

# How the Finance Department Can Be Effective in Negotiations

Municipal Finance Institute | December 15, 2023

Presented By: Lisa S. Charbonneau

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### Agenda

- Finance is the Lynchpin of Negotiations
- Overview of Bargaining Process, Key Stakeholders, Role of Finance
- Information from Finance Needed for Negotiations
- Examples of the Role of Data in Negotiations
- Final Thoughts

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### The Finance Department Is the Lynchpin of Negotiations

- The largest public agency costs are tied to employee compensation and benefits
- The governing body cannot provide the bargaining team with authority without comprehensive budget and other financial information
- Accurate costing and financial transparency are increasingly key to negotiations

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**The Finance Department Is the Lynchpin of Negotiations**

- Securing a multi-year contract with a labor organization requires a full understanding of the costs of the contract in the context of the organization's budget(s) and financial future
- If Council spends more on labor than has been budgeted, Finance will be required to deliver solutions

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**Overview**

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**Overview: Bargaining Process**

- Planning & Preparation
- Bargaining at the Table
- Parties reach Tentative Agreement
- Union Ratification, Governing Body Approval
- Implementation of new terms

**Note:** if agreement is not possible, parties are at impasse

- Mediation, fact-finding, unilateral imposition of Last Best & Final Offer

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### Overview: Key Stakeholders

- Agency Head (City Manager, CAO, CEO, Exec. Dir., etc.)
- Human Resources
- Finance
- Department Heads (subject matter experts)
- Elected Officials / Governing Body
- Other Interested Parties?
  - Finance Committee / Commission
  - Public

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### Overview: Role of Finance

- Budget & budget presentations (to council & bargaining units)
- Financial forecasts & projections
- Costing – existing labor costs and each party's proposals
- Producing data for internal use (governing body, bargaining team)
- Producing data to share with union and/or in response to information requests

*More on these topics in subsequent slides*

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### Overview: How Finance Can Help

- Plan ahead to prepare information for bargaining
- Find ways to explain finance concepts to non-finance people
- Make financial data and reports easy to understand and easy to share (budgets, annual comprehensive financial report, actuarial valuations, etc.)
- Be willing to participate
- Be honest about functional limitations as early as possible – payroll system, other implementation issues
- Suggest helpful cost restructuring

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Information Needed from Finance



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### Budget / Financial Forecast Data

- Detailed review of agency budget
  - Revenue sources (especially those that fund the bargaining unit)
  - Revenue trends
  - Expenditures
  - Expenditure trends
  - Reserves, reserve policy
  - 5-10 year fiscal forecast
- In times of true fiscal instability, may need multiple forecasts (positive, negative, status quo)
- Be prepared to share with governing body and union

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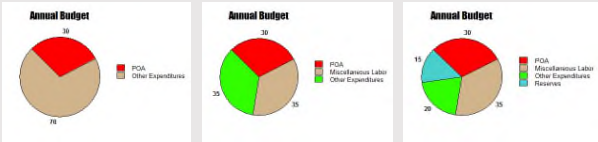
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### The Presentation of Data Matters

Which to Use?

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## Discussion Question: Do You Include Increased Labor Cost In Your Budget?

- Do you include year-over-year increases in labor costs in your budget?
  - How do you arrive at that number?
  - Do you share that number with labor?
- If you include, how does that relate to negotiations?
  - Do you ask the governing body for more than what was budgeted?
  - Do you explain where the amount over budget will come from?
- Do you graphically show cost of status quo vs. budgeted increase vs. what is being proposed in negotiations - over a period of years?

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## Costing

- A process where every element contained within the collective bargaining agreement that has a cost is identified
- Compare cost of competing discrete proposals, package proposals of bargaining unit
- Cost may be forecasted over term of agreement, or over future years
- Always compare cost of "doing nothing" – shows cost of maintaining the status quo
- Be thorough and complete with your costing – you will not be criticized for providing MORE information.
- Be able to back up your totals with the details and share it when it is helpful or requested.

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## Costing Components

- Direct Costs
  - Compensation: Pensionable & Taxable
  - Benefits
  - Leave cash-outs, overtime, standby pay, tuition reimbursement etc.
- Indirect Costs
  - Productivity, the cost of time off, etc.
- Other Costs
  - Workers' Comp, unemployment insurance, etc.

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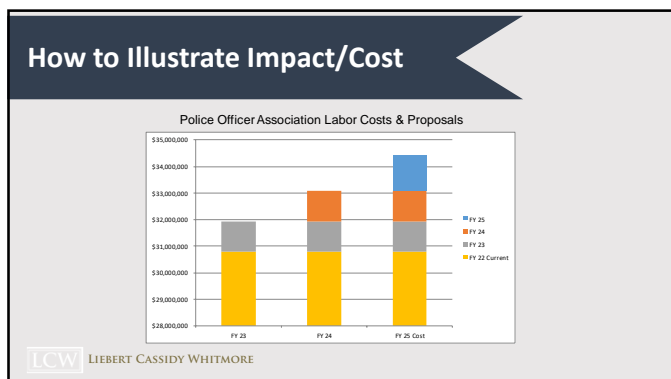
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- ### The Cost of 1%
- Typical to reference cost of 1% in negotiations
  - What is it: the cost of increasing salary for bargaining unit by 1%
  - Components of the cost of 1%
    - Salary (include taxes, pension)
    - Roll-ups (e.g. incentives/differentials tied to salary)
    - Benefits that are tied to cost of salary (e.g. work comp)
    - What about the impact on OT?
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- ### Compensation Surveys
- A common item used in negotiations is a survey of compensation paid to comparable employees at comparable agencies
    - What is a comparable employee? Comparable agency?
  - Scope may range: salary only to salary & benefits to total compensation
  - May be created internally or externally
    - Typical for H.R. to oversee compensation surveys – finance should review
  - Begin surveying as early as possible – can take time
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### Sample Compensation Survey

Classification: Police Officer					
City	Top Step, Advanced POST/BS Education and Longevity (10 yrs) as of 7/1/23	EPAC, Health (medical, dental, vision), Retiree Medical/457	Basic Comp Total	% Difference from South Lake City	Employee Retirement Contribution as of 7/1/22
Lake City	\$9,077	\$1,986	\$11,063	18%	12%
Sunnyslope	\$9,337	\$1,421	\$10,758	15%	9%
Hill Valley	\$8,458	\$2,132	\$10,590	13%	9% cost-sharing
Oak Cove	\$8,912	\$1,438	\$10,350	10%	12.50%
Fair City	\$8,744	\$1,064	\$9,808	5%	9%
<b>South Lake City</b>	<b>\$7,835</b>	<b>\$1,540</b>	<b>\$9,375</b>		<b>9%</b>
North Valley	\$8,051	\$1,308	\$9,358	-0.18%	2%
Goldville	\$8,132	\$966	\$9,098	-2.96%	0%
Seashore	\$7,526	\$1,222	\$8,748	-6.69%	9%

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- ### Employee Data – For Internal and Union Use
- Examples
    - Authorized FTE; filled vs. vacant
    - Years of service with agency
    - Benefit plan enrollment; benefit elections
    - Leave balances, leave use
    - Actual hours worked (include overtime hours)
    - Hourly rate, any other compensation items paid
    - Recruitment data
    - Turnover data
    - History of salary adjustments
    - Actual costs to the agency for each employee
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- ### Union Information Requests
- Under the MMBA, union is entitled to request information necessary and relevant to representation of its members
    - Broad standard
  - Employer must timely respond to MMBA information requests
    - Failure to do so is an unfair practice charge
  - Responding to these requests may require significant time and resources. Be prepared to gather and share the data in a timely and organized fashion.
    - May want to provide employee data at outset of negotiations in anticipation of information request for same
    - Who in Finance will respond to information requests?
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### Does Finance Have Cost Restructuring Ideas?

- If your department has thought of improvements on your current cost structure, share them
- Important to offer ideas at the outset of bargaining
  - If it's not superficial language clean up, cannot be done at the end
- Examples:
  - Creating new tiers for pay/benefits
  - Step systems/structures
  - Flat based vs. percentage based pay
  - Base pay vs. other types of pay

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### Examples of Using Data in Negotiations

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### Expenses Growing at a Faster Rate than Revenue

- A City receives approximately \$66,200,000 in General Fund revenues
- Expenses are anticipated to be just at \$66,000,000
- Revenues are projected to increase over the next few years. Estimated to be \$74,071,363 in five years (11.8% total increase).
- Expenses are anticipated to increase to \$77,235,126 (17% total increase)

Can the City support any wage increase given the structural deficit?

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## Significant Pension Cost Increases

	FY 2019/20	FY 2022/2023	Anticipated FY 2024/2025 Rate
City Employer Rate for Pension	18.137%	43.601%	54.7%

This is an increase in the rate of 140% from FY 19 to FY 24.

If we assume the pensionable payroll for this agency was 10 million dollars in FY 19 and remained flat and is still 10 million. The agency's pension cost increased from \$1,813,700 to \$4,360,100 in five years. CalPERS anticipates continued increases over the next five years.

If the City analyzed a wage proposal w/out looking at increased pension cost, would the City know its true financial picture? If City rejects wage proposal based on this data but did not provide this information to Union, how could Union understand City's position?

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## Negotiate a Buy-Out of Compounding

- City seeks to eliminate compounding of CalPERS special pays
- City calculates the effect of compounding varies by employee up to 4%, but vast majority are only impacted up to 2%
- City offers union 2% across-the-board salary increase in exchange for eliminating compounding, plus lump sums for small handful of employees with greater impact

What data is needed for Council to approve change?  
What data is needed for Union to agree?

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## Addressing a CalPERS Issue

- City pays police officers and firefighters holiday-in-lieu pay, which is reportable special compensation to CalPERS .
- City decides to close for the week between Christmas and New Years
- The City reports pay for the holiday closure days as holiday-in-lieu to CalPERS
- CalPERS flags the amounts as not reportable – for numerous reasons, including that the days are not City-recognized holidays

How can Finance help the negotiating team fix this problem at the table?

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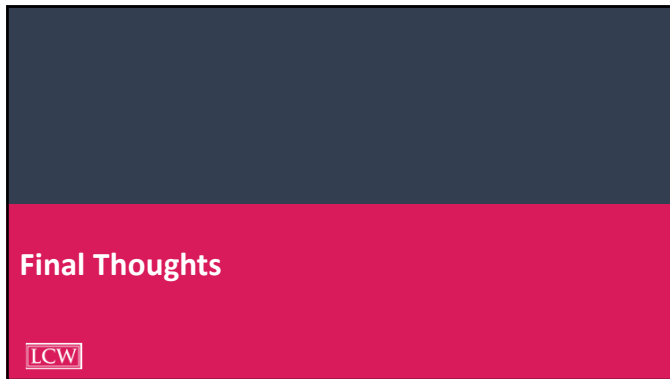
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**Final Thoughts**

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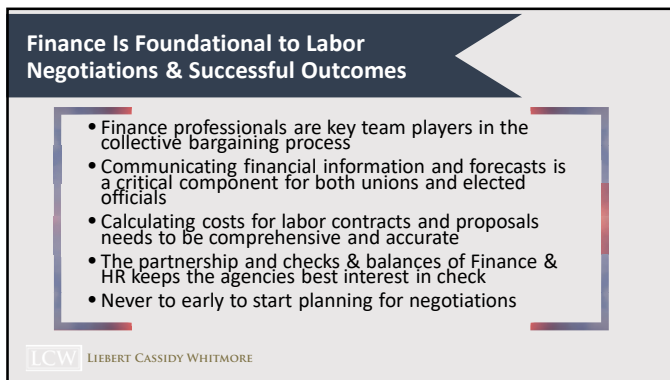
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**Finance Is Foundational to Labor Negotiations & Successful Outcomes**

- Finance professionals are key team players in the collective bargaining process
- Communicating financial information and forecasts is a critical component for both unions and elected officials
- Calculating costs for labor contracts and proposals needs to be comprehensive and accurate
- The partnership and checks & balances of Finance & HR keeps the agencies best interest in check
- Never too early to start planning for negotiations

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**Thank you!**

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