County Executive Office

Memorandum

S68A

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CLERK OF THE BOARD
ORANGE COUNTY
BOARD OF SUPERVISORS

September 7, 2006

To: Bill Campbell, Chairman

From: Thomas G. Mauk, County Executive Officer

Subject: Exception to the Rule 21

The County Executive Office is requesting a supplemental for the September 12, 2006 Board Hearing Meeting.

Agency: County Executive Office
Subject: Approve and Adopt SEIU Labor Agreement
District All

Reason for supplemental: Negotiations with SEIU concluded – September 1, 2006

Concur:

Bill Campbell, Chairman
Orange County Board of Supervisors

cc: Rob Richardson
Assistant to the County Executive Officer

Agenda Item (Clerk's Use Only)

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ORANGE COUNTY
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SUPPLEMENTAL AGENDA ITEM
AGENDA STAFF REPORT

ASR Control S68A

MEETING DATE: 09/12/06

LEGAL ENTITY TAKING ACTION: Board of Supervisors

BOARD OF SUPERVISORS DISTRICT(S): All Districts

SUBMITTING AGENCY/DEPARTMENT: County Executive Office (Pending)

DEPARTMENT CONTACT PERSON(S): Thomas G. Mauk, 834-6200

SUBJECT: Approve and Adopt Agreement with SEIU

CEO CONCUR	COUNTY COUNSEL REVIEW	CLERK OF THE BOARD Discussion

Budgeted: Yes **Current Year Cost:** See additional data **Annual Cost:** See additional data

Staffing Impact: No **# of Positions:** N/A **Sole Source:** N/A

Current Fiscal Year Revenue: N/A

Funding Source: Various

Prior Board Action: August 24, 2004

RECOMMENDED ACTION(S)

1. Approve and Adopt the Agreement between the County of Orange and the Service Employees International Union (SEIU) for all Represented Units as detailed in Exhibit 1.

2. Direct County Counsel, in concert with the County Executive Officer, to return to the Board with draft by-laws and supporting documentation for the Retiree Medical Trust to be controlled by the County.

3. Approve and adopt the attached resolution that implements the increase in employee retirement contributions.

SUMMARY:

It is recommended that the Board of Supervisors approve the proposed negotiated labor agreement for 2006-07 with Service Employees International Union (SEIU) which accomplishes the following:

1. Reforms and restructures the County's Retiree Medical Program

2. Reduces the unfunded liability (UAAL) of the Retiree Medical Program $1.4 billion by $26 million The current UAAL associated with SEIU group is $37 million; Upon adoption of this agreement by the Board of Supervisors this figure will be reduced to $11 million. Upon adoption of additional employee agreements, there could be additional reductions to the Retiree Medical Program UAAL.

3. Reaffirms the commitment of the Board and the employees for employee payment of the full and continuing funding all costs associated with the 2.7 @ 55 retirement program.

4. Provides a 4.75 percent general salary increase effective June 23, 2006, in connection with the "reopener" clause of the existing agreement for the third year of such agreement.

5. Establishes a 30 day period to evaluate any market rate adjustments market rate adjustments not to exceed 1.25%.

Board of Supervisors approval of the proposed contract negotiated with SEIU will:

- Retain a restructured and reformed Retiree Medical Program.
- Reduce the unfunded liability of the program.
- Stabilize the annual costs of the Retiree Medical program at an Annual Required Contribution (ARC) between 3.0 to 3.5 percent of salary.
- Reaffirm the full and continuing funding by employee contributions of the annual cost of 2.7@55 retirement program.
- Provide a 4.75% general salary increase for the general employees for fiscal year 2006-07; this amount is fully funded in the Strategic Financial Plan and follows two full years of no general salary adjustments.
- Places a cap on market rate adjustments. Within 30 days of Board approval, the County shall identify which specific positions continue to exist at below market levels. The cumulative amount of any potential salary adjustments for below market positions will be limited to a maximum of 1.25% of wages included within the SEIU Agreement.

The recommended package represents a major accomplishment for the County, its taxpayers and its employees. Approval of the proposed agreements as a total package is recommended.

BACKGROUND INFORMATION:

As the Board of Supervisors is aware, the staff, under the direction of the County Executive Officer, has held on-going discussions with employee groups (in this case SEIU) regarding salaries and health benefits for 2006-07. This discussion is provided for by the 'reopener' clause of the existing agreement adopted in August 2004. As a result of Board direction and the efforts of involved parties, the discussion and consideration of Health Benefits was discussed as a separate and major item including the topic of Retiree Medical restructuring and reform with the agreement of SEIU to open this issue. This proposed

agreement reflects the Board's and employees' continuing commitment for full funding of the 2.7@55 Pension Program by employees through payroll deductions and health care savings.

Reform and Restructuring of Retiree Medical Insurance Program:

The proposed agreement presents five major accomplishments by the Board and the Employee Organizations:

- The program in modified form is restructured and retained so that County retirees still have access to health care programs.

- The program's existing unfunded liability of $1.4 billion is reduced. The additional portion of UAAL related to SEIU is $37 million; the modifications will reduce this number to $11 million. When all affected labor agreements are concluded, the UAAL savings will be $815 million.

- The annual cost of the program is brought under control by significant adjustment in program structure (i.e. split pool – retirees and actives) and benefit levels.

- The County restructures the funding of the retiree medical program and its administration through the establishment of a trust to be funded by the County and controlled by the County..

- The trust and/or the County will have the option of contracting with the Orange County Employees Retirement System (OCERS) for the management and administration of the finances, grants, and investments related to Retiree Medical Trust.

The above actions will maintain the non-vesting status of the Retiree Medical Program.

The most significant result of the reform and restructuring of the retiree medical insurance program will be the reduction of the unfunded liability. This will lead to a major reduction in the annual fully funded required contribution to the Retiree Medical program, which will be lowered to 3.0% - 3.5% of payroll. The development and implementation of the restructured and reformed program will likely be favorably received by the financial markets and rating agencies where Orange County already enjoys a strong positive bond rating. And it retains a modified program for County retirees, although at a revised benefit and cost level.

The attached table displays the modifications proposed for the Retiree Medical Program. The proposed modifications will enable the County to rapidly move toward complete and early compliance with the new GASB 45 accounting requirement by reducing the UAAL and thus reducing the require ARC.
The second table identifies the proposed changes to the Retiree Medical Program. The proposed changes are for the General and Probation employees only at this time. Subsequent agreements may include additional bargaining units.

An additional major accomplishment of the proposed agreement is the reaffirmed and continued full funding of the 2.7@55 pension program for those employees included in the program. This is achieved by an added payroll deduction for participants of .93% (SEIU) and by the adjustment of the regular "employee normal" retirement amounts by .66% for SEIU. Therefore, the Board of Supervisors and the employees continue their commitment to the taxpayers of Orange County in this regard.

The remaining component of the proposed agreement is a 4.75 percent salary increase for employees represented by these Employee Organizations effective June 23, 2006, which is the existing contractual reopener date. The estimated cost for 2006-07 of this component is $1.44 million and is fully funded in the County's adopted Strategic Financial Plan.

FINANCIAL IMPACT:

N/A

STAFFING IMPACT:
N/A

EXHIBIT(S):

County of Orange
Proposal to SEIU
September 1, 2006

Retiree Medical Restructuring:

- Split the pool (actives/retirees) effective January 2008
- Maximum increase in grant COLA is 3% (vs. 5%) effective January 2008
- Once retiree becomes Medicare eligible, the grant is reduced by 50% (current retirees age 65 and older no reduction; current retirees age 64 or younger 50% reduction once Medicare eligible – but no sooner than 1 year)
- Employees retiring after Board adoption (September 12, 2006) – 7.5% reduction to grant for each year pre-60 years of age; 7.5% increase to grant for each year worked after age 60 up to age 70
- Establish Trust to administer Retiree Medical Grant Program effective January 1, 2007
- County funds cost of retiree medical effective June 23, 2006; no employee contribution; 1% lump sum benefit phased out

Pension Costs:

- Adopt ratio-based methodology to determine impact of 2.7% @ 55 on pension costs for current fiscal year
- Effective June 23, 2006 employee normal deduction shall increase by .66%
- Effective June 23, 2006, general members' deduction pursuant to Article XXIII, Section 1.D.2. shall increase by 0.93% (from 2.0% to 2.93% for the amortized unfunded liability or "reverse pick up")

Salary Re-Opener:

- 4.75% general salary increase effective June 23, 2006
- 1.25% maximum allocated for market adjustments – to be reviewed within 30 days of Board adoption

For the County: Susanna Garcia

For SEIU: R Renta

RESOLUTION OF THE BOARD OF SUPERVISORS

ORANGE COUNTY, CALIFORNIA

_____, 2006

WHEREAS, the Orange County Employees Retirement System ("OCERS"), on the advice of its actuary, has recommended to this Board the adoption of increased employee normal retirement contribution rates effective at the beginning of the 2006-2007 fiscal year; and

WHEREAS, the amount of such increase in contribution rates varies among employees, depending on each employee's "age at entry" into OCERS and whether the employee is a general member or a safety member of OCERS; and

WHEREAS, as a part of the wage reopener agreement between the County of Orange ("County"), and the Service Employees International Union Local 787, AFL-CIO (hereinafter, "SEIU"), the County and SEIU have reached agreement on certain compensation issues, and in order to implement such agreement it is appropriate for this Board to adopt this Resolution;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. For employees who are included in the Operations and Service Maintenance employee bargaining unit represented by SEIU, the increases in employee normal retirement contribution rates, as recommended by OCERS, will be effective as of June 23, 2006. At the same time, the portion of each employee's normal contribution rate that is equal to the amount of the 2006-07 increase will be paid by the County on behalf of each such employee in accordance with Government Code Section 31581.1. This payment, or "pick up," of employee contributions by the County will be effective as of June 23, 2006 and will remain in effect through June 21, 2007, and shall continue beyond that date unless terminated or modified by mutual agreement of the County and SEIU or further resolution of this Board. The "pick up" described in this paragraph will apply only to the amount of each employee's normal retirement contribution rate that represents the increase recommended by OCERS for 2006-2007, and will not apply to any other part of the employee's normal retirement contributions, which will continue to be paid by the employees through payroll deduction as they were prior to June 23, 2006.

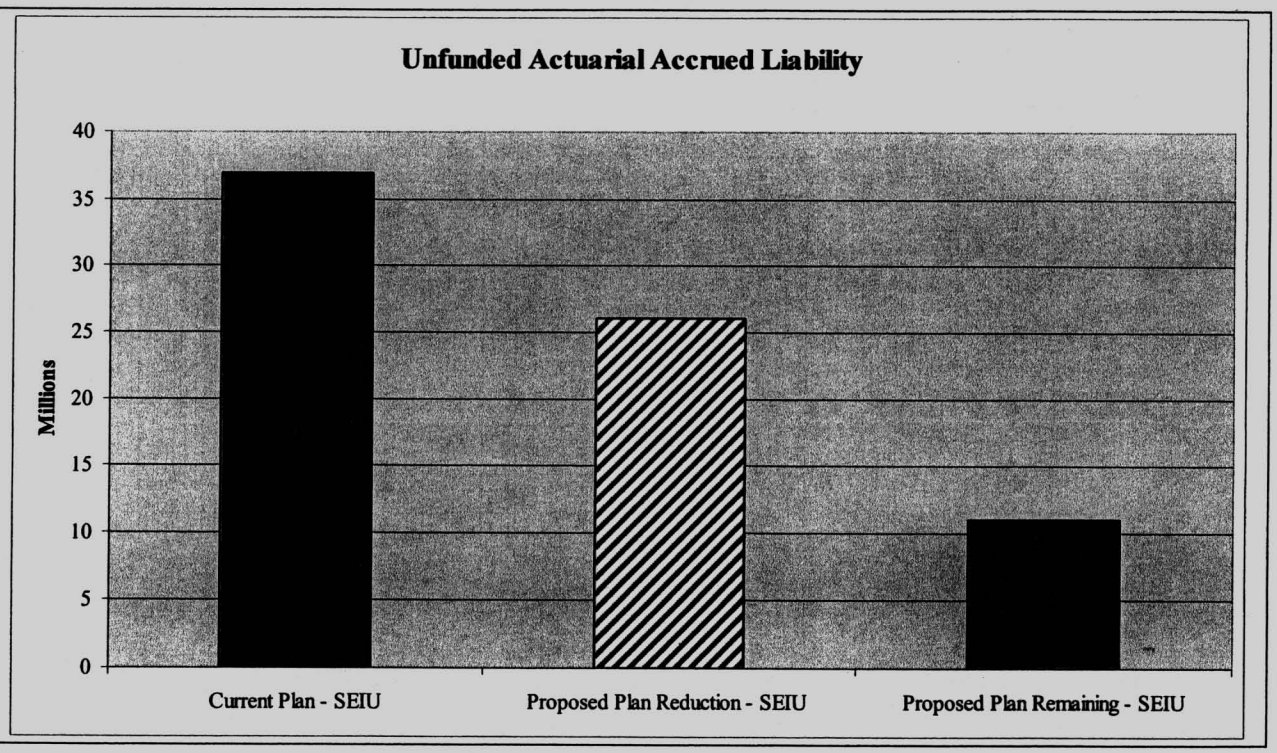
2. For employees in the Operations and Service Maintenance employee bargaining unit, the amount of additional employee retirement contributions that each employee makes pursuant to Government Code Section 31678.3(d), to pay for past service liability resulting from adoption of the "2.7% at 55" retirement benefit formula, shall be increased from 2.0% of compensation to

3.59% of compensation, for a total increase equal to 1.59% of compensation. Such increase shall be effective from and after June 23, 2006. In accordance with Government Code Section 31678.3(d), such additional employee retirement contributions will become a part of each employee's accumulated contributions with OCERS.

3. The provisions of this resolution will apply only to employees of the County who are included in the Operations and Service Maintenance employee bargaining unit, which is represented by SEIU.

County of Orange
Retiree Medical Program – Proposed Modifications for General & Probation Only

- *Current Program* GASB compliant Total County Unfunded Actuarial Accrued Liability (UAAL) is $1,413 million, of which $37 million is SEIU UAAL.
- *Proposed Program* Total County UAAL reduces by $815 million to $598 million, with SEIU UAAL reducing by $26 million to $11 million.



County of Orange
Retiree Medical Program – Proposed Modifications for General & Probation Only

- Eliminates the implied subsidy (splits the pool).
- Grant level:
  - Remains at current level ($15.99 for each year of service) for 2006 and increases to $16.67 for each year of service in 2007.
  - Reduced 7½% for each year of retirement < age 60.
  - Increased 7½% for each year of retirement > age 60.
  - Reduced 50% at Medicare eligibility (age 65), except:
    - No reduction for current retirees Medicare eligible.
    - 50% reduction delayed for current retirees not yet Medicare eligible until later of:
      - One year after agreement becomes effective &
      - Medicare eligibility.
- Grant COLA capped at 3% annually for 2008 and beyond.
- Lump sum benefit frozen at current level.
- County funds
  - Full Annual Required Contribution (ARC),
  - Into a trust administered by the County,
  - With diversified assets, and
  - Assets diversified to safely maximize annual long term investment return.