City of Riverside
City of Arts & Innovation

Budget Engagement Commission

TO: HONORABLE COMMISSIONERS **DATE:** AUGUST 15, 2019

FROM: FINANCE DEPARTMENT **WARDS:** ALL

SUBJECT: ESTIMATED FISCAL IMPACT OF PARTNERSHIP COMPENSATION MODEL

ISSUE:

Receive a report on the estimated fiscal impact of the Partnership Compensation Model.

RECOMMENDATION:

That the Budget Engagement Commission receive a report on the estimated fiscal impact of the Partnership Compensation Model.

COMMITTEE RECOMMENDATION:

On March 13, 2019, following discussion, the Finance Committee, with Chair Adams, Vice Chair Conder, and Member Soubirous present, unanimously received and ordered filed the report on the estimated fiscal impact of the Partnership Compensation Model.

BACKGROUND:

In August 2016, City leadership introduced the Partnership Compensation Model (PCM) intended to link employee earnings with the City's economic performance. The PCM was based on three (3) core principles:

1. Salary increases tied to the City's financial health;
2. Shared pension costs, with each employee making meaningful contributions toward their retirement; and
3. 50/50 share of healthcare premium increases.

Salary increases include two (2) features designed to assure employees of minimum increases while setting limits when the City's revenues do not perform well:

1. Salary increases are computed as one-half of the percentage increase in a Balanced Revenue Index (BRI) comprised of General Fund revenues: Sales and Use Tax, Property Tax, Transient Occupancy Tax, and Utility Consumption Tax.

2. "Brackets will be established for every annual increase so that employees can expect some minimum raise while the City is protected by establishing the maximum limit on the increases that can be granted in any given year." [1] (Attachment 1)

The PCM includes incremental increases in the California Public Employees' Retirement System (PERS) contributions for Tier 1 or "Classic" PERS members "until they [employees] are paying 8% toward their pensions"[1]. These increases are tied to salary increases, and will only trigger if a minimum salary increase is achieved.

Additionally, "future premium increases" in healthcare are shared 50/50 by the employee and the City.

DISCUSSION:

Purpose and Scope

The PCM analysis provides the estimated fiscal impact of PCM salary increases and changes in employee PERS contributions (PERS Givebacks) through June 30, 2021, for all applicable employee groups. Refer to Attachment 1 for a summary of negotiated salary increases and PERS Givebacks. Projections related to the 50/50 share of health premium increases are beyond the scope of this analysis.

Union/Employee Group	Contract End Date
Riverside Fire Management Group (RFMG)	December 31, 2021
Riverside Firefighters' Association (RCFA)	December 31, 2021
Riverside Police Administrators' Association (RPAA)	December 31, 2021
Riverside Police Officers' Association – Supervisory	December 31, 2021
Riverside Police Officers' Association (RPOA)	December 31, 2021
Service Employees International Union – Refuse (SEIU-Refuse)	June 30, 2020
Service Employees International Union (SEIU)	June 30, 2020
Unrepresented: Confidential, Executive[2], Management I and Management II	N/A

Methodology

BRI: During the development of the General Fund and Measure Z Fund Five-Year Financial Plans encompassing FY 2018/19 through FY 2022/23, certain baseline revenue forecasts were made based on historical trends, economic data, and the advice of the City's sales tax consultant. Those revenue forecasts provided the basis for BRI assumptions and development of the Five-Year Financial Plans. The resulting salary increases and PERS Givebacks budgeted and applied to this PCM analysis are summarized in Attachment 2.

Salary Increases: All negotiated salary increases, including minimum and deferred salary increases, are considered PCM impacts for the purposes of this analysis. The PCM analysis

[1] Source: RiversideTV, "Riverside introduces its new Partnership Compensation Model"
[2] Individual employee contracts take precedence and may not include a PCM provision.

estimates the fiscal impact of the PCM as compared to no salary adjustments and no changes in employee PERS contributions.

Each fiscal year's impact was estimated using the following salary bases:

- FY 2017/18: Actual salaries subject to PERS for pay period ending (PPE) December 28, 2017, which is the pay period prior to the first application of the PCM (PPE January 11, 2018).
- FY 2018/19: Actual salaries subject to PERS for PPE January 10, 2019, which is the pay period prior to the 2019 calendar year application of the PCM (PPE January 24, 2019).
- FY 2019/20: Based on the salaries resulting from the PCM impact analysis for FY 2018/19.
- FY 2020/21: Based on the salaries resulting from the PCM impact analysis for FY 2019/20.

Limitations: Staff believe the PCM analysis provides a reasonable and conservative estimation of PCM impacts. However, due to the ever-changing nature of the employee population, demographics, and salaries, the projections provided should not be considered an exact representation of the full cost of the PCM. The PCM analysis was performed based on a snapshot in time: specific pay periods were selected as the starting point for the PCM cost projections, as described above. Therefore, the following items that have a fiscal impact as a direct result of the PCM are not included in the analysis:

- Merit increases, salary survey adjustments, and other personnel changes that impact employee salaries.
- Ancillary cost impacts resulting from salary increases, such as Medicare.
- Employee separations, new hires, or other changes in the employee population.
- Overtime is outside the scope of the analysis, but is paid at the new salary rate.
- Leave payoffs, including annual pay-downs, are outside the scope of the analysis, but are paid at the new salary rate.

<u>Results</u>
The following tables show the impact of the PCM attributable to that fiscal year. All City Funds and for the General Fund. Of the total City-wide impact, 72% is borne by the General Fund. The estimated PCM impact by employee group is provided in Attachment 3.

Individual Impact of PCM by Fiscal Year – All City Funds					
Category	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**	**Total Impact**
Salaries	$ 3,504,568	$ 8,213,909	$ 7,428,911	$ 3,643,792	$ 22,791,180
PERS	49,305	(354,593)	(763,574)	(434,950)	(1,503,812)
Grand Total	**$ 3,553,873**	**$ 7,859,316**	**$ 6,665,337**	**$ 3,208,842**	**$ 21,287,368**

General Fund – Individual Impact of PCM by Fiscal Year					
Category	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**	**Total Impact**
Salaries	$ 2,529,721	$ 5,886,336	$ 5,197,447	$ 2,504,557	$ 16,118,061
PERS	68,455	(241,146)	(484,607)	(188,337)	(845,635)
Grand Total	**$ 2,598,176**	**$ 5,645,190**	**$ 4,712,840**	**$ 2,316,220**	**$ 15,272,426**

The estimated cumulative impact of the PCM over the life of the program is shown in the table below. For instance, at the end of FY2020/2021 and thereafter, the cumulative annual General Fund impact of the PCM will be approximately $15.3 million per year not factoring in assumptions that are not presently known such as future merit increases and their compounding effect.

Cumulative Impact of PCM				
	FY 2017/18	**FY 2018/19**	**FY 2019/20**	**FY 2020/21 and thereafter**
All City Funds	$3,553,873	$11,413,189	$18,078,526	$21,287,368
General Fund	$2,598,176	$8,243,366	$12,956,206	$15,272,426

The impact of the Measure Z Transaction and Use Tax revenues on two fiscal years of salary increases should not be overlooked. Due in large part to Measure Z, the BRI revenue growth in FY 2017/18 and FY 2018/19 was 13.37% and 29.50% respectively (Attachment 2, page 2). Salary increases are based upon 50% of the BRI growth rate; subsequently, employee salary increases based on the BRI were granted at the top of the negotiated ranges for FY 2017/18 and FY 2018/19.

Had Measure Z been excluded from the BRI, the BRI would have reflected the flattening of the General Fund's core revenue sources and would have produced revenue growth rates of just 4.61% and 2.98% in FY 2017/18 and FY 2018/19, respectively. Salary increases would have been capped at 2.30% and 1.49% for those fiscal years, respectively. However, the 1.49% increase in FY 2018/19 would have been insufficient to trigger the PERS Giveback provision for the Police employee groups (RPAA, RPOA, and RPOA – Supervisory).

Change in 50% BRI	FY 2017/18	FY 2018/19
With Measure Z	6.69%	14.75%
Without Measure Z	2.30%	1.49%

It is important to note that some level of salary increases may have been negotiated in the absence of the PCM, and some Memorandums of Understanding (MOU) and the Fringe Benefits and Salary Plan (FBSP) do in fact include minimum salary increases for some years (Attachment 1). In some cases, the projected PCM salary increases of FY 2019/20 and beyond may be less than what traditional agreements and COLAs may have produced (Attachment 2).

FISCAL IMPACT:

There is no direct fiscal impact to the current budget cycle (FY 2018-2020) associated with this report. The projected impacts of the PCM were incorporated into the FY 2018-2020 Two-Year Budget during the budget development process.

Prepared by:	Kristie Thomas, Budget & Revenue Manager
Approved as to availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by:	Carlie Myers, Deputy City Manager

Attachments:

1. March 13, 2019 Finance Committee Report
2. Salary Increases and Employee PERS Contributions for Active Agreements
3. BRI Calculations
4. Estimated PCM Impacts by Employee Group
5. Presentation