
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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City Council Docket Date: March 14, 2011

Item Number: 153 & 154

Approval of Tentative Bid to Goal MOU's

OVERVIEW

On February 16, 2011 the Public Utilities Department presented two Bid to Goal Memorandums of Understanding (MOU) to the Rules Committee for approval:

- The MOU for the Water Fund Employees – effective July 1, 2009 through June 30, 2014.
- The Fiscal Year 2010 Amendment to the Bid-to-Goal MOU for the Wastewater Fund Employees – effective July 1, 2009 through June 30, 2012.

The Rules Committee voted to move these tentative MOU's forward to the full City Council without recommendation.

On February 8, 2011, the Mayor sent the MEA and AFSCME, Local 127 a memorandum which states that the "City will be discontinuing the Bid to Goal program effective July 1, 2011." The Mayor's memo indicates that he is cancelling the Bid to Goal programs, pursuant to provisions within the tentative MOU's, which Council has not yet approved.

FISCAL/POLICY DISCUSSION

What would happen if Council does not approve the tentative MOU's?

There are currently two approved and active Bid to Goal MOU's for which incentive awards for FY 2010 and FY 2011 would apply.

- 2007-2011 Water Customer Support MOU

- 2008-2012 Wastewater MOU – the Mayor has the authority to terminate the current Wastewater MOU, per the Termination for Convenience clause in the agreement.

However, staff has indicated that employees associated with the 2005-2009 Water Operations MOU, which ended June 30, 2009, would not be eligible for incentive awards for FY 2010 and FY 2011. Staff has also pointed out that these employees have been working to achieve the performance goals that have been set.

Additionally, if Council does not approve the tentative amendments to the Wastewater MOU (described below, under “*Requested Actions – Approval of the Tentative MOU’s*”) these amendments would not become part of the Wastewater MOU. Staff believes these amendments make significant improvements to the Wastewater MOU.

Requested Actions – Approval of the Tentative MOU’s

The first item for which Council approval is sought (Item 154), the 2010-2014 Water Fund MOU, consolidates the entire Water Fund into one agreement. It replaces the Water Operations MOU, which ended in FY 2009, as well as the Water Customer Support MOU, which ends in FY 2011. This MOU also includes Water Fund support divisions which have never been included in a Bid to Goal program.

The second item up for approval (Item 153), the amendment to 2008-2012 Wastewater MOU, includes the following negotiated changes. (Note that, with the exception of the FY 2008 bid adjustment described below, there are parallel provisions in the tentative Water Fund MOU.):

- Downward adjustments will be made to the Labor Management Partnership (LMP) bid in the amount of incentive award payouts, so that ongoing savings are not rewarded to employees in future years.
 - For example, if the original LMP bid is \$10 million, and the actual cost of service ends up being \$9 million, there would be \$1 million in total savings. Assuming there are no inflation adjustments to the bid, if \$200,000 in incentive awards are paid, the following year’s bid would be \$9.8 million (\$10 million original bid less \$200,000 in incentive awards payouts).
 - Note that the downward adjustment equals the amount of the award payout amount (\$200,000), rather than the amount of total savings over the LMP bid (\$1 million).
- Upward adjustments may be made to the LMP bid, if a previous year’s LMP bid has been adjusted downward as a result of an incentive award payout.
 - An upward adjustment would occur in the case where actual expenditures exceed the future year adjusted bid.

- An upward adjustment cannot exceed the original LMP bid, adjusted for inflation changes. Note that inflationary adjustments include those for Non-Personnel Expenses, which are adjusted in proportion to CPI changes. Also, Personnel Expenses are adjusted in accordance with negotiated salary and compensation changes.
- Costs for maintaining the Bid-to-Goal agreements each year will be deducted from the Employee Efficiency Incentive Reserve (EEIR). The EEIR is the repository where 50% of savings over the LMP Bid are collected for future use – such as incentive awards and other expenditures that encourage future efficiency gains (for example, training or new technology).
- Incentive awards will not be authorized for years in which no savings are generated, even if there is sufficient EEIR balance.
- The Termination for Default section has been modified.
- The FY 2008 Wastewater LMP will be adjusted from \$213.5 million to \$207.2 million based on the audit by AKT, CPA's.

Why is the tentative Water Fund MOU effective through 2014, when the Mayor will be ending the Bid-to-Goal program, effective July 1, 2011?

The tentative Water Fund MOU was ratified by union members in May 2010, before the Mayor decided to terminate the program. The Mayor has already expressed his intention to terminate the Bid to Goal program, effective July 1, 2011, in his February 8, 2011 memorandum to MEA and Local 127; and this is likely the only way to end the Bid to Goal program by this timeframe. There is a termination for convenience clause (upon 60 days written notice) in the tentative Water Fund MOU, as well as in the tentative amendment to the Wastewater Fund MOU. Should City Council desire to modify the terms of the negotiated tentative agreement, consultation with the City's Labor Negotiators in Closed Session would be recommended.

CONCLUSION

The IBA recommends approval of the tentative MOU's based on the understanding that the Mayor will cancel the Bid to Goal programs, effective July 1, 2011.

[SIGNED]

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Attachment: Written Notice to Labor Organizations to Terminate Bid to Goal Program