropolitan Statistical Area (MSA)	Median Household Income	Median Home Value
Modesto MSA	$59,514	$288,200
Salinas MSA	$71,274	$411,700
Vallejo-Fairfield MSA	$77,133	$517,200
Santa Rosa MSA	$80,409	$628,400
San Francisco-Oakland-Hayward MSA	$101,714	$849,500
San Jose-Sunnyvale-Santa Clara MSA	$117,474	$957,700

Source: U.S. Census Bureau, American Community Survey, (1-Year Estimates, 2017)

#9: AVERAGE PAY AND BENEFITS COST

	Firefighter	All Ranks in Unit
Base Salary	$91,932	$105,973
Longevity	$31	$582
Overtime	$28,967	$36,973
Timecard Special Pay	$7,200	$7,433
Education Pay	$652	$3,563
Paramedic Pay	$5,171	$2,948
Other Compensation	$1,078	$1,450
Uniform Allowance	$120	$219
Total Cash	**$135,151**	**$159,142**
Active Health	$22,527	$24,324
Retiree Health	$5,729	$6,603
Pension	$29,983	$33,887
Medicare	$1,960	$1,960
Life Insurance	$17	$17
Workers' Compensation	$8,053	$9,528
Unemployment Compensation	$121	$143
Total Benefits	**$68,389**	**$76,460**
Total Employment Cost	**$203,540**	**$235,602**

- How does this compare to the Median Household Income in the community?

#10: TRUE COST OF 1%

Compensation	Base Amount	Base Plus 1% of Salary	1% Increase
Salaries & Recurring Special Pay	14,979,956	15,129,755	
Uniform Allowance	-	-	
Holiday Pay	762,560	770,186	
Other Compensation-non PERSable	-	-	
Subtotal Compensation	**$ 15,742,516**	**$ 15,899,942**	**$ 157,425**
Benefits			
Medicare	226,136	228,397	
State Unemployment	13,908	14,047	
Workers' Compensation	973,564	983,300	
Health	2,889,895	2,889,895	
Dental	239,420	239,420	
Life	2,295	2,295	
Long Term Disability	51,876	51,876	
PERS Retirement	6,585,845	6,651,704	
PERS 4th Level	-	-	
Vision	-	-	
EAP	5,235	5,235	
Retiree Health	798,475	806,459	
Subtotal Benefits	**$ 11,786,648**	**$ 11,872,627**	**$ 85,979**
TOTAL Compensation & Benefits	**$ 27,529,165**	**$ 27,772,569**	**$ 243,404**

- **What costs rise with a salary increase?**
  - Payroll taxes
  - PERS
  - Unemployment Insurance?
  - Workers' Comp?
  - Overtime?
  - Differentials?
  - Other?

IT GOES TO ELEVEN

WHEN TEN JUST ISN'T ENOUGH

11. Longitudinal headcount
12. Revenue trends
13. Overtime
14. Quit rate
15. Reserve level/trend
16. Ratio of benefit costs to salaries
17. Funded ratio
18. Section 115
19. Pavement control index
20. Work rule savings ($)

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THANK YOU!

QUESTIONS?

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