TO:         HONORABLE CITY COUNCIL
FROM:       CITY MANAGER                        DEPARTMENT: HUMAN RESOURCES
DATE:       MARCH 5, 2007                          CMR: 151:07
SUBJECT:    APPROVAL OF RESOLUTIONS AMENDING THE MERIT SYSTEM RULES AND REGULATIONS TO ADOPT A MEMORANDUM OF AGREEMENT WITH INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS (IAFF, LOCAL 1319) AND ADOPTING A NEW COMPENSATION PLAN FOR FIRE DEPARTMENT PERSONNEL

RECOMMENDATION

This report recommends Council approval of the attached resolution adopting a new Memorandum of Agreement between the City of Palo Alto and the International Association of Fire Fighters (IAFF, Local 1319) effective for the pay periods including July 1, 2006 through June 30, 2010. Also recommended is approval of the attached resolution amending the Merit System Rules and Regulations to adopt a new compensation plan for non-management Fire personnel.

BACKGROUND

The City’s agreement with IAFF expired on June 30, 2006. The City commenced negotiations with IAFF on May 26, 2006 regarding the terms and conditions of employment for this represented unit. City staff and members of IAFF have reached an agreement within Council authorization, the details of which are contained in the attached Memorandum of Agreement.

During the past several years, the City has continued to work towards containing the escalating cost of health plan benefits. In 2003, IAFF members assisted in addressing the City’s financial situation by taking a 0% salary increase and by capping the City’s contribution for healthcare premiums at the Police Officer Research Association of California (PORAC) plan rates, a Preferred Provider Organization that costs approximately $956 less per month for the family rate than PERS Care. In addition, IAFF was the first bargaining group to agree to a two-tier retiree health program which reduces the City’s future liability for retiree health costs by requiring 20 years of PERS service, 5 years which must be served in Palo Alto, in order to be eligible for full retiree health benefits. These actions taken together have significantly reduced healthcare costs for this bargaining unit.

DISCUSSION

This year the City Manager is recommending a compensation plan adjustment for IAFF Local
1319 employees based on labor market data and retention issues:

- A 13 percent base salary increase over the 4-year contract. The latest Bay Area Consumer Price Index reported in December 2006 was 3.4%. This is the factor that is generally considered the benchmark for salary increases. Under the IAFF Memorandum of Agreement, control point adjustments are not automatically passed on to employees. Individual employee salaries are based on performance. The annual salary increases are as follows:
  
  a) A 3% control point increase to all IAFF Local 1319 classifications effective in each year of this agreement beginning July 1, 2006, except that the increase for Fire Captain’s shall be 4%;
  
  b) A 3% control point increase to all IAFF Local 1319 classifications effective in each year of this agreement beginning July 1, 2007 except that the increase for Fire Captain’s shall be 4%;
  
  c) A 3% control point increase to all IAFF Local 1319 classifications effective in each year of this agreement beginning July 1, 2008, except that the increase for Fire Captain’s shall be 4%;
  
  d) A 4% control point increase to all IAFF Local 1319 classifications effective in each year of this agreement beginning July 1, 2009, except that the increase for Fire Captain’s shall be 5%.

- Continuing the 9% reversal of PERS retirement contribution payments until the last pay period in 2009 which results in a saving of $1.3 million over the term of this agreement. Under the current 9% PERS reversal program, the City reduces salaries by 9% and directly pays the employee’s pension contribution (9%) to PERS. This program results in a savings of approximately $360,000 a year in overtime costs and employer’s PERS contribution because both overtime and PERS contributions are based on the reduced salary.

- 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.

- Protect active employees and families who exceed $2 million lifetime benefit under the PERSChoice health plan.

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

- Other changes in the memorandum of agreement have been made to clarify existing benefits, policies, or processes.
**RESOURCE IMPACT**

The proposed recommendations do not require a budget adjustment for fiscal year 2006-07 due to savings from the continued 9% PERS reversal and sufficient funding in the adopted budget. The impacts of the future years will be included in the proposed budgets submitted for fiscal years 2007-2010. The net impact to the base compensation for IAFF is $2.0 million or 13.93 percent for the four year agreement, which translates to 3.48 percent per year.

**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 Fire Department Personnel (IAFF).
- **Attachment B** - Resolution Amending Section 1501 of the Merit System Rules and Regulations Regarding the Memorandum of Agreement Between the City of Palo Alto and Local 1319, International Association of Fire Fighters.
- **Attachment C** - Final version of Memorandum of Agreement

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**DEPARTMENT HEAD:**

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**CITY MANAGER APPROVAL:**

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