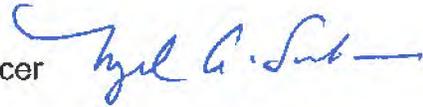


**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

Date: December 2, 2015

To: The City Council

From: Miguel A. Santana, City Administrative Officer

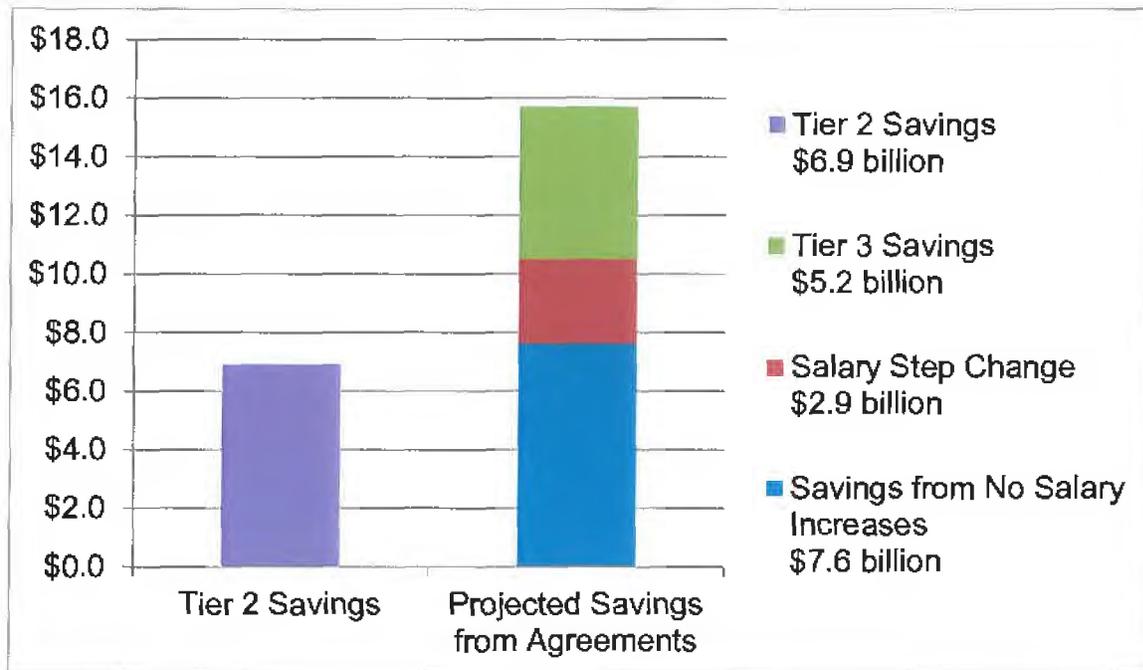


Subject: **PROPOSED RESOLUTION OF LABOR ISSUES – COALITION OF LOS ANGELES CITY UNIONS**

During the period immediately after the 2009 recession, the City of Los Angeles (City) was required to take numerous actions to ensure that residents continued to receive essential public services. Many of these actions were taken in conjunction with the City's labor partners, but due to the severity of the crisis, some actions had to be taken that subsequently became the subject of ongoing litigation with labor. The process of returning the City to a sound fiscal position is ongoing, but is nearing successful completion. One of the final steps to recovery is securing a predictable employment cost structure that is sustainable within the City's current and projected revenues.

In accordance with the guiding principles identified by the Executive Employee Relations Committee (EERC), the agreements and recommendations included herein achieve the goal of a predictable, sustainable employment cost structure in conjunction with the City's labor partners. One of the fundamental elements of the City's recovery was the implementation of a new pension plan for civilian employees with lower pension benefits (Tier 2). Tier 2 provided long-term structural savings by reducing the City's cost per employee from 12.32% of pay to 3.96%. While the original report on Tier 2 estimated the 30-year savings at \$4.3 billion (see Council File No. 10-1250), revised estimates increased the savings to \$6.9 billion over 30 years. (see page 11 of Attachment 21) However, these savings – and with them the City's sustainable cost structure – remained at risk of an adverse legal finding. The recommendations herein will replace the \$6.9 billion of at-risk savings with \$15.7 billion in secured savings. This replacement is from a combination of revisions to the employee pension system, revision of the salary step structure, and multiple years of no general salary increases which positively impacts the City's future required pension contributions. The resulting secured and predictable savings will assist the City in reaching a long-term cost structure that will be within projected revenues. The chart on the next page depicts the long-term value of the proposed changes.

Savings Comparison between Tier 2 and Proposed Agreements  
(\$ in Billions)



Source: Actuarial Report, Bartel & Associates – Attachment 21

**SUMMARY**

The agreements reached with the six employee organizations that comprise the Coalition of Los Angeles City Unions (Coalition) include the following:

1. A Tier 3 pension plan for all new civilian employees hired on or after the implementation of the Tier 3 ordinance by the City Council.
2. Memoranda of Understanding (MOUs) for nineteen bargaining units covering approximately 17,000 City employees for a three-year period from July 1, 2015 to June 30, 2018.
3. A Settlement Agreement which specifies the resolution of Coalition lawsuits, grievances, and unfair employee relations practice charges, and includes Letters of Agreement regarding salary compaction, outsourcing of unit work, part-time employment, workforce restoration, acting pay, special pay, part-time health service credit and revenue generation.

Over the past twenty months, the City Administrative Officer (CAO), under the direction of the EERC, has been negotiating with the Coalition on the development and implementation of successor MOUs for the nineteen bargaining units listed in the table below.

<b>Employee Organization</b>	<b>MOU</b>	<b>Bargaining Unit</b>
AFSCME (American Federation of State, County & Municipal Employees)	3	Clerical & Support Services
	6	Librarians
	7	Recreation Assistants
	10	Professional Medical
	11	Recreational
	16	Supervisory Librarians
	37	Executive Administrative Assistants
Building Trades (Los Angeles/Orange County Building & Construction Trades Council)	2	Building Trades
	13	Supervisory Building Trades
IUOE (International Union of Operating Engineers)	9	Plant Equipment Operators
LIUNA (Laborers International Union of North America)	12	Supervisory Blue Collar
SEIU (Service Employees International Union)	4	Equipment Operation & Labor
	8	Professional Engineering & Scientific
	14	Service & Craft
	15	Service Employees
	17	Supv. Professional Engineering & Scientific
	18	Safety/Security
36	Management Employees	
Teamsters	34	Crossing Guards

On July 9, 2015, tentative agreements were reached with each of the listed bargaining units. All of the MOUs have been ratified by the members of the bargaining units, and the MOUs are hereby submitted for approval. (see Attachments 1 through 19)

Concurrently, the CAO has also been engaged in settlement discussions with the Coalition with the assistance of a third-party mediator regarding a series of lawsuits and unfair employee relations practice charges concerning the City's implementation of Tier 2 within the Los Angeles City Employee's Retirement System (LACERS) for new employees hired after July 1, 2013, as well as litigation regarding the termination of

reciprocity between LACERS and the Water and Power Employees Retirement Plan (WPERP).

In accordance with the EERC instruction to seek a global settlement of all pending litigation and unfair employee relations practice charges inclusive of agreement for successor MOUs identified above, the CAO has reached tentative agreement with the Coalition. (see Attachment 20) The agreement will resolve all litigation, but does not resolve the unfair employee relations practice charges regarding reciprocity between LACERS and WPERP. Fundamental to the dismissal of the pending litigation is the proposal to end Tier 2 and establish a new pension tier (Tier 3) for all future civilian employees. The details of the new pension tier, independent actuarial analysis of the plan required by law, and the ordinance establishing the new tier are included in this report. (see Attachments 21 and 22)

The CAO recommends the approval of the attached MOUs, the Settlement Agreement and Letters of Agreement, and the Tier 3 pension plan for future civilian employees consistent with the attached ordinance and actuarial report.

## **PENSION BENEFITS**

As previously mentioned, in response to the fiscal crisis of 2009, the City of Los Angeles undertook a series of actions to dramatically reduce expenditures while continuing to provide essential public safety services. One of those actions was the establishment of Tier 2, a new pension plan for civilian employees hired after July 1, 2013, that reduced the level of retirement benefits and created long-term savings for the City. Despite the City's efforts to negotiate implementation of Tier 2 with the employee unions, the unions refused to discuss any changes that lowered the retirement benefits to new employees. Consequently, due to the fiscal crisis and an immediate need to demonstrate long-term structural reform of the City's cost structure, the City implemented Tier 2 unilaterally. The Coalition subsequently filed an Unfair Employee Relations Practice charge and sued the City over the implementation of Tier 2. In accordance with EERC instructions, the CAO engaged in settlement discussions with the Coalition with the assistance of a third-party mediator and a tentative agreement was reached on a new pension tier (Tier 3) to replace Tier 2 and resolve the outstanding litigation. The key provisions of LACERS Tier 3, including the retirement factors and retirement eligibility requirements, are modeled after Tier 2 of the WPERP implemented for Department of Water and Power (DWP) employees hired on or after January 1, 2014. The terms of the settlement – which have been shared with the other involved employee organizations – include three significant changes to pensions for civilian employees.

1. Employees who were hired between July 1, 2013, and the implementation date of Tier 3 (implementation date to be determined), and who are members of Tier 2 will join Tier 1. Moving all of the Tier 2 employees to Tier 1 will increase the

City's unfunded liability. The actuary has calculated the cost to move the 1,789 Tier 2 employees to Tier 1 as of December 31, 2015, to be \$18.0 million. The exact amount of the increase will be determined by the number of employees hired and the time they spend in Tier 2. Upon final closing of Tier 2, the LACERS actuary will calculate the final City liability. While increasing pension costs is never ideal, it must be recognized that the unilateral implementation of Tier 2 by the City was always viewed as a necessary risk to address the City's dire fiscal condition. If the City were to lose the Tier 2 pension implementation lawsuit, this is the remedy that would most likely be imposed by the Court. Settling under these terms at this time concludes the litigation and effectively caps the City's retroactive liability.

2. The adverse fiscal impact of the settlement identified above would not have been recommended without the concurrent implementation of a new pension tier that will create long-term, predictable structural pension savings compared to Tier 1. Tier 3 includes a series of plan design changes that lower the overall pension benefit compared to Tier 1. Lowering the overall benefit reduces the City's long-term structural cost and results in the employee paying a higher percentage of the pension cost. Based on current actuarial assumptions, the City's normal cost for Tier 1 is 12.10%, and the employee's effective contribution rate is 6.75%. Under Tier 3, the City's normal cost is reduced to 6.33%, while the employee's effective contribution rate remains 6.75%. At these normal cost rates, pension costs are shared almost equally between the employee and the employer. This level of cost sharing is consistent with the State of California's and Los Angeles County's pension reform of 2013, thereby bringing the City into alignment with other governmental entities. The savings for Tier 3 compared to Tier 1 over the next 30 years is estimated to be \$5.2 billion. (see page 9 of Attachment 21) The following chart includes a summary of the major plan design changes from Tier 1 to Tier 3. A summary of the three tiers is included on page 13 of Attachment 21.

**Comparison of Key LACERS Tier 1 and Tier 3 Plan Designs**

<b>Plan Feature</b>	<b>Tier 1</b>	<b>Tier 3</b>
Normal Retirement (Age / Years of Service)	60 / 10 70 / Any	63 / 30 60 / 10
Early, Unreduced Retirement Eligibility	55 / 30	55 / 30
Normal and Early, Unreduced Benefit Factor	2.16%	1.5% @ 60 / 10 2.0% @ 60 / 30 2.0% @ 55 / 30 2.1% @ 63 / 30
Compensation Used to Determine Retirement Allowance	Highest consecutive 12 months, including most bonuses	Last 36 months prior to retirement, including most MOU bonuses

Plan Feature	Tier 1	Tier 3
Maximum Benefit	100%	80%
Employee Contribution Base	6%	7%
Early Retirement Incentive Program Employee Contribution	1% Until 2026 or when ERIP debt is paid, whichever is sooner	N/A
Other Post-Employment Benefits (OPEB), e.g., retiree healthcare Employee Contribution	4%	4%
Maximum Annual COLA	3%	2%
COLA Bank	Yes	No
Survivor Continuance	50%	50%
Death Benefit	\$2,500	\$2,500
Retiree Health Subsidy	Eligible at 55 / 10 Subsidy two-party Kaiser rate Vesting 40% at 10 YOS, 100% at 25 YOS	Eligible at 55 / 10 Subsidy two-party Kaiser rate Vesting 40% at 10 YOS, 100% at 25 YOS
Disability Retirement	More than 5 YOS Maximum 1.43% per YOS and 33% of final compensation Less than 5 YOS, return contributions	More than 5 YOS Maximum 1.43% per YOS and 33% of final compensation Less than 5 YOS, return contributions
Government Service Buyback	Member contribution	Full actuarial cost, maternity and military leave time exempted

- The City also proposes to change the eligibility for retiree health and welfare benefits by including some part-time employees who retire at age 55 with 10 years of service. At this point, only 89 retirees have been identified as potentially eligible for these benefits that would be pro-rated by hours worked.

State law requires that any pension change requires the adopting body to secure and review an actuarial report detailing the impact of the proposed change. The actuarial report detailing the impact of the pension change as well as the long-term impact of the change in the salary structure is included as Attachment 21. Further, an ordinance detailing all of the provisions of Tier 3 is required to be passed by the Council and approved by the Mayor, and is included as Attachment 22.

## MEMORANDA OF UNDERSTANDING

In accordance with EERC instructions to limit short-term wage escalation, secure structural reform of salary costs, and model the agreements after the most recent DWP agreements, the tentative agreements include the following general terms. In addition, there are several terms unique to MOUs 08 and 17 designed to re-establish salary structure parity among the civilian bargaining units.

1. **Term** – The previous MOUs expired on June 30, 2014. Due to the length of negotiations, the terms of the previous MOUs continued through Fiscal Year 2014-15 with no salary increases. The term of the successor MOUs will be July 1, 2015 through June 30, 2018 for all Coalition bargaining units.
2. **General Salary Adjustment** – The general salary adjustment for all bargaining units for Fiscal Year 2015/16 will be zero. For Fiscal Year 2016/17, bargaining units 08 and 17 will receive a 2% increase effective June 26, 2016. The remaining bargaining units will receive the 2% increase effective June 25, 2017.
3. **Salary Structure** – The majority of civilian City employees have been paid on a 5-step salary range which provides for a 5.5% step increase each year until the employee reaches the top step after four years of City service. In 2014, an expanded 15-step range was negotiated with the Engineers and Architects Association and implemented for non-represented employees. Under the 15-step salary structure, an employee receives a 2.75% step increase each year until he reaches the top step after fourteen years of service. Although the Coalition unions refused to accept the 15-step salary structure, an expanded 12-step salary structure will be established for employees in Coalition bargaining units who are compensated on a salary range. Three new salary steps will be added to the bottom of the salary range and one new step will be added to the top of the salary range. New employees hired into trainee classifications will be hired at Step 1 and advance to Step 2 after a probationary period of 12 months. New employees hired to non-trainee classifications will be hired at Step 2 and advance to Step 3 after 9 months.

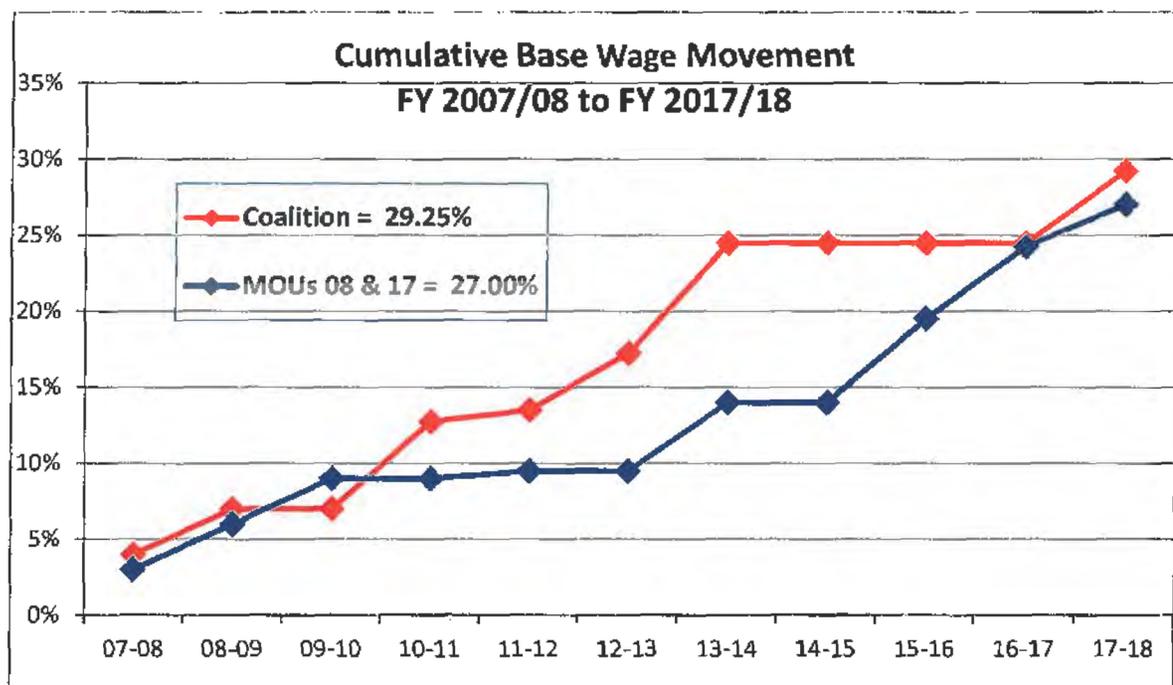
The new 12-step salary schedule represents a significant change to the 5-step salary structure. As a result of this change, and given the numerous variables that impact final salary costs, an actuarial analysis was completed to determine the long-term fiscal implications of the new structure. Pages 17 and 18 of Attachment 21 illustrate the long-term value the City will receive from this revised structure compared to the City's original 5-step salary plan. Lowering the starting salary and slowing salary progression in the first years of employment with the City is the essential element of the plan, and more appropriately reflects a realistic career ladder for City employees, reduces training costs, and reduces the cost of turnover in the initial years of employment. Despite adding one

additional 2.75% step at the top of the salary range, it is estimated that the structural change in the salary schedule, along with the reduction in general salary increases, will reduce the City's overall civilian salary cost by \$10.5 billion over a 30-year period.

4. **Step Advancements** – All civilian employees represented by the Coalition, with the exception of MOUs 08 and 17, will advance one step on January 7, 2018. Employees represented by MOUs 08 and 17 will have their salary anniversary dates frozen, and will instead advance one salary step on the following dates to re-establish salary parity with other Coalition employees:

- The first pay period following Council adoption of the MOUs
- January 10, 2016
- June 26, 2016

As reflected on the chart below, these salary rate adjustments for MOU 08 and 17 will eliminate salary disparity and compaction between employees of different bargaining units, align future bargaining to the same schedule, and eliminate distortion in the compensation structure.



5. **Employee Health and Wellness** – Cost containment of employee health insurance has been a longstanding goal. Since 2010, great strides have been made in this area through plan design changes implemented through the Joint

Labor-Management Benefits Committee (JLMBC). Changes have included transitioning from Blue Cross to Blue Shield, increasing deductibles, and availability of a narrow-network HMO. In addition, in many non-Coalition bargaining units, the City has successfully negotiated employee contributions of 10% of the health insurance premium cost to reduce the City's overall contribution. During negotiations, the Coalition adamantly refused to engage in cost sharing of health insurance costs in a manner similar to those achieved with other bargaining units. To resolve this issue, a structure similar to the DWP agreements with the International Brotherhood of Electrical Workers (IBEW) was developed where employees will pay 1.5% of base pay effective December 25, 2016, toward the cost of health insurance, and for the term of this MOU, the City will provide the employee with a comparable non-pensionable bonus of 1.5% of base salary, thereby effectively defraying the employees' cost. Coalition employees will see the deduction for health insurance costs reflected on their paychecks beginning in December 2016, thereby effectively establishing the groundwork for future negotiations on the amount of the employee contribution and continuance of the employer-provided defrayal. The table below provides information on current health costs and contributions. Efforts will continue through the JLMBC to implement additional cost-saving measures.

**Monthly Flex Contributions**

Plan	Kaiser HMO		Blue Shield SaveNet HMO		Blue Shield PPO	
	Employee Only	Family	Employee Only	Family	Employee Only	Family
<b>Plan Premium</b>	\$543.98	\$1,414.30	\$480.48	\$1,313.14	\$722.74	\$1,811.04
<b>10% of Plan Premium *</b>	\$54.40	\$141.43	\$48.05	\$131.31	\$72.27	\$538.17
MOUs contributing 10%: 00, 01, 19, 20, 21, 26, 27, 28, 29, 31, 32, 38, 39, 40, 61						
<b>1.5% of Base Salary (\$80,000 average)</b>	\$100	\$100	\$100	\$100	\$100	\$100
MOUs to contribute 1.5%: 02, 03, 04, 06, 07, 08, 09, 10, 11, 12, 13, 14, 15, 16, 17, 18, 34, 36, 37						

\* The maximum subsidy is the Kaiser Family rate. All employees pay 100% of the difference for premiums that exceed the Kaiser Family rate.

- Promotional Differential** – There has been a long-standing lack of understanding and inconsistent application of the rules regarding salary step placement for recently promoted employees. The existing rule requires a minimum of a 5% increase which is inconsistent with the existing salary step

schedule which includes a 5.5% differential between steps. This agreement will amend the rule to provide for a 5.5% minimum increase (not to exceed the top step of the salary range), along with explanatory rules on how to treat bonus compensation. These changes should reduce the inconsistent administration and minimize the necessity for additional supervisory differential adjustments. The estimated cost of this enhancement will be reduced by the concurrent implementation of the lower and slower salary structure schedule, but is estimated to minimally increase promotional costs.

## LETTERS OF AGREEMENT

The overall Settlement Agreement (Attachment 20) also includes a number of side letters on issues that were either not concluded during negotiations or involve on-going committees focused on future issues of mutual concern. The following is a brief summary of the Letters of Agreement (LOA):

- **Salary Compaction** – The LOA on Salary Compaction resolved numerous grievances filed by employees regarding implementation of the three 2.75% additional salary adjustments that were put into effect through the previous MOUs. In accordance with the agreement, the additional salary adjustments were made part of the salary structure as Steps 6, 7 and 8.
- **Acting Pay** – The LOA on Acting Pay maintains existing compensation levels regarding acting pay, but limits acting pay assignments to one year and requires that acting pay be credited as qualifying experience for promotional purposes. Exceptions to these provisions will be reviewed by the parties and if necessary submitted to a mediator. If the parties do not reach agreement, the CAO will submit the mediator's recommendations to the EERC for further bargaining instructions as appropriate.
- **Part-time Employment** – The LOA on Part-Time Employment amends the existing MOUs to provide that after 1,000 hours of service in one service year part-time employees will be eligible for half-time benefits and enrollment in LACERS. It also includes an advisory disciplinary appeal procedure for intermittent and Civil Service exempt half-time employees.
- **Special Pay/Inequities** – This LOA recognizes that the issue of special pay/inequities required additional time to complete. The agreement provides for advisory mediation with unresolved issues submitted to the EERC for additional bargaining instructions no later than February 15, 2016.
- **Revenue** – The agreement recognizes that the Coalition and the City have a mutual interest in maximizing revenue to improve and enhance City operations. This LOA requires the City Council to create a 15-member

Commission on Revenue Generation with all members appointed by the Mayor. Of the 15 members, seven will be selected by the Mayor from a list of candidates provided by the Coalition. The remaining eight members may come from any professional and/or civic field. The Commission will be staffed by the Inspector General for Revenue. An initial \$500,000 will be allocated for administrative costs. This amount will be prorated for the existing fiscal year based on need, and on when the committee begins its work. The balance of the amount will be appropriated as part of the 2016-17 budget.

- **Service and Workforce Restoration** – This LOA commits the City to a goal of hiring 5,000 civilian employees by the end of Fiscal Year 2017-18. The goal of hiring 5,000 civilian employees is not a commitment or an obligation - it is a goal reflective of the overall civilian staffing needs of the City and current employment levels.

In 2009, immediately prior to the recession, LACERS membership was 30,065 employees. In response to the recession, the City created the Early Retirement Incentive Program (ERIP) to reduce the workforce by 2,400 employees. The ERIP was successful in helping to reduce the City's workforce, and combined with additional attrition, LACERS membership dropped to 26,245 by June 30, 2010. Subsequently, the City's civilian workforce has continued to decline and current LACERS membership as of June 30, 2015 was 23,897. Under the ERIP ordinance, the City is limited to a civilian workforce of 27,301 as of June 30, 2015. Based on the June 30, 2015 LACERS membership figures, the City can hire 3,404 net new employees and remain in compliance with the ERIP limitation. However, the 5,000-employee hiring goal is not limited to net new employees but also includes replacement for attrition. Over the term of the MOU, the City is projected to lose approximately 1,000 employees per year through attrition. Future attrition, combined with the 3,404 new hires available under the ERIP limitation, provides more than enough employment opportunities to fulfill the 5,000 hiring goal and stay within the ERIP ordinance limitations. In addition, this LOA creates a Strategic Workforce Development Task Force focused on developing a Citywide plan for strengthening service delivery and workforce planning. It further provides for a Targeted Local Hiring Group to work with the Personnel Department, the CAO, the Chief Legislative Analyst, the Economic and Workforce Development Department, and key operational departments to identify pathways and impediments to local hiring in traditionally under-served communities.

- **Health & Wellness Bonus and Contribution Clarification** – This LOA clarifies that both the health & wellness bonus and contribution apply to all employees regardless of whether the employee opts out of medical coverage through the City's Flex benefit program. In addition, it clarifies that the bonus

and contribution will not result in any employee having his/his net salary negatively impacted.

- **Health Service Credit for Part-Time Employment** – This LOA commits the City to presentation of an ordinance to clarify health benefits for part-time employees.

## **MOU SUPPORT**

As indicated in the MOU section of this report, the global agreement with the Coalition contemplates a series of side letters that reflect work that was not completed during negotiations and new work that must be done in conjunction with the unions in order to be successful. Historically, additional work created by new MOU terms has been absorbed within the existing workforce. While this has been generally cost effective, it has not always resulted in the best programmatic outcome. In this case, effectively designing the size and scope of the workforce, and hiring the next generation of employees, requires significant effort and support by both the Personnel Department and the CAO. After reviewing the existing capacity of both departments to effectively support the work programs envisioned by the MOUs, it is clear that sufficient capacity does not exist and the following additional positions are recommended as resolution authorities for Fiscal Year 2015-16:

### Personnel Department

- 1 Senior Personnel Analyst II
- 1 Senior Personnel Analyst I
- 1 Personnel Analyst II

### Office of the CAO

- 1 Senior Labor Relations Specialist I
- 1 Senior Administrative Analyst II

The Personnel Department positions, led by the Senior Personnel Analyst II, will be dedicated to facilitating the effort of the Strategic Workforce Development Task Force and Targeted Local Hiring Working Group; communicating and coordinating with union representatives, key City departments, and community agencies and organizations; developing hiring plans and determining appropriate job classifications; and ensuring City residents transition effectively to City jobs. The CAO positions will engage in and support this goal through strategic workforce analysis as City departments assess organizational and operational needs in conjunction with this effort and maintain necessary communications with the employee organizations. Only through close coordination and active involvement of all participating departments will the City be able to move forward effectively with this targeted workforce restoration. To the extent possible, the departments will absorb the costs of these new positions for the

remainder of the year and report back by the Mid-Year Financial Status Report for 2015-16 if funding is required.

## **CONCLUSION**

It is appropriate to recognize that the tentative agreements reached with the Coalition included herein do not achieve all of the City's initial negotiation goals. However, in its totality, the agreements are recommended because they replace projected cost savings that were exposed to litigation risk and on-going degradation from actuarial assumption changes with immediate and long-term substantial, credible and sustainable cost savings. Furthermore, these agreements build the foundation for securing employee participation in the cost of health care since future agreements must be completed to assist in the sustainability of the health care benefit and restore parity among the civilian workforce in health care cost sharing.

## **RECOMMENDATION**

The CAO recommends that the City Council:

1. Approve the MOUs for bargaining units 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 34, 36 and 37. (Attachments 1 through 19)
2. Approve the Settlement Agreement with attached Letters of Agreement included as Attachment 20.
3. Approve the findings of the actuary included as Attachment 21.
4. Approve the implementing ordinance approved as to form and legality by the City Attorney for Tier 3 included as Attachment 22.
5. Instruct the City Attorney to resolve the pending litigation and unfair employee relations practice charges consistent with this report.
6. Provide resolution authority for Fiscal Year 2015/16 for the following positions:

### Personnel Department

- |   |                             |
|---|-----------------------------|
| 1 | Senior Personnel Analyst II |
| 1 | Senior Personnel Analyst I  |
| 1 | Personnel Analyst II        |

### Office of the CAO

- |   |                                     |
|---|-------------------------------------|
| 1 | Senior Labor Relations Specialist I |
| 1 | Senior Administrative Analyst II    |

**FISCAL IMPACT**

The fiscal impact of the MOUs and the pension changes represent both immediate and long-term costs and savings to the City. As detailed below, the long-term savings derived from the salary structure reform, as identified by the independent actuarial study, more than surpass the immediate costs occurring during the term of the agreements.

**Long-Term Actuarial Savings**

- Pursuant to the independent actuarial study conducted on the impacts of the proposed agreements, the estimated 30-year savings from the proposed salary structure and reduced salary increases is \$10.5 billion.
- Pursuant to the same actuarial study, the estimated savings from implementing the proposed Tier 3, as opposed to the current Tier 1, is \$5.2 billion.
- The cumulative 30-year savings from the proposed agreements exceed the Tier 2 estimated savings of \$6.9 billion over 30 years.

**Cost During Term of the Agreements**

- It is estimated that the proposed MOUs will cost \$196.0 million (General Fund and Special Funds) through Fiscal Year 2018-19. These amounts are assumed to be ongoing expenses.

	<b>Cumulative Salary Cost</b>	<b>HRB Savings</b> (1.5% base pay contribution toward the cost of health insurance)	<b>LACERS Contribution</b> (Blended Rate Pension & OPEB Tiers 1 & 2)	<b>2015-16 Tier 1 to Tier 2 Cost</b> (Cost of moving Tier 2 LACERS members to Tier 1)	<b>TOTAL</b>
General Fund	\$85.2	(\$21.9)	\$15.3	\$7.0	\$85.6
Special Fund	\$60.4	(\$15.4)	\$16.4	\$7.6	\$69.0
Airport, Harbor, LACERS and LAFPP	\$38.0	(\$9.1)	\$9.1	\$3.4	\$41.4
<b>TOTAL All City</b>	<b>\$183.6</b>	<b>(\$46.4)</b>	<b>\$40.8</b>	<b>\$18.0</b>	<b>\$196.0</b>

- The Cumulative Salary Cost is based on the total of regular (permanent) position authority counts and funding. The estimates include the following ongoing expenses:

1. Step increases of 2.75% effective December 13, 2015, January 10, 2016, and June 26, 2016, for MOUs 08 and 17.
2. The 2% general salary adjustment effective June 26, 2016, for MOUs 08 and 17.
3. The 1.5% healthcare subsidy effective December 15, 2016.
4. The 2% general salary adjustment effective June 25, 2017, and 2.75% step increase effective January 7, 2018, for all bargaining units except MOUs 08 and 17.

### **Impact on the Four-Year Budget Outlook**

The Four-Year Budget Outlook (Outlook) is normally only updated at the time the Mayor submits the proposed budget and the City Council adopts the budget. Until that time, it is premature to project revenue or expenditure changes for future years. Based on an isolated analysis of the changes to civilian salaries, LACERS contributions, and health care included in these agreements, the impact on the Outlook will be to extend the projected deficit through FY 2018-19. This result is expected based on the discussion above regarding the cost during the term of the agreements. This Office had previously projected that the deficit would be eliminated by FY 2017-18.

### **Attachments**

**The following attachments will be released prior to Council Action:**

**PROPOSED RESOLUTION OF LABOR ISSUES –  
COALITION OF LOS ANGELES CITY UNIONS**

<b>Attachment</b>	<b>Description</b>
1.	MOU 2 – Building Trades Unit
2.	MOU 3 – Clerical and Support Services Unit
3.	MOU 4 – Equipment Operation and Labor Unit
4.	MOU 6 – Librarians Unit
5.	MOU 7 – Recreation Assistants Unit
6.	MOU 8 – Professional Engineering and Scientific Unit
7.	MOU 9 – Plant Equipment Operators Unit
8.	MOU 10 – Professional Medical Unit
9.	MOU 11 – Recreational Unit
10.	MOU 12 – Supervisory Blue Collar Unit
11.	MOU 13 – Supervisory Building Trades Unit
12.	MOU 14 – Service and Craft Unit
13.	MOU 15 – Service Employees Unit
14.	MOU 16 – Supervisory Librarians Unit
15.	MOU 17 – Supervisory Professional Engineering and Scientific Unit
16.	MOU 18 – Safety/Security Unit
17.	MOU 34 – Crossing Guards Unit
18.	MOU 36 – Management Employees Unit
19.	MOU 37 – Executive Administrative Assistants Unit
20.	Settlement Agreement
	Exhibit 1 – Salary Compaction Letter of Agreement
	Exhibit 2 – MOU Language Letter of Agreement
	Exhibit 3 – Part Time Employment Letter of Agreement
	Exhibit 4 – Outsourcing of Unit Work Letter of Agreement
	Exhibit 5 – Acting Pay Letter of Agreement
	Exhibit 6 – Special Pay Letter of Agreement
	Exhibit 7 – Revenue Letter of Agreement
	Exhibit 8 – Service and Workforce Restoration Letter of Agreement
	Exhibit 9 – Health & Wellness Bonus and Contribution Clarification Letter of Agreement
	Exhibit 10 – Health Service Credit for Part-Time Employment Letter of Agreement
21.	Actuarial Report regarding Tier III Pension Plan
22.	Ordinance regarding Tier III Pension Plan