MEMORANDUM

Date: July 1, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **SEIU June 28, 2016 Communication Regarding Fiscal Year 2016/17 Employee Compensation**

Based on the communication from SEIU, if the Board of Supervisors were to disregard Paragraphs A, B and C and provide a two percent pay increase for intermittent staff, the cumulative recurring lost revenue or additional expense of such would be $1.9 million. In order to balance the pay increase with the funds available – both recurring and one-time – such could be accomplished by adjusting the compensation percentages downward as shown in the table below.

Salaries	Original Recommendation	Recommendation Deleting A, B and C Cost Savings
$35,000 and below	6.0%	5.0%
$35,0001 to $55,000	5.0%	4.0%
$55,001 to $90,000	3.5%	2.5%
$90,001 and above	2.0%	1.0%

SEIU states they will *"...discuss additional options and cost saving measures for the long term funding of employee compensation needs."* The difference between the original and the SEIU proposals can be provided as additional compensation once $1.9 million of recurring revenues have been identified.

As I have stated previously, Pima County's benefits are among the best of local governments or the state. This is substantiated by a United States Department of Labor report that indicates state and local governments provide 64 percent of employee compensation costs in the form of wages and salaries and 36 percent in the form of benefits. For Pima County, in Calendar Year 2015, our compensation breaks down to 57 percent in the form of wages and salaries and 43 percent in benefits. Pima County currently provides more of its compensation in the form of benefits than the average state or local government.

SEIU expresses some concern regarding funding components A and B because they create separate classes of employees; however, the reality is we have different classes of employees, i.e., compensation for Sheriff's law enforcement and corrections personnel versus all other employees. Frankly, we always have classes of employees, since any employee who joins the County in a particular job classification usually is paid less than other employees of the County who may be working in the same job classification.

The proposal for sharing future health insurance costs stresses the word "future" whereas the shared cost can certainly be modified and would be revisited and discussed separately when we have the results of an actuarial review of our actual health insurance costs will be for Fiscal Year 2017/18.

If the Board wishes to alter the compensation proposal in accordance with the June 28, 2016 communication from SEIU, the salary increases in the table above would accommodate their request.

CHH/mjk

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Allyn Bulzomi, Director, Human Resources
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

June 28, 2016

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To: The Honorable Chair and Members, Pima County Board of Supervisors

From: Art Mendoza, President, SEIU Arizona Local 48

Re: Fiscal Year 2016/17 Employee Compensation

After reviewing the County Administrator's recommendation regarding employee compensation for the next fiscal year, SEIU Arizona – representing a majority of Pima County employees – supports pieces of the recommendation, including the overall raise structure, however we strongly oppose the Administrator's plan to diminish employee benefits, create a two tiered employee benefit hierarchy and to offset the real wage growth by imposing significant new health care costs on County employees. These changes to employee benefits will undo the shared goal of providing real wage growth and will disproportionately impact the lowest-paid County employees. SEIU strongly believes there are other ways to fund the $1.7 million dollars these measures are estimated to save that will not fall so heavily on the backs of the lowest-paid employees. Changes to County benefits have an appropriate process where they should be considered, either at Meet and Confer or through the HIBWAC committee. SEIU members also stand willing to discuss additional options and cost saving measures for the long term funding of employee compensation needs.

Employee Compensation

The compensation plan recommended by the County Administrator for "[a]ll eligible County employees, including civilians employed in the Pima County Sheriff's Department" fits with our union's priorities to provide an impactful wage adjustment to address the consequences of recent wage stagnation and to focus relief on the lower earners most impacted by the recession. The County Administrator's recommendation of 6 percent for employees earning $35,000 or less per year; 5 percent for employees earning between $35,001 and $55,000 per year; 3.5 percent for employees earning between $55,001 and $90,000 per year; and 2 percent for employees earning over $90,001 per year will accomplish both of these goals and is supported by our union.

In order to assure intermittent staff are considered and that wage scales reflect the increase in cost of living, SEIU recommends all wage scales be adjusted 2% as part of the overall increase plan. In effect, all employees at the bottom of their pay scales, regardless of status, will receive a 2% increase and wage scales will move to take into account the rising cost of living – keeping County jobs competitive compared to the outside market.

Employee Health Insurance

Unfortunately, the County Administrator recommended changes to employee health insurance that, if enacted, would eliminate the real wage growth provided by these raises and disproportionately impact the lowest earners in the County, contradicting the second fundamental concept the County Administrator outlined behind his raise recommendation. The County Administrator has recommended to **(A) eliminate employer health savings account contributions for new employees** (and replace employer contributions for current employees with a match program), **(B)** [implement a] **minimum health insurance premium contribution for new employees after January 2017**, and **(C) share health benefits cost in the future** (splitting costs 50%/50% between the County and employees despite a currently established split of roughly 88%/12%, see Exhibit I). SEIU strongly objects to these changes as outlined below.

A. Eliminate Employer Health Savings Account Contributions for New Employees.

This recommendation is highly objectionable as it would create two classes of County employees in regards to the benefits they receive. Conceivably, employees working beside each other, making similar wages, will incur drastically different health care costs. This would create a highly inequitable system with consequences that will include decreased employee morale and recruitment and retention issues.

Recommendation A also calls for re-evaluating County HSA contributions for current employees for future years, leaving employees to incur the full or greater cost of the high deductibles in their insurance plans. Reducing or eliminating the County's HSA contribution will increase employee costs tremendously and eat into the real income growth this raise set out to achieve. Eliminating or reducing the HSA contributions would also affirm the already prevalent sentiment among employees that the HSA contributions were only intended as a short term tactic to shift health care costs to employees. The High Deductible plan is reasonably affordable with the County's contribution, but without it, the plan is a low quality health care plan by most standards. Additionally, it is SEIU's position that the contribution levels and any proposed match program should be an item of discussion at either Meet and Confer or HIBWAC before they are decided upon.

B. Minimum Health Insurance Premium Contribution for New Employees After January 1, 2017.

The County Administrator argues that the County needs to return to a premium cost ratio of closer to 75%/25%, however what the County Administrator fails to consider is the fact that the 75%/25% premium splits were under health care plans far different the what is currently offered by the County. Premium costs under the former HMO and PPO insurance plans did have a higher employee contribution rate, however the new High Deductible Health Plan design reduces the overall premium costs by shifting the cost to the employee in the form of a higher deductible before the insurance kicks in and higher out pocket maximums. When considered in total, the premiums plus the deductible and out of pocket maximums, the current total cost on the employee is already above or around the 75%/25% split.

Exhibit I – Actual County/Employee Health Insurance Cost Ratio

	Current Ratio for Fiscal Year 2016/2017			
	Premium Only (Current)		Premium + Deductible and County HSA contribution	
Level of Coverage	Employee Ratio	County Ratio	Employee Ratio	County Ratio
EE	20%	80%	29%	71%
EE + Spouse	12%	88%	23%	77%
EE + Kids	12%	88%	23%	77%
EE + Family	11%	89%	20%	80%

*Exhibit II – Actual County/Employee Health Insurance Cost Ratio **if** County HSA Contributions Were Discontinued*

	Premium + Deductible **WITHOUT** County HSA contribution	
Level of Coverage	Employee Ratio	County Ratio
EE	44%	56%
EE + Spouse	36%	64%
EE + Kids	37%	63%
EE + Family	30%	70%

Also included in Recommendation B is again the plan to create two classes of County employees in regards to the cost they pay for their health insurance. New employees would pay approximately $260 ($10 per pay period) more for their insurance than current employees. With this increase in premium costs the County insurance plan would be toeing the line for affordability for the lower earners in the County – possibly violating standards in the Affordable Care Act and opening the County and enrollees to additional penalties. Additionally, implementing a two tiered system with higher rates for new employees and separate HSA contributions, may end up costing more than these changes would save, as the changes would likely need to be made to the ADP system at an unknown cost. Just as we opposed dividing employees in Recommendation A, SEIU strongly opposes dividing employees as outlined in Recommendation B.

C. Shared Health Benefit Cost in the Future

In this recommendation, the County Administrator argues that future increases to insurance costs should be shared 50%/50% by the County and employees. This shifts costs on employees disproportionately in future years. A 50%/50% share of all ongoing increases would have the effect of increasing the employees portion while decreasing the County's share with each increase to insurance costs. In order to maintain the agreed upon premium cost ratio, future increases to insurance costs should be shared according to that ratio (in this case approximately 88%/12%, see Exhibit I). If the County Administrator wants to adjust the ratio again after having increased the employee share last year, we should have the discussion at either Meet and Confer or HIBWAC. SEIU opposes recommendation C.

Other Recommendations
Many vital services the County provides are performed by intermittent employees, such as Library Pages, who under this plan will be excluded from any wage adjustment. SEIU requests the recommendation be amended to consider an increase to intermittent staff as well.

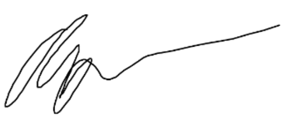
In regards to the other recommendations outlined in the Funding Components of the County Administrator's June 22, 2016 memorandum, SEIU supports many of the cost saving measures. Our union would even be willing to solicit additional cost saving ideas from employees to help find ways to help adequately fund an employee compensation plan.

In regards to requiring the responsible management official to certify their compliance with the budget savings measures in order to receive funding for this raise recommendation, SEIU opposes this inclusion if it will mean departments could deny implementing a pay raise by not certifying their compliance. All employees in the County need this raise to be implemented. The recommendation could make significant cuts and changes to employee health care regardless if the raise is implemented by a department, for this reason SEIU opposes this portion of the recommendation.

The County Administrator mentions in his memorandum that he has compared County benefits to other regional employers and claims County benefits are "perhaps the best of any regional employer in the public or private sector." SEIU respectfully requests the comparisons the Administrator made to support this claim.

Conclusion
The recommendation for employee raises, with the inclusion of intermittent staff as we propose, fits with our union's priorities to provide an impactful wage adjustment to address the consequences of recent wage stagnation and to focus relief on the lower earners most impacted by the recent recession. However, SEIU Arizona submits our strong opposition to the Administrator's recommendations A, B and C and urges the Board of Supervisors to reject these recommendations as part of the employee compensation package. Creating two classes of employees with separate benefit standards is fundamentally unfair and the additional health care cuts will disproportionately impact the lowest earners in the County. SEIU members stand willing to discuss additional options and cost saving measures to replace the $1.7 – $1.9 million dollars from the cuts recommended to health insurance benefits, including discussing employee health insurance at Meet and Confer and/or HIBWAC.

In Unity,



Art Mendoza
President
SEIU Arizona Local 48

c: Chuck H. Huckelberry, Pima County Administrator
Allyn Bulzomi, Pima County Human Resources Director