

BUFFALO FISCAL STABILITY AUTHORITY

Analysis of the Proposed Labor Agreement between the City of Buffalo and the International Brotherhood of Teamsters Local 264-Water Enterprise Fund

Introduction

The City of Buffalo (the “City”) has negotiated a proposed Memorandum of Agreement (“MOA”) with the International Brotherhood of Teamsters Local 264 (“264T”), representing caulkers employed by the Water Fund and reported within Water Enterprise Fund. The proposed MOA would be effective through June 30, 2022, and replaces the labor agreement that expired June 30, 2017. The MOA impacts the employees covered by the titles of Caulker, Machine Operator as well as Caulker Supervisor I.

As the employees covered by the MOA are employed by the Water Enterprise Fund, all associated expenses are paid for by water rates assessed by the Water Authority. There is no impact on the City’s General Fund.

The members of Local 264T ratified the proposed MOA on July 19, 2017 by a vote of 21 to 5. There are currently thirty-two active members covered by the MOA as of August 22, 2017.

This item will be forwarded to the Buffalo Common Council (the “Common Council”) for consideration for approval following review and comments by the Buffalo Fiscal Stability.

Summary of Key Contract Provisions

Local 264T—Caulkers

A side-by-side comparison of this proposed MOA against the previous collective bargaining agreement which expired June 30, 2017, the approved labor agreement with the American Federation of State, County and Municipal Employees (“AFSCME”), AFL-CIO, Local 264 (“Local 264”), representing blue-collar employees employed by the City and the recently expired labor agreement between the Buffalo Urban Renewal Agency and the Civil Service Employees’ Association, Local 815, has been provided as Appendix A.

The caulkers are in the non-uniform class of employees and are responsible for providing maintenance and repairs to the City’s water distribution system. The City has budgeted thirty-seven positions in the current fiscal year of which thirty-two were filled as of August 22, 2017, representing a vacancy rate of 13.5 percent. The City has maintained the level of thirty-seven budgeted positions over the course of the 2018-2021 Financial Plan.

Budgeted positions that are impacted by the proposed MOA are as follows:

- Six (6) Caulker Supervisor I;
- Thirty (30) Caulkers;
- One (1) Machine Operator.

There are currently two salary tiers based on an employee’s hire date for these aforementioned positions. Those hired prior to July 1, 2013 are currently on a five-step salary grade and those hired after July 1, 2013 are on a seven-step salary grade. Step increases are attained annually. All new hires start on the first step and at the individual’s second anniversary of his or her date of hire, he or she will advance to Step 2 and will continue to move up one step annually on the anniversary date until he or she reaches the top step, Step 7.

Salary Increases

The salary schedules are adjusted as of July 1, 2017 for all current members. Members who have retired, resigned, or were otherwise summarily dismissed from City employment between July 1, 2017 and the ratification of the contract will not receive retroactive compensation.

The following summarizes the salary increases associated with the proposed MOA:

| Salary Increases | | | |
|----------------------------|-----------------|---------------------------------|-----------------------------|
| Effective Date | Increase | Top Step | |
| | | Caulker/Machine Operator | Caulker Supervisor I |
| As of June 30, 2017 | | \$46,024 | \$53,154 |
| July 1, 2017-June 30, 2018 | 2% | \$46,944 | \$54,217 |
| July 1, 2018-June 30, 2019 | 2% | \$47,883 | \$55,301 |
| July 1, 2019-June 30, 2020 | 2% | \$48,841 | \$56,407 |
| July 1, 2020-June 30, 2021 | 2% | \$49,818 | \$57,536 |
| July 1, 2021-June 30, 2022 | 3% | \$51,312 | \$59,262 |

As noted above, the proposed MOA includes annual 2 percent increases from July 1, 2017 through July 1, 2020 and a 3 percent increase on July 1, 2021, with increases provided on July 1 of each fiscal year. The increase in the top step between June 30, 2017 to July 1, 2021 is \$5,288 (11.5%) for Caulkers and Machine Operators and \$6,108 (11.5%) for Caulker Supervisors I. The average annual increase for the five-year period from June 30, 2017 through June 30, 2022 is 2.2 percent.

Health Insurance

The following is a summary of the healthcare provision changes in the proposed MOA.

The following provision only applies to those hired on or after July 1, 2013 since those hired prior to July 1, 2013 do not contribute towards health insurance. Those members who currently contribute towards the cost of health insurance may elect to freeze their annual contribution rate increase. For employees with one to two years of service that choose to freeze their annual contribution rate increase, that member shall give up one personal leave day. Employees with more than two years of service that choose to freeze their rate increase shall give up two personal leave days. Currently those hired after July 1, 2013 contribute 15% for family coverage and 25% for single coverage.

All other health insurance provisions remain unchanged for active employees.

Local 264T members have not agreed to participate in the City's self-insured plan, however they have not grieved the practice to date and the City has moved forward with the self-insured plan and self-insured prescription drug plan.

The City is currently self-insured for both medical and prescription drug benefits. Current members of Local 264T hired prior to July 1, 2013 have the option of enrolling in either the POS 201 plan or POS 204 plan. Those hired after July 1, 2013 have the option to enroll in only the POS 204 plan. The 2017-18 rates for each of the plans, including the allocated costs for the self-insured prescription drug plan, are as follows:

1. POS 201 Plan (\$6,024 – single; \$16,203 – family);
2. POS 204 Plan (\$5,899 – single; \$15,865 – family).

The cost of the health insurance plans *only* are:

1. POS 201 Plan (\$4,529 – single; \$12,182 – family);
2. POS 204 Plan (\$4,404 – single; \$11,847 – family).

The actual premium increase for 2017-18 is 2.3 percent compared to 2016-17, which is driven by prescription drug increases since the medical rate was held flat on a year-to-year basis.

The self-insured equivalent cost for the prescription drug benefit is \$1,495 for single coverage and \$4,021 for family coverage.

Using current premium rates, an employee's contribution would be \$1,475 annually for single coverage or \$2,380 annually for family coverage.

New Plan

Per the previous MOA the City and Local 264T had agreed to meet and negotiate a new health insurance plan with a lower premium cost than either the POS 201 and the POS 204 health plans. The new plan was to be an option in which employees may enroll. Parties had agreed to include the new plan into the CBA by January 1, 2014, which did not occur. The proposed MOA is silent regarding this provision.

Retired Employees

The City will no longer provide retiree healthcare coverage for any Local 264T employees hired after ratification of this contract.

All other employees hired prior to the ratification of the current contract, upon retirement, until death, shall receive the plan they selected at the time of retirement. The City will provide employees with a health insurance open enrollment period prior to their retirement, at which time the employee will have the option of selecting any healthcare plan available to them.

Upon the death of the retiree, the surviving spouse is permitted to participate in the City's healthcare plan and must pay 100 percent of the premium. This benefit only applies to an individual who was the spouse of the retiree on the day of the employee's retirement.

All employees at time of retirement will be required to participate in a separate individual agreement between themselves and the City, in regards to health insurance coverage during retirement. To qualify for health insurance in retirement an employee hired prior to July 1, 2013 must have:

- been an employee for at least ten years of continuous service, and;
- retire from the NYS Employee Retirement System and be receiving pension payments immediately following the employee’s retirement from City service.

To qualify for health insurance in retirement an employee hired after July 1, 2013 must have:

- been an employee for at least twenty years of continuous service, or;
- have at least fifteen years of continuous service and pay an additional 10% of the premium costs, or;
- have at least ten years of continuous service and pay an additional 20% of the premium costs.

All employees hired on or after July 1, 2013 and prior to ratification of the current MOA and who retire from City service shall continue to pay a minimum of fifteen percent of the premium cost for family coverage and twenty-five percent of the premium cost for single coverage for whichever plan they select.

| <u>Years of Service</u> | <u>Employee Contribution</u> | | |
|------------------------------------|---------------------------------|---------------------------------|------------------------------------|
| | <u>Prior</u> <u>7/1/2013</u> | <u>After</u> <u>7/1/2013</u> | <u>Post</u> <u>Ratification</u> |
| 20+ years of service | | | |
| Family Coverage | 0% | 15% | Not available |
| Single Coverage | 0% | 25% | Not available |
| >15 and < 20 years of service | | | |
| Family Coverage | 0% | 25% | Not available |
| Single Coverage | 0% | 35% | Not available |
| >10 and < 15 years of service | | | |
| Family Coverage | 0% | 35% | Not available |
| Single Coverage | 0% | 45% | Not available |
| < 10 years of service | | | |
| No coverage at retirement provided | | | |

All retirees and spouses upon becoming eligible for Medicare may have as their retirement health plan a senior health plan that will provide benefits equal or greater than the benefits provided by their current retirement health plan. Retirees shall enroll and pay for Medicare Part B when eligible.

Retirees who qualify for health insurance and then move from the coverage area on a permanent basis are allowed to acquire health insurance through an available HMO; the City will pay the same amount that would have been paid on an annual basis.

Summary of Other Contract Provisions

The following contract provisions are deemed to have a less significant financial impact or reflect managerial efficiencies.

Standby Schedule

There is one modification to the standby shift that will impact all employees including both current employees and new hires, the department's standby shift is modified as follows:

The amount of compensation a caulker receives when assigned to be on emergency stand-by shall increase from \$25 to \$100 for each week the employee is so assigned.

Litigation and Grievances

The proposed MOA discontinues all currently pending lawsuits and the NYS Public Employees Relations Board ("PERB") charges. Currently, there are no outstanding grievances or pending litigation.

Discipline and Discharge

There are two modifications to the amount of time that an employee may be suspended without pay, due to disciplinary matters.

In disciplinary actions involving infractions alleging criminal conduct, there shall be no limitations in the amount of suspension without pay prior to the case being litigated through the parties agreed upon disciplinary procedure.

In disciplinary actions not involving allegations of criminal conduct, the person against whom charges have been preferred may be suspended without pay for a period not to exceed thirty days pending the hearing and determination of the disciplinary charges.

Timekeeping System

The City reserves the right to implement a timekeeping system. Members shall be required to use the system for signing in and out of work, lunch breaks and any other current sign in and out policy.

Financial Impact

Following is a summary of the expected costs associated with the terms of the proposed MOA:

| Local 264T | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | Total |
|---------------------------------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| | 2% | 2% | 2% | 2% | 3% | |
| Salary Increase | \$ 39,983 | \$ 80,766 | \$ 122,365 | \$ 164,795 | \$ 229,714 | \$ 637,623 |
| Increase for Stand-by Schedule | 7,800 | 7,800 | 7,800 | 7,800 | 7,800 | 39,000 |
| | 47,783 | 88,566 | 130,165 | 172,595 | 237,514 | 676,623 |
| Employer payroll taxes-7.65% | 3,655 | 6,775 | 9,958 | 13,204 | 18,170 | 51,762 |
| Pension 15.2% | 7,263 | 13,462 | 19,785 | 26,234 | 36,102 | 102,847 |
| | \$58,702 | \$108,804 | \$159,907 | \$212,033 | \$291,786 | \$831,232 |

Total Gross Costs in the 2017-18 Adopted Budget

As previously noted the proposed MOA includes an increase in employee compensation of 2% annually, effective July 1, 2017 through July 1, 2020 and a 3% increase effective July 1, 2021. The City’s payments to the New York State Employees Retirement System (“NYSERS”) and employer payroll taxes combined are estimated to be approximately 22.9% of the salary increases.

Total costs of this contract are as follows:

Current year amount (2017-18) = \$58,700
 Prospective costs (2019 – 2021) = \$772,500
 Total costs = \$831,200

Premium costs have been relatively flat the past three years. With respect to the provision allowing union members to freeze contribution amounts towards healthcare, health insurance would need to increase annually between estimated rates of 12.2%-14.1% for single coverage and 7.5%-8.7% for family coverage for employees during their first two years of employment who would forfeit one personal leave day before there would be an incremental cost to the City. For employees with two or more years of service who would forfeit two personal days, health insurance rates would have to increase an estimated 24.5%-28.3% for single coverage and 15.1%-17.4% for family coverage before there would be an incremental cost to the City. The City projects health insurance costs to increase 3% in FY 2019 and 5% in FY 2020 and 2021.

Net Cost and Related Funding within the Financial Plan

Current fiscal year expenses are expected to increase by approximately \$58,700. The City had budgeted an increase of 2% in each year of the current financial plan and adequate resources have been budgeted for in the current fiscal year as well as each additional year of the financial plan. In addition, there are current vacancies that if maintained would be sufficient to cover the projected cost increases.

The total future costs in the remaining three out years of the financial plan are approximately \$772,500. These prospective costs have been fully funded within the financial plan; if needed management could fund the salary increase through vacancies, then drawing on available fund balance and if necessary increasing water rates. Management does not believe that they will need to raise water rates in the short-term due to the budgeted resources, historic vacancies within the fund as well as the available fund balance.

Funding of Net Costs

As previously noted, the Water Enterprise Fund is supported by revenue raised from water rates; there is no support from the General Fund to support operations or employee costs and benefits. The unrestricted net position of the City's Water Board at June 30, 2016 is \$28.9 million.

Other Postemployment Benefits Impact ("OPEB")

There is no impact on OPEB at this time, since the terms of the previous contract would have been included in the last full valuation as of July 1, 2014. Future savings towards the OPEB costs will occur as new employees are hired as they are not eligible to receive health insurance in retirement.

As of June 30, 2016, the Water Enterprise Fund interim valuation was estimated at \$32.6 million, all of which is unfunded. The Water Enterprise Fund is liable for funding all OPEB costs associated with 264T employees.

Recommendations and Conclusions

The incremental costs associated with this contract have been budgeted for in the current fiscal year and are provided for within the 2018-2021 Financial Plan of the Water Fund. The majority of Water Enterprise Fund expenses are paid from revenues generated from water rates as established by the Water Authority.

Based on the results of the financial analysis, BFSa has made the following conclusions:

- The MOA which extends one-year beyond the current financial plan provides the City with some predictability of where the caulker's employee costs will be over the next few years.

- There are healthcare savings in this MOA resulting from the elimination of retiree health insurance for new hires. There are no short-term savings with the full impact of the savings materializing 25-30 years later when the employee retires.
- The ability to freeze health insurance increases in exchange for a personal leave day is a unique proposal that was provided as a mechanism to manage contributions for employees. It should not be extended to other employee groups without evaluating the potential financial impact. Health insurance would need to increase at rates of 12.2%-14.1% for single coverage and 7.5%-8.7% for family coverage before there would be an incremental cost to the City of Buffalo for employees in their first two years of service. For employees with three plus years of service health insurance rates would have to increase at 24.5%-28.3% for single coverage and 15.1%-17.4% for family coverage.
- It is recommended that the City compile a single comprehensive Collective Bargaining Agreement with Local 264T, reflective of the current terms.