

AGENDA ITEM NO.

COUNCIL MEETING 10/2/07

APPROVED BY


DEPARTMENT DIRECTOR

CITY MANAGER

October 2, 2007

FROM: TERRY BOND, Director
Personnel Services Department

SUBJECT: ADOPT A SIDE LETTER AGREEMENT BETWEEN THE CITY OF FRESNO (CITY) AND INTERNATIONAL ASSOCIATION OF FIREFIGHTERS, NON-MANAGEMENT FIRE, LOCAL 753 (IAFF)

KEY RESULT AREA

Employee Satisfaction and Financial Management

RECOMMENDATIONS

Staff recommends that Council approve the attached Side Letter Agreement between the City and International Association of Firefighters, Non-Management Fire, Local 753 (Fire Basic), Unit 5, to modify sick leave cash out, modify the Deferred Retirement Option Program (DROP) and include the Unit in the Health Reimbursement Arrangement (HRA).

EXECUTIVE SUMMARY

The current Memorandum of Understanding (MOU) between the City and Fire Basic includes a provision to reopen the MOU in regards to DROP and sick leave cash out. The attached side letter which revises sick leave cash out, includes Unit 5 in an HRA, and revises DROP, is the result of negotiations between the City and Fire Basic. The Side Letter has been approved as to form by the City Attorney's Office, and an original signed copy will be filed with the City Clerk following approval by City Council. The Side Letter of Agreement supports the City's Key Result Areas of Employee Satisfaction and Financial Management.

KEY OBJECTIVE BALANCE

The Side Letter Agreement balances the Key Objectives of Employee Satisfaction and Financial Management. It provides an incentive for employees to use less sick leave, thereby increasing productivity and lowering overtime costs, and provides for a means to assist retirees in paying for medical benefits.

BACKGROUND

The City and Fire Basic have met and reached agreement on Sick Leave Cash Out and DROP pursuant to a provision of the MOU that provides for the MOU to be reopened on these topics. The parties reached an agreement which provides improved sick leave cash out benefits to be used for payment of medical premiums upon retirement and revises the calculation of DROP in a manner that is consistent with provisions for the Fire Management Unit and is similar to benefits for other safety units. It allows eligible employees who retire or are eligible for retirement, to place a portion of the value of accrued sick leave in an HRA account that can be used to pay medical premiums. Employees in DROP will have 50% of the value of sick hours credited towards computation of retirement benefits. The agreement will be effective September 25, 2007.

FISCAL IMPACT

An actuarial study was conducted in 2005. At that time, the cost of the DROP program to the General Fund was estimated at approximately \$381,476 in the form of additional normal pension contributions to the Fire & Police Retirement System and reduced surplus earnings of approximately \$514,436 which will both require cash payment by the City resulting in the \$895,912 estimated by the 2005 Actuarial Study. It is estimated that an additional \$234,000 would be required to fund the HRA accounts.

September 27, 2007

Attachment: Side Letter of Agreement

**SIDE LETTER OF AGREEMENT
BETWEEN
THE CITY OF FRESNO
AND INTERNATIONAL ASSOCIATION OF FIREFIGHTERS,
NON-MANAGEMENT FIRE, LOCAL 753 (IAFF)**

Sick Leave Cash Out

The City of Fresno and the International Association of Firefighters (IAFF), Non-Management Fire, have met and conferred in good faith, and agree this agreement sets forth the full and entire understanding of the parties regarding Article VII, Section F. Sick Leave Benefit at the Time of Election to Enter the Deferred Retirement Option Program (DROP) or at Retirement. This agreement is effective on September 25, 2007 and shall become part of the MOU which expires on June 30, 2008, unless modified or extended by mutual agreement of the parties.

This Side Letter of Agreement shall replace the Side Letter of Agreement certified by the City Clerk's Office on October 16, 2006 effective upon City approval of this Side Letter and covers all members of Unit 5.

Article VII, Section F. Sick Leave Benefit at the Time of Election to Enter the Deferred Retirement Option Program (DROP) or at Retirement, shall read as follows:

***** Effective September 25, 2007, a member of this Unit who enters Deferred Retirement Option Plan (DROP) shall have an amount equal to 50% of the number of the employee's remaining unused sick leave balance credited toward the computation of retirement benefits based on a fifty-six (56) hour workweek as if it were a one-time payment on the base rate of pay in effect at the time the option is exercised by the employee. Upon entering DROP, the employee will be required to make a corresponding pension contribution on this amount.**

Employees already in DROP upon Council approval of this MOU, shall be credited the difference between the sick leave credit received upon entering DROP and the formula indicated above, and will be required to make a corresponding contribution for the difference.

Article VII, Section G. Leaves, 3. Sick Leave, shall read as follows:

Sick Leave

- (a) Employees shall accrue sick leave at the rate of twelve (12) hours for each completed calendar month of employment, with unlimited accumulation. Unless otherwise modified, Instruction No. 34 shall apply as well as the FMC, City administrative orders, policies, procedures, rules and regulations concerning sick leave usage and administration. In the even of any conflict,

Departmental policies and Instruction No. 34 shall apply. The attendance/health incentive component detailed below also applies.

*** * * At service retirement, employees working 40 hour work weeks who have used one hundred twelve (112) hours or less of sick leave and employees working 56 hour work weeks who have used one hundred sixty-eight (168) hours or less of sick leave (excluding hours used for Workers' Compensation benefits and/or protected leaves such as Family & Medical Leave and Family Sick Leave, and/or Bereavement Leave) in the 24 months preceding their date of retirement will be credited for all unused sick leave in excess of 240 hours multiplied by 40% of the employee's then current base rate of pay, to be used solely to pay premiums for medical insurance (including COBRA premiums), pursuant to the City's Health Reimbursement Arrangement as set forth below.**

Article VII shall include a new provision as follows:

HEALTH REIMBURSEMENT ARRANGEMENT

The City currently maintains a Health Reimbursement Arrangement (HRA) that qualifies as a "health reimbursement arrangement" as described in Internal Revenue Service (IRS) Notice 2002-45 and other guidance published by the IRS regarding HRA's. The City agrees to maintain the HRA such that it will continue to qualify as a "health reimbursement arrangement" for the term of the MOU.

At separation from permanent employment with the City of Fresno by service retirement or at disability retirement if the employee is otherwise eligible for service retirement, the value of the employee's accumulated sick leave shall be credited to an account for the employee under the HRA. Such "value" shall be determined as follows:

- The number of accumulated sick leave hours in excess of 240 hours at the time of retirement multiplied by 40% of the employee's then current hourly base rate of pay pursuant to the eligibility criteria as set forth in the Retirement Attendance/Health Incentive provision in Section G. Subsection 3, and**
- Hourly base rate of pay for 56 hour work week employees shall be the equivalent of the base monthly salary for an employee as provided in this MOU, multiplied by twelve (12) months then divided by 2,912 hours.**

The HRA accounts shall be book accounts only – no actual trust account shall be established for any employee. Each HRA book account shall be credited on a monthly basis with a rate of earnings equal to the yield on the City’s Investment Portfolio (provided that such yield is positive) but not to be below zero.

The HRA accounts shall be used solely to pay premiums for medical insurance (including COBRA premiums) covering the participant, the participant’s spouse (or surviving spouse in the event of the death of the participant), and the participant’s dependents. Once a participant’s account under the HRA has been reduced to \$0, no further benefits shall be payable by the HRA. If the participant, the participant’s spouse, and the participant’s dependents die before the participant’s account under the HRA has been reduced to \$0, no death benefit shall be payable to any person by the HRA.

**INTERNATIONAL ASSOCIATION OF
FIREFIGHTERS, LOCAL 753:**

FOR THE CITY OF FRESNO:

AL M. RUSH
President

KENNETH G. PHILLIPS
Labor Relations Manager

DATED: _____

DATED: _____

APPROVED AS TO FORM
CITY ATTORNEY’S OFFICE
BY: Victoria parks Tuttle
Senior Deputy City Attorney