



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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FY 2024 Labor Negotiations Over Compensation Increases

OVERVIEW

The Meyers-Milias-Brown Act (MMBA) is the California law that governs collective bargaining for public agency employers, like the City of San Diego. The City must bargain in good faith, and in accordance with the MMBA, over the terms and conditions of employment for members of its six recognized employee organizations, or REOs (commonly referred to as unions). The terms and conditions of employment, including compensation increases, are contained within the REO's labor agreements, or Memoranda of Understanding (MOUs). Compensation increases for FY 2024 are currently known for the three *public safety* REOs (POA, IAFF Local 145, and Teamsters Local 911),¹ as their respective MOUs have been approved through FY 2024.

MOUs for the City's three *non-public safety* REOs (AFSCME Local 127, DCAA, and MEA)² expire at the end of FY 2023 (June 30, 2023); and the City is currently negotiating with them over FY 2024 successor MOUs. The City's negotiating team has been in negotiations with the non-public safety REOs since October 2022 regarding non-economic terms and conditions of employment. We anticipate that in a January 2023 closed session (confidential) meeting of the City Council, the Mayor will request Council approval of economic bargaining positions related to compensation. To help inform the FY 2024 negotiations process, this report provides a brief discussion on City employee compensation and hiring issues; certain components of the current forecast for compensation increases; and City compensation history, including steps taken to enhance compensation levels.

¹ The three public safety REOs include: San Diego Police Officers Association (POA); International Association of Fire Fighters, Local 145 (IAFF Local 145); and California Teamsters Local 911 which represents the Lifeguards.

² The three non-public safety REOs include: American Federation of State, County & Municipal Employees, Local 127 (AFSCME Local 127); Deputy City Attorneys Association (DCAA); and San Diego Municipal Employees Association (MEA).

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FISCAL AND POLICY DISCUSSION

City Employee Compensation and Hiring Issues

Concerns regarding uncompetitive compensation have been pervasive citywide for a number of years over many job classifications; and the City has been experiencing recruitment and retention issues and high vacancy levels. Over the last several years, the City, negotiating with its REOs, has provided general wage increases and has targeted certain positions through special wage adjustments.

Total compensation surveys completed during FY 2021 showed that the City's compensation levels for many employees were lower than surveyed California public agencies (including comparable cities in California and the County of San Diego). The City received updated draft total compensation surveys in early January 2023 for its non-public safety REOs. These draft surveys are currently being evaluated and will assist with the FY 2024 labor negotiations process. The City expects to see improvement in compensation competitiveness for many job classifications due to the recently negotiated compensation increases. However, further compensation increases are anticipated to be needed to bring the City to its compensation goals for all classifications.

In January 2022, the City Council adopted the City's [Compensation Philosophy](#), which states that the City endeavors to pay at least the market median compensation for comparably situated public employees. Further, the Compensation Philosophy states that the "City's goal is to move toward the market median for all classifications that are currently under the market median."

Council support for competitive compensation was also included in the initial FY 2024 Council Budget Priorities Resolution approved November 1, 2022. In their individual priorities memoranda, most Councilmembers supported offering competitive salaries to City workers to enhance the City's ability to recruit and retain its workforce. Additionally, several Councilmembers were supportive of expediting the City's hiring process to fill vacancies across City departments, including three Councilmembers who requested allocating funding to accelerate the hiring process.

With respect to the recruitment and hiring process, a City working group (including management, the Personnel Department, Human Resources, Performance and Analytics, the Office of Race and Equity, and the Independent Budget Analyst's Office) is currently studying various aspects and making improvements on an ongoing basis. The group has made notable progress, and we recommend a report be provided to Council in the next several months on that progress. The City Auditor's Office is also working on an audit of the hiring process, which is anticipated to be released in the Spring of 2023. Additionally, the City is working on a Request for Proposal (RFP) for an outside consultant to review the hiring process, as was funded in the FY 2023 Adopted Budget. The results of these initiatives and reports should help inform the City of staffing levels needed in the Human Resources and Personnel Departments, and there may be additional needs considered during the FY 2024 budget process.

As the bulk of employee compensation is provided from the General Fund, it is important that the City consider all of its priorities when identifying resources to address compensation deficits or recruitment and hiring process enhancements and working to better fill its vacant positions. All of these needs must be considered in the context of limited resources.

Non-public Safety Compensation Increases - Current Forecast for the General Fund

Because the non-public safety REOs' current MOUs expire at the end of FY 2023, the FY 2024 General Fund forecast included in the [FY 2024-2028 Five-Year Financial Outlook](#) incorporates a \$12.3 million estimate for assumed 3.05% general wage increases for non-public safety employees.^{3,4} This amount consists of estimates for employees represented by the non-public safety REOs (\$9.1 million), as well as for unrepresented employees (\$3.2 million), whose recent general wage increases have been largely consistent with those approved for MEA. The \$12.3 million total increase is subject to change based on completed negotiations for FY 2024.

Compensation History and Steps Taken to Enhance Compensation

Prior to FY 2019, the City had negotiated agreements with the REOs that resulted in nine years of citywide freezes on general wage increases, from FY 2010 through FY 2018. These wage freezes excluded any wage increases for individual employees resulting from promotions and merit increases. There were also a number of reductions to retirement benefits, including pension and retiree healthcare plans.

The general wage freezes from FY 2010 through FY 2013 were implemented in conjunction with an approximate 6% reduction in employee compensation.⁵ Subsequently, there were five additional years of pensionable pay freezes that were negotiated with the REOs following voter approval of Proposition B in June 2012.⁶ Non-pensionable compensation increases were provided during those five years⁷, and portions of the 6% compensation reductions ceased for some employees. The five years of non-pensionable compensation increases served to mitigate the compensation reductions that had occurred since FY 2010.

³ The annual 3.05% general wage increase is consistent with the salary inflation assumption in the latest San Diego City Employees' Retirement System (SDCERS) actuarial valuation, which we believe is a reasonable approach.

⁴ The Outlook also includes an assumed 3.05% general wage increase for *all* REOs, as well as unrepresented employees, during the remaining four years of the Outlook.

⁵ This discussion is intended as a general overview. The City bargains separately with each employee organization, and although there were citywide salary freezes, the 6% citywide compensation reductions were implemented through varying provisions within the six REOs' MOUs.

⁶ There was an exception to the Proposition B pensionable pay freezes (FY 2014 to FY 2018): Beginning in FY 2017, add-on pays for Police Dispatchers were increased by 15% of base salary.

⁷ Non-pensionable compensation increases largely consisted of increases to flexible benefits allotments (used for healthcare, dental, and vision insurance etc.); certain types of overtime for Fire Fighters and Police Officers; and uniform allowances for certain employees.

Recent Compensation Increases (beginning in FY 2019)

Although the City provided general wage increases for all employees in FY 2019 and FY 2020,^{8,9} total compensation surveys completed during FY 2021 showed that the City's compensation levels for many employees were lower than the surveyed California public agencies.

Since these total compensation surveys were completed, the City has negotiated and implemented additional compensation increases. Note that in FY 2021, due to COVID-19 impacts on revenues, there were limited compensation increases overall. Flexible benefits plan enhancements were implemented for all REOs except POA and Teamsters Local 911, as there was no MOU agreement reached with either REO for FY 2021.

In FY 2022 and FY 2023, general wage increases were implemented for all employees.^{10,11} Additionally, other compensation adjustments, which varied by REO, were negotiated in the MOUs.¹² Further, outside of the regular MOU bargaining process with MEA and AFSCME Local 127, there were additional wage adjustments negotiated in early 2022.¹³

⁸ With respect to general wage increases, each non-POA labor agreement, except DCAA's, increased pensionable pay for FY 2019 and FY 2020 by 3.3% for each fiscal year. DCAA increases were 3.3% (plus an additional 2% or 3% for certain grades within the Deputy City Attorney job classification) in FY 2019 and 7.5% or 8.5% in FY 2020, depending on job grade. POA-represented employees' increases for FY 2019 and FY 2020 totaled 25.6% to 30.6%, depending on the length of sworn service, beginning July 1, 2018. These POA increases ranged from 5% to 8.3% semi-annually through June 30, 2020, with an additional 5% in FY 2020 for employees with 20 or more years of sworn service.

⁹ In addition to the general wage increases, there were a few other notable types of pensionable pay increases that occurred in FY 2019 and FY 2020 based on recruitment and retention issues. First, eligible engineers received various add-on pay enhancements, ranging from 5% to 26% of base salary. An eligible engineer could receive up to a maximum of 36% for more than one of these add-on pays, if applicable. (In FY 2022, the cap for possession of multiple certifications increased to 41% of base pay, along with increases in certain add-on pays and eligible classifications.) Second, a number of other job classifications received specified add-on pays, ranging from 3% to 20% of base salary. Lastly, wage adjustments ranging from 2% to 20% of base salary were implemented for dozens of other job classifications (largely in MEA and AFSCME Local 127).

¹⁰ General wage increases in FY 2022 varied by REO. For non-public safety REOs: AFSCME Local 127 and MEA members received 4% on July 1, 2021; and DCAA members received 4% and 2% on July 1, 2021 and January 1, 2022, respectively. For public safety REOs, increases began the later of July 1, 2021 or the first full pay period following City Council approval of the MOU: POA members received 3.2%; and IAFF Local 145 and Teamsters Local 911 members received 2.5%. Certain IAFF Local 145 members received an additional 1% or 5% wage increase on January 1, 2022, depending on job classification.

¹¹ General wage increases in FY 2023 varied by REO. MEA and POA members received 5% and AFSCME Local 127 members received 4% on July 1, 2022. DCAA members received 4% and 2% on July 1, 2022 and January 1, 2023, respectively. IAFF Local 145 members received 3% on July 1, 2022 and 1% on January 1, 2023 (with an additional 3.5-5% "equity adjustment", depending on job classification). Teamsters Local 911 members received 4.5% on July 1, 2022 (with an additional 10% equity adjustment for Lifeguard 1s) and 3.5% on January 1, 2023 (with an additional 5% equity adjustment for Lifeguard 1s and Lifeguard Sergeants).

¹² As part of the FY 2022 and FY 2023 MOUs, 153 MEA and 31 AFSCME Local 127 job classifications received additional wage increases ranging from 5% to 39.36% (39.36% for Senior and Supervising Procurement Contracting Officer positions). Certain job classifications in all REOs also received add-on pay enhancements; and flexible benefits plan enhancements were negotiated with certain REOs. Additionally, an annual \$3,000 Police Management Incentive Pay was implemented in FY 2022.

¹³ Recently negotiated additional wage increases for 155 MEA and 49 AFSCME Local 127 job classifications range from 2.5% to 24%, with implementation dates spread over FY 2023.

Management also studied the impacts that the REOs' compensation increases had on the wage differential between REO-represented employees and unrepresented supervisors and managerial positions; and resulting salary adjustments were implemented. Over the last several years, most unrepresented employees have also been receiving the same general wage increases as MEA.

The following table summarizes general wage increases together with more broadly distributed equity adjustments¹⁴ that were negotiated with each REO over the last several years. It is important to note that in addition to these wage increases, there have been other compensation increases, including significant wage adjustments for select job classifications in MEA and Local 127. Certain details of compensation increases incorporated in the negotiated MOUs are included in the footnotes of this report.

General Wage Increases (With Broadly Distributed Equity Adjustments) ^{a,b,c}						
	Non-public Safety REOs			Public Safety REOs		
	DCAA	Local 127	MEA ^d	Local 145	Local 911	POA
FY 2019	3.3-6.3%	3.3%	3.3%	3.3%	3.3%	8.3%; and 5% (1/12/19)
FY 2020	7.5-8.5%	3.3%	3.3%	3.3%	3.3%	7.3%; and 5% (1/11/20)
FY 2021	-	-	-	-	-	-
FY 2022	4%; and 2% (1/1/22)	4%	4%	2.5%; and 0-5% (1/1/22)	2.5% (8/7/21)	3.2%
FY 2023	4%; and 2% (1/1/23)	4%	5%	3%; and 4.5-6% (1/1/23)	4.5-14.5%; and 3.5-8.5% (1/1/23)	5%
FY 2024	TBD	TBD	TBD	2.7%; and 5-6.5% (1/1/24)	5%; and 4% (1/1/24)	5%

^a *Other notable compensation increases not shown in this table include special wage adjustments for MEA and AFSCME Local 127, as well as add-on pays and flexible benefits increases as negotiated with each REO.*

^b Increases began July of each fiscal year unless otherwise indicated.

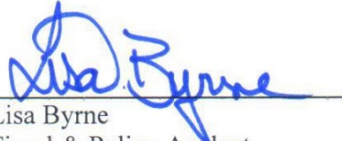
^c Where ranges are indicated, the increase depended on job classifications (or pay grades for DCAA).

^d Unrepresented employees received the same general wage increases as MEA, except in FY 2022 when public safety management in unrepresented positions received increases equivalent to the REO membership of their respective employees, and in FY 2023 when unrepresented Deputy City Attorneys received increases equivalent to those negotiated with DCAA.

¹⁴ Equity adjustments apply to specific job classifications, for the purpose of maintaining competitive and equitable compensation.

CONCLUSION

The City is negotiating with its three non-public safety REOs regarding MOUs for FY 2024 – currently over non-economic terms. We anticipate that in a January 2023 closed session (confidential) meeting of the City Council, the Mayor will request Council approval of economic bargaining positions related to compensation. This report provides background on employee compensation and hiring issues, including a historical perspective, to help inform the FY 2024 negotiations process.



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