

HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE ISSUED: June 10, 2005

REPORT NO.: HAR05-008
For the Agenda of June 28, 2005

SUBJECT: Approval of Memorandum of Understanding with S.E.I.U. Local 535, Personnel Policies Revisions and the Section 457 Deferred Compensation Plan

SUMMARY

Issue 1: Should the Housing Authority accept the collective bargaining agreements negotiated pursuant to a re-opener provision occasioned by the Housing Commission rejection of a proposal to convert the current defined contribution pension plan to a defined benefit plan? Provisions would create a one time Commission contribution and match to the voluntary employee deferred compensation plan and modestly increase flex credits.

Recommendation 1: The Housing Commission Board recommends that the Housing Authority adopt the following:

1. Revisions to Memorandum of Understanding (MOU) between the Housing Commission and Service Employees International Union, Local 535 (Union) to increase benefit Flex Credits by \$200 in FY06 and an additional \$166 in FY07;
2. Revisions to the MOU to encourage employee participation in the 457 voluntary deferred compensation plan by creating a Housing Commission contribution of 1% of salaries to 457 plans established by employees and up to a 1.5% of salary Commission match of employee contributions. These benefits would sunset at the end of FY07;
3. Revisions to Personnel Policies (PO102.000), to provide the same benefit changes for non-represented employees and Executive/Management Service employees as is recommended for employees represented by the Union in (1) and (2) above;

Fiscal Impact: The additional cost of the proposed FY06 benefits is estimated to be approximately \$375,000.

Previous Related Action(s): On June 4 and June 15, 2004, the Housing Commission and Housing Authority, respectively, approved changes to the Memorandum of Understanding for FY05, FY06, and FY07 to include a Letter of Understanding to re-open negotiations on wages subject to non-participation in California Public Employees Retirement System (CalPERS).

On October 8, 2004, the Housing Commission Board established an Ad Hoc Retirement Committee (The Committee) to evaluate a potential change to the retirement program. On

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February 4, 2005, the Housing Commission approved the Committee's recommendations to: 1) not implement any changes to the current defined contribution plan; and 2) that the Committee, with the assistance of special and General Counsel, open labor negotiations and report back to the full board with its recommendation.

On May 20, 2005, the Housing Commission Board approved the recommendations as presented by the A Hoc Committee.

Environmental: This activity or action is "not a project" under the applicable provisions of the California Environmental Quality Act (CEQA).

BACKGROUND

The current Memorandum of Understanding covers fiscal years FY05, FY06, and FY07 and includes a Letter of Understanding addressing the possibility of Housing Commission participation in a defined benefit retirement system through CalPERS as an alternative to the Housing Commission's Defined Contribution Plan. If efforts to participate in CalPERS were not realized, the Housing Commission and Housing Authority approved a re-opener to renegotiate wages for the contract term.

The Housing Commission Board established a three (3)-person Ad Hoc Retirement Committee (The Committee) to independently study and evaluate the adequacy of the Defined Contribution Pension Plan, study other pension plan options that would better serve the Housing Commission, and make recommendations to the Housing Commission Board with respect to retirement benefits. The Committee included Commissioners Adams-Brooks, Tumminia and Yip. Independent consultants were retained by the Ad Hoc Committee to provide professional, objective advice. A workshop, open to the public, was conducted by the Committee on October 29, 2004. The opportunity for full public discussion was provided at the Housing Commission meeting of November 19, 2004.

The Committee recommended the Housing Commission not offer to convert the current defined contribution plan to a defined benefit plan and not participate in the CalPERS Retirement System and to defer future consideration of a defined benefit program for a minimum of two years. The Committee also recommended that labor negotiations be re-opened with the assistance of special and General Counsel.

The renegotiation process with SEIU Local 535 began on March 24, 2005, concluding after four meetings on April 21, 2005. For the purpose of the re-opener, parties agreed that "wages" would include Flex Credits as well as other benefits. A Union ratification meeting was successfully held on May 4, 2005.

DISCUSSION

Negotiations were conducted with the Union in good faith with both parties seeking to find a mutually acceptable alternative for salaries and benefits in lieu of the ability to offer a defined benefit plan.

Over the last five years, Housing Commission employees have received lower salary and flex credit increases than City employees. While Housing Commission employees received an average of 2.75% in annual wage increases, City employees averaged 4% salary increases. Flex credit increases for City employees averaging over 7% since FY2001 resulted in an annual allowance of \$5,575 while Housing Commission employees' flex credit allowance is \$5,164.

The recommendation to increase Flex Credits by \$200 and \$166, in FY06 and in FY07, respectively, meets the needs of employees experiencing higher health care costs and the objective of the Housing Commission to control employee salaries and staffing levels.

Rather than recommend a wage increase, the Housing Commission has been seeking ways to assist employees to plan for their future retirement security. In addition to a defined contributions plan, the Housing Commission offers a voluntary deferred compensation 457 Plan, currently funded exclusively with employee pre-tax contributions. Providing an employer contribution to deferred compensation plans is a common practice among public employers. For example, the City's Supplemental Savings Plan (SPSP) provides a 100% match of an employee's contribution, up to a maximum 4.5% of total annual salary. Other City agencies also offer deferred compensation matches.

A Housing Commission contribution of 1% and up to a 1.5% employer match in FY06 and FY07 addresses the current concerns expressed by Local 535 and is a positive resolution in meeting the terms of the contract. Further, the employee contribution and employer match will serve as an incentive to enhance participation in the plan encouraging employees to improve their retirement potential. If approved by the Housing Authority, appropriate revisions would be made to the Section 457 Plan. Unlike salary increases or retirement benefits provided through a defined benefit plan, these recommendations will sunset after two years and would not represent an ongoing liability of the Housing Commission beyond the term of the MOU.

Consistent with prior labor agreements and Housing Commission practices, wages and benefits extended to represented employees would be similarly extended to non-represented and Executive and Management Service employees.

All other provisions of the MOU and Personnel Policies remain as approved by the Housing Commission and Housing Authority in June 2004.

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ALTERNATIVES

- 1) Provide direction to the CEO and Chief Labor Negotiator to implement or defer specific benefits for employees.
- 2) Extend provisions of the report to union-represented employees only.

Although any one of the alternatives could be implemented, full implementation as recommended is consistent with good faith bargaining; the alternatives above would not be in the best interest of the labor negotiation process and are therefore not recommended.

Respectfully submitted,

Carrol M. Vaughan
Executive Vice President & Chief Operating Officer