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From: Marcie Scott, Municipal Resource Group, LLC  
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Date: July 24, 2018

Subject: IAFF Conditional Agreement

### EXECUTIVE SUMMARY

The terms of the Conditional Agreement between the District and IAFF Local 2400 have been reviewed and estimates of actual costs over the course of the proposed 5-year term are described below. These costs are analyzed in the context of existing District costs that will continue even without a new agreement. The net change, or the costs resulting from the new Conditional Agreement, are estimated at \$10.3 million on a cumulative basis over 5 years. That equates to a net average cost of 3.26% per year.

The Bay Area Consumer Price Index is reported by the Bureau of Labor Statistics and frequently used as a data point in collective bargaining. The Bay Area CPI-U for June 2018 was 3.9%. Table 3 at the end of this memo provides CPI data.

### BACKGROUND

The Menlo Park Fire Protection District (District) has negotiated terms for a Conditional Agreement with the International Association of Fire Fighters Local 2400 (IAFF) for a five-year period. Municipal Resource Group LLC (MRG) was asked to review the costing of the Conditional Agreement and compare to the status quo costs of this unit. MRG has generated a summary analysis based on the District's data, using actual salary and benefit costs that are impacted by the Conditional Agreement.

The proposed agreement will cover a five year period, beginning with Fiscal Year 18-19 and continuing through Fiscal Year 22-23. This Unit currently has 102 full-time equivalents (FTE), with two vacancies (Fire Inspector and Firefighter). The District anticipates the current staffing level to remain constant through the term of the Conditional Agreement.



## ANALYSIS

The District participates in the CalPERS pension plan with two tiers of benefits. Employees hired on or before December 31, 2012 are considered “Classic” pension members. Those hired on or after January 1, 2013 are in the “PEPRA” tier (California Public Employees’ Pension Reform Act of 2013). Currently, 66 employees are Classic and 36 are PEPRA; just over one-third of the Unit is in the new lower pension tier.

The District’s costs for pension will continue to rise over the course of the next 5 years regardless of the agreement reached with Local 2400. Proactive steps taken by the District recently have provided some measure of relief in current and future pension costs. Those actions include negotiating an employee pick-up of 3% of District pension costs in the prior round of negotiations, which continues in the proposed Conditional Agreement.

Secondly, the District made additional payments in the amount of \$34.1 million to reduce the District’s long-term pension liability. In 2010, the District made 3 payments totaling \$12.5 million to pay off the unfunded liability in the safety risk pool; this is also known as the “side fund”. Three more payments totaling \$21.6 million were made between 2015 and June 2018 toward the District’s Unfunded Accrued Liability (UAL). Paying down liabilities sooner than projected will have the potential of reducing the annual required contributions in future years.

The costs of medical insurance similarly are expected to increase during the term of this proposed contract. That said, the Kaiser premium, which is the basis for the District cafeteria contribution, will decrease in 2019. This analysis assumes an annual increase of 5.56% in premium costs for each year of the contract beginning in 2020, based on a 10-year look-back of actual Kaiser premiums.

The District’s costs if no new contract is put in place are calculated as “Status Quo” costs. Employees’ step increases, salary-related costs, and medical and pension costs, will continue to increase. These total compensation costs are expected to escalate on average at 2.10% per year for the next 5 years. A summary is presented below.

**Table 1: Estimated Status Quo Costs**

	Current FY 17-18	Proposed FY 18-19	Proposed FY 19-20	Proposed FY 20-21	Proposed FY 21-22	Proposed FY 22-23
Total Status Quo PERSABLE Wages	\$14,442,665	\$14,716,681	\$14,939,864	\$15,085,189	\$15,171,613	\$15,171,613
Total Status Quo Benefits	\$5,728,000	\$5,923,369	\$6,110,337	\$6,460,342	\$6,818,223	\$7,193,366
Total Status Quo Compensation	\$20,170,665	\$20,640,050	\$21,050,201	\$21,545,531	\$21,989,836	\$22,364,979
Annual Cost Increase Over Prior Year		\$469,385	\$410,151	\$495,330	\$444,305	\$375,143
Annual Cost Increase Over Curr Year 2018		\$469,385	\$879,536	\$1,374,866	\$1,819,171	\$2,194,314
Cumulative Cost Over Curr Year 2018		\$469,385	\$1,348,921	\$2,723,787	\$4,542,958	\$6,737,272
Annual % Cost Increase Over Prior Year		2.33%	1.99%	2.35%	2.06%	1.71%



The increased compensation costs of the proposed Conceptual Agreement, including the status quo costs described above, would increase compensation costs by an average of 5.35% per year, or a 5-year cumulative total of \$17 million. A summary of estimated costs from the Conceptual Agreement is described in Table 2.

**Table 2: Estimated Costs During Proposed Conceptual Agreement**

	Current FY 17-18	Proposed FY 18-19	Proposed FY 19-20	Proposed FY 20-21	Proposed FY 21-22	Proposed FY 22-23
Total Proposed PERSABLE Wages	\$14,442,665	\$15,146,645	\$15,815,665	\$16,575,662	\$17,510,164	\$18,319,866
Total Proposed Benefits	\$5,728,000	\$6,274,544	\$6,337,372	\$6,795,281	\$7,274,654	\$7,848,927
Total Proposed Compensation	\$20,170,665	\$21,421,189	\$22,153,037	\$23,370,943	\$24,784,818	\$26,168,793
Annual Cost Increase Over Prior Year		\$1,250,524	\$731,848	\$1,217,906	\$1,413,875	\$1,383,975
Annual Cost Increase Over Curr Year 2018		\$1,250,524	\$1,982,372	\$3,200,278	\$4,614,153	\$5,998,128
Cumulative Cost Over Curr Year 2018		\$1,250,524	\$3,232,896	\$6,433,174	\$11,047,327	\$17,045,455
		6.20%	3.42%	5.50%	6.05%	5.58%

The difference between the status quo costs and Conditional Agreement costs is a net average cost of 3.26% per year. The net cumulative cost increase over the course of 5 years is \$10,308,000 or on average, \$2.06 million per year of the Conditional Agreement.

### CONSUMER PRICE INDEX

The CPI as reported by the Bureau of Labor Statistics is summarized below for comparison purposes:

**Table 3: CPI data for both CPI-U and CPI-W in Bay Area**

BI-MONTHLY DATA	All Urban Consumers (CPI-U)						Urban Wage Earners and Clerical Workers (CPI-W)					
	Indexes			Percent Change			Indexes			Percent Change		
				Year ending		2 Months ending				Year ending		2 Months ending
	Jun 2017	Apr 2018	Jun 2018	Apr 2018	Jun 2018	Jun 2018	Jun 2017	Apr 2018	Jun 2018	Apr 2018	Jun 2018	Jun 2018
San Francisco-Oakland-Hayward.....	275.304	283.422	286.062	3.2	3.9	0.9	269.508	278.039	280.219	3.4	4.0	0.8
(1967=100).....	846.360	871.318	879.435	-	-	-	820.674	846.651	853.291	-	-	-
Seattle-Tacoma-Bellevue.....	263.756	270.309	272.395	3.3	3.3	0.8	259.487	266.720	268.957	3.5	3.6	0.8
(1967=100).....	804.030	824.007	830.365	-	-	-	769.637	791.092	797.727	-	-	-

\* A = greater than 2,500,000 population

\*\* B/C = 2,500,000 population or less

Dash (-) = Not Available.

Release date June 12, 2018. The next monthly releases are scheduled for August 10, 2018. The next bi-monthly releases are scheduled for September 13, 2018.