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Memorandum

To: Finance Committee
Kensington Police Protection and Community Services District

From: Jon Holtzman

Date: December 1, 2019

Re: **Tentative Agreement with Police Association (KPOA)**

The tentative agreement reached with the KPOA is attached. In addition, included with this packet is: (1) a total compensation study from 2018; (2) two actuarial summary reports showing existing OPEB liability and anticipated OPEB liability should this agreement be approved; and (3) a preliminary costing prepared by Bill Zenoni of the proposed agreement. Please note that Bill's costing will be updated to reflect changes in the timing of this agreement, and provided at the committee meeting.

This agreement is centered upon achieving three goals: (1) increasing base compensation for police officers to improve recruitment and retention which are severely hampered because KPPCSD is far behind market for police officers; (2) decreasing the cost of OPEB (retiree health) benefits, which are far higher than most comparable jurisdictions and which, in combination with pension liabilities, represent a serious threat to the District's long-term fiscal outlook; and (3) accomplishing the above goals within a severely constrained revenue outlook.

The concept behind the agreement is basic. The District currently provides retiree health benefits on the same terms as medical benefits to active members. In general, in both cases, the District pays up to 100% of the Kaiser Northern California "family" rate, minus a $125/month contribution by the active or retired individual. While the amount the District pays for active employees is roughly in the range of many other jurisdictions, the amount it pays for retiree health is far higher than most other jurisdictions. Under this agreement, for the first time, active and retiree medical will be "decoupled." The District will pay 90% of the applicable Kaiser rate (single, plus one, or family) through a section 125 "cafeteria" plan. The creation of the cafeteria plan will enable the District to pay a different amount for retirees. Under this agreement, the District will initially pay 90% of the applicable Kaiser rate for retirees, however, the amount of the payment will be frozen at the 2020 dollar level. The rate will also be "vested" at that level, meaning that the retiree rate will remain the same for both current retirees and current active employees when they retire, absent extraordinary circumstances.

While this may seem like a small change, it reduces the District's OPEB liability; the District's actuary estimates that it will cut the District's OPEB liability nearly in half. This is because a central cost element when valuing OPEB liability is the medical inflation assumption. By freezing the rate at the 90% of the 2020 dollar level, the anticipated future increases in health care costs are limited to current costs. In concrete terms, freezing the retiree medical at the 2020 dollar level reduces the ADC (Actuarially Determined Contribution) from $303,615 annually to $151,470 annually. This equates to roughly 10% of payroll, including pension costs.

In addition, this agreement reduces retiree medical benefits for new employees to the "PEMHCA" minimum (Public Employees Medical and Hospital Care Act) – the lowest amount that CalPERS will permit the District to pay. The PEMHCA minimum for 2020 is $139/month. The minimum amount increases by the rate of inflation each year. This does not result in an immediate savings to the District, but will result in substantial future savings.

The MOU reprograms some of the savings from the reduction in OPEB liability into wage increases. The wage increase effective October 31, 2019 will be 8%. Although the KPOA has been out of contract for almost a year, there will be no retroactivity. There will, however, be a $2,500 one-time lump sum bonus for each employee in lieu of retroactivity. The wage increases on July 1, 2020 and July 1, 2021 are 4% and 3% respectively.

The MOU also attains some additional savings by increasing the employees' contribution to their PERS pensions to the full 9% employee contribution contemplated by PERL over the life of the agreement. Employees currently pay 5%. This only affects "Classic" employees; PEPRA employees are required by statute to pay 50% of normal cost, currently higher than 9%.

The MOU also permits the District to use retired annuitants on a limited basis – flexibility the Board has long-sought in case of critical staffing shortages.

On the other side of the coin, the MOU has some small additional costs including raising the stipend for the advanced POST certificate from 7.5% to 10% (currently affects two officers), adding a one-time clothing allowance of $1,000 for new officers, and increasing minimum call-out time from three to four hours.

Based upon Bill Zenoni's estimates, staff believes the MOU will result in net savings over the first two years, and add about 3% of total payroll (including benefits) in the final year. This MOU will not bring salaries up to market, but is a significant step in the right direction. In addition, capping the District's OPEB liability is a very positive step for the District's long-term outlook. It should be noted that the tentative agreement is contingent on approval by the Board of Directors at the Dec. 12, 2019 meeting.