The Costing Mindset in Collective Bargaining

PRESIDING:
DANE HUTCHINGS, DIRECTOR, GOVERNMENT AFFAIRS, RENNE PUBLIC POLICY GROUP

SPEAKERS:
JASMINE NACHTIGALL-FOURNIER, PRESIDENT, GOVINVEST & ADASTRAGOY INC.
CHARLIE FRANCIS, PUBLIC FINANCE EXPERT, GOVINVEST & ADASTRAGOY INC.
THOMAS LEUNG, SENIOR MANAGEMENT ANALYST, CITY OF CUPERTINO

Cast

<table>
<thead>
<tr>
<th>Cast Member</th>
<th>Description</th>
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<tbody>
<tr>
<td>Dane Hutchings</td>
<td>Dane Hutchings is the Director of Government Affairs for Renne Public Policy Group (RPPG), a Division of Renne Public Law Group. For over a decade, Dane Hutchings has been advocating for the best interests of both public and private entities. He is a seasoned legislative advocate and political strategist with a keen understanding of the California political process and landscape.</td>
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<tr>
<td>Thomas Leung</td>
<td>Thomas Leung is a Senior Management Analyst with the City of Cupertino. He works in the Administrative Services department where he enjoys leveraging data and technology. Thomas earned a BSc from the University of British Columbia and a MS from Stanford University.</td>
</tr>
<tr>
<td>Jasmine Nachtigall-</td>
<td>Jasmine is the Co-Founder and President of GovInvest. Jasmine co-founded GovInvest in 2014 and has grown the company nationally to serve hundreds of public agencies, including the State of California and the State of Connecticut.</td>
</tr>
<tr>
<td>Fournier</td>
<td>Charlie Francis</td>
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City of Cupertino

- Small city in Silicon Valley, directly west of San Jose
- Population: 64,344
- Budget: $151 Million (all funds); $80 Million (General Fund)
- FTE: 202.75 Full-Time
- MOUs: 2 MOUs (CEA, OE3) plus unrepresented employees, appointed employees, and elected officials
- Contract Overview: 3-year contracts (7/1/2019 - 6/30/2022) for each group
- Bargaining Team: Director of Administrative Services; Human Resources Manager; Outside Legal Counsel (Chief Negotiator)

Why Should We Be Concerned About Costing?

- Public sector organization operating budgets are composed mostly of personnel costs
- Some of the biggest dollar decisions that the Governing Body will make involve labor contracts
- Economic commitments at the bargaining table can last many years
  - Ongoing costs such as salaries and benefits
  - Potential to create unfunded liabilities/vested benefits
  - Budget impacts
Costing Basics Are No Longer Enough

- Cost of 1%
- Fixed costs versus variable – what drives the 1%?
  - Salary, additional pay, benefits
  - Overtime?
  - Pensions (Normal Cost versus UAL)
- Difficulty costing non-cash benefits such as Paid Leave time

Comprehensive Costing is Critical

- Costing models must be
  - Detailed/Accurate
  - Flexible and
  - Quick
- Bargaining Requires Trust
  - Between Union and Management
  - Also among separate Management-side divisions
  - Data and costing information focuses on facts/actuals
Centralized Costing Workspace

- Single source of truth
- Same set of assumptions
- Consistent data & calculations
- Tracking previous proposals
- Time-stamping the negotiation process to show progress
Centralized Costing Workspace

Single source of truth
- Can we agree to start on the same page?
- Let’s define where we’re starting now so that we can save time throughout the negotiation.

Same set of assumptions
- Assumptions have huge impact on results (ex. Pension)
- Budgeted vs actual?
- How are we going to treat vacant FTE positions?
- What step are we assuming?

Consistent data & calculations
- The outputs are only as good as the inputs and the fidelity of the calculations.
- Where did the data come from?
- Are we confident in the calculations? Can you explain the calculations?
- What margin of error are you willing to accept?

Tracking previous proposals
- What did we do in previous years?
- What was the fiscal impact?
- What was the context of those decisions?
- What was the economic environment?

Time-stamping the negotiation process
- Can we show progress?
- Can we break down where the costs are coming from?
- What makes up the fiscal impact?
Types of Data

Demographic Data
- Vital Statistics of an employee population: the number of employees and distribution of ages, gender, number of dependents, rates of pay, benefit plan enrollment, classifications, and years of service

Accounting Data
- Information that can be obtained from payroll records including amounts paid in direct wages, overtime premiums, premium/specialty pays, all paid leaves, retirement plan contributions, and health/benefit insurance premiums

Other Financial Data
- Internal financial information that is not directly related to payroll costs including past and future revenues, service levels and information about non-labor costs

Data Collection

Data Collection
- Build a census file
- Note sources of data
- Create a data dictionary
- Institutional knowledge

Exporting Data from ERP and Payroll Systems
- Can be challenging if data is not well-defined
- Each system has disparate manners of calculating cost elements
- How to write queries to get custom data from the systems
- Create a custom output that you can reuse
Key Tips for Costing

Plan & Prepare
- Start early. Engage HR & Finance team members in the process.
- Be comprehensive and accurate. Be prepared to explain the data and the assumptions used.
- Review the work. Ask a neutral party to review the costing.

Use a Method that Allows Contemporaneous Costing During Negotiations
- Cost both the agency and the Bargaining Units Proposals
- Communicate the cost impacts of proposals
- Understand the incremental and cumulative costs of proposals
- Communicate costing information to governing body and across the table

Benchmarking
Key Steps to Benchmarking

- Define the scope—the benefits that are to be included;
- Select the key metrics;
- Collect internal data;
- Identify and select benchmarking partners;
- Gather data from the selected partners;
- Measure internal data, compare to partner data, and perform a gap analysis;
- Chart a course of action for closing the gap(s);
- Implement and continuously monitor/update the findings so the data can be used on an ongoing basis.


Benchmarking Challenges

- Finding agencies that are demographically, economically, structurally similar
- What level do you compare on?
- Need to get granular and make comparisons on a cost-by-cost basis
- Getting data from other agencies

Benchmarking Best Practices

- Benchmarking gives credence to proposals and counterproposals.
- How many is too few? Too many?
- Understand your benchmarks and how/why they were chosen – adjust if needed.
- Don’t get bogged down in the data! Remember the big picture.
Case Study - Sausalito

Negotiating Strategy

Sooner or Later it Always Comes Down to Money
April 17, 2012
Planning is Critical

- MOU Analysis
- Budget Analysis
- Salary Analysis
- Benefits Analysis
  - Pensions
  - Health Care
- Industry Analysis

Develop Outcome Strategy

Labor Costs - Preparation
Pre-Planning
MOU Analysis

General Fund Trends
FY General Fund – Fund Balances

Healthy Reserves

General Fund Revenue Trends

Flat Revenues
General Fund Expenditure Trends

Expenditure Pressure

General Fund Expenditure Trends

Escalating Labor Costs
FY 12 General Fund Expenditures

General Fund Labor Costs - Compensation
General Fund Labor Costs – Compensation (Continued)

Current State:
- Labor costs at rate of 73% of Revenues
- Salary costs at 66.5% of total compensation
- Pension costs at 17% of total compensation
- Health Care costs at 10% of total compensation
- Workers compensation costs at 2.7%
- FICA, UI, Unemployment costs at 2.5% of total compensation
- Retiree Health Pay-As-You-Go at 1.5% of total compensation
- Annual growth in total compensation costs > Annual revenue growth

Sustainable State:
- Labor costs at 65 – 70% of Revenues
- Salary costs at 66 – 68% of total compensation
- Maintain Pension costs at 13 – 17% of total compensation
- Maintain Health Care costs at 8 – 10% of total compensation
- Workers compensation costs at 3 – 5% of total compensation
- FICA, UI, Unemployment costs at 2 - 3% of total compensation
- Retiree Health Pay-As-You-Go at 1 – 2% of total compensation
- Annual growth in total compensation costs <= Annual revenue growth
Compensation Study Summary

- On average, classifications are 3.8% above the market median for base salaries.
- Sausalito’s benefits package is less than that of the comparators’, with the difference being approximately 4.8%
- Total compensation is 1.0% below market

Goal:
To reach an agreement that sustains the City’s current level of service with a productive, effective and content workforce.

Objectives:
- Value the City’s commitment to current employees at their current levels of compensation
- Acknowledge the cost effectiveness of retention and turnover minimization
- Recognize the need to lower the cost of labor
- Development of a second tier of employees
Case Study – Cupertino
Why Is Labor Costing Important?

Labor Costs Are the City’s Largest General Fund Expense

Capital Investment Needs Are Increasing

Competitive Compensation is Needed to Recruit and Retain Talent

Expenditures Are Increasing Faster than Revenues

CalPERS Pension Costs Are Increasing

What Were Our Objectives?

**Accurate**: By using updated data from our financial and human resources systems, we ensured our costs would be accurate.

**Complete**: By accounting for all costs, we captured the full impact on our budget and long-term financial forecasts.

**Efficient**: By leveraging technology, we reduced the time spent on costing and ensured negotiations remained on schedule.

**Transparent**: By showing stakeholders how costs were calculated, we increased trust.
What Were Our Data Sources?

**MOUs, Proposals**

**Accounting:** Overtime History, Special Pay History, Paid Leave Balances, CalPERS Pension Cost Projections

**Human Resources:** Employees, Pay Rates, Classifications, Years of Service, Health Plan Enrollments

**Benchmarks:** Compensation Survey of Comparator Agencies (e.g. Palo Alto, Sunnyvale, Santa Clara, Mountain View, Milpitas)

What Was Our Labor Costing Process?

- Setup Cost Model
- Cost Baseline
- Proposal
- Resolution
- Cost Proposal

Present Costs

Compare to Baseline
Feedback from the Bargaining Table

“I believe the agreements provide a solid foundation for collaborative and effective labor relations going forward and are a credit to both labor and management.”

“I was very happy to see the congenial and collaborative and professional approach on both sides which I feel saved a lot of staff time and allowed everyone to quickly move to a favorable resolution.”
### Labor Costing Module

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