



**San Juan Water District Board of Directors
EMPLOYEE BENEFITS WORKSHOP – DECEMBER 14, 2010
Workshop Summary**

This summary was prepared by the facilitator from written notes taken during the workshop. The workshop was not recorded.

Table of Contents

- 1. Action Items..... 1
- 2. Opening Remarks and Presentation 1
- 3. Policy on PERS Employer Pickup of Member Contributions (EPMC) 2
- 4. Policy on Incentive Award Program..... 4
- 5. Policy on Employee Cost Sharing of Other Benefits (Health, Dental, Vision)..... 5
- 6. Salary Survey..... 5
- 7. Public Comment..... 6
- 8. Closing Remarks..... 8

1. Action Items

- 1. Staff to provide each director with a copy of the general manager’s presentation
- 2. Staff to clarify the percentage of total operations and maintenance costs devoted to wholesale and retail salaries and benefits
- 3. Staff to analyze how increasing salaries to offset Employer Paid Member Contributions would (1) increase the taxes for the salary earner and (2) affect the bottom-line of the District (e.g., payroll taxes)
- 4. Staff to clarify whether a salary increase granted for the purpose of offsetting Employer Paid Member Contributions would count as an exception under PERS limitations on new tiers.
- 5. Legal counsel to research the process by which union and non-union agencies have developed agreements to reduce Employer Paid Member Contributions
- 6. Staff to research who else has an incentive program and how common this is, both within the San Juan family of agencies and the Sacramento region, including other special districts as relevant
- 7. Staff to provide a list of all incentive awards provided in 2007, 2008, and 2009 according to job title, including the actual dollar amounts, percentage of the salaries and budget, and overall application (e.g., portion of staff which received an incentive award)

2. Opening Remarks and Presentation

San Juan Water District Board of Directors President Ted Costa opened the meeting and welcomed observers. Facilitator Dorian Fougères reviewed the agenda and ground rules. The Board accepted the white paper and recommendations of the Personnel Committee into the record.

General Manager Shauna Lorance presented background information on District goals, employee qualifications and accomplishments, retention metrics, employee benefits, their relation to the District's overall finances, the work of the Ad Hoc Retirement Committee between 2006 and 2008, and legal constraints related to changing benefits. Directors then asked a few questions of clarification.

ACTION ITEM: Staff to provide each director with a copy of the general manager's presentation

ACTION ITEM: Staff to clarify the percentage of total operations and maintenance costs devoted to wholesale and retail salaries and benefits

- Determining whether someone is operating above their pay grade and deserves an incentive award is partly a subjective decision.
- The District is currently in transition between employees who are in Tier 1 and Tier 2 PERS benefits, with 41 and 4 employees, respectively. Staff has not heard whether the second tier is "working" for employees, as the system is relatively new and hence the District and employees do not have a lot of experience with it. Key questions include whether the structure is changing the competitiveness of the District's employment opportunities, is saving the District money, and is affecting inter-employee relationships.
- Following the Ad Hoc Retirement Committee research, the Board implemented a payment cap for Tier 2 employee health benefits. In 2009 the Board decided to pay 100% of the cap. The Board can decide to pay less in the future.
- Litigation is ongoing in Orange County about whether PERS benefits changes are retroactive. The case will be heard in January 2011, and then a decision will be made within 90 days, although this can be appealed to the California Supreme Court and may take two to three years to resolve.
- "Other benefits" in the presentation refers to health, dental, and vision (not life/disability insurance, or the required payroll taxes and workers compensation insurance).

3. Policy on PERS Employer Pickup of Member Contributions (EPMC)

Facilitator Dorian Fougères spoke with Board Directors in preparation for the workshop and summarized the criteria that Directors felt were important when making decisions about employee benefits. These included:

1. Shared responsibility for PERS
2. Balance of short savings and long-term efficiencies
3. "Fair Compensation" in the market, including relative to comparable agencies
4. Public perceptions of District austerity when wholesale costs are increasing during a recession
5. Providing the lowest possible rates for customers
6. Transparency in procedures and decision-making
7. Parity across the San Juan family of agencies

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8. Cost savings across budgetary items (i.e., not all savings from salaries)
9. Maintenance of critical service
10. Timing of employee benefit changes in relation to other activities (e.g., 2011 infrastructure improvement projects, legal developments)
11. The legal soundness of any changes, including contractual rights
12. Short and long-term morale for both employees and the Board
13. Employee retention and loyalty
14. The trust of employees
15. Staying within the District's financial guidelines and budget
16. Employee capability and flexibility to get the job done
17. Financial stability of the district

The facilitator also noted that Directors had expressed the following desires: the Board should be cohesive and collegial, rather than hierarchical. The current discussions and decision-making criteria should provide a model for future employee benefit analyses. The Board should not repeat this work again. Directors needed to have a clear sense of their duties, and focus on the work and needs of the District, and not bring in their own professional, personal, and political interests. The facilitator noted that Directors did not agree about whether current finances warranted changing benefits, whether employees have foregone benefits in the past, and whether a salary survey could provide meaningful information, given the District's unique qualities.

Director Peterson then provided some summary remarks on behalf of the Personnel Committee. These included the Board's fiduciary responsibility, increasing public scrutiny of independent special districts, specific recommendations for benefit changes by the Sacramento Grand Jury, and the need to oversee budgets and address risks regardless of the District's financial conditions. Director Peterson suggested that the focus of the workshop was on compensation packages, rather than an evaluation of employee performance, and felt that the package of employee benefits did not reflect the financial stress facing people today.

Discussion followed. The discussions were not conclusive, yet helped to chart out the range of items that need further deliberation.

- The white paper's reference to the employer portion of PERS payments potentially increasing to 50% of salaries came from an analysis conducted by PERS actuaries, and was believed by the personnel committee to apply to all special districts in California.
- If Recommendation 1-B were selected (employees exchange a salary increase for a likewise reduction in EPMC), it remains unclear whether and which taxes would increase for the salary earner and the district, and whether this would ultimately save the District money.
 - **ACTION ITEM:** Staff to analyze how increasing salaries to offset Employer Paid Member Contributions would (1) increase the taxes for the salary earner and the district, and (2) ultimately save the District money
- Concern was expressed that employees would pay greater income tax while the District gained further pension obligations.

- **ACTION ITEM:** Staff to clarify whether a salary increase granted for the purpose of offsetting Employer Paid Member Contributions would count as an exception under PERS
- **ACTION ITEM:** Legal counsel to research the process by which union and non-union agencies have developed agreements to reduce Employer Paid Member Contributions
- Legal counsel explained that it was not clear whether employer contributions to PERS were considered vested benefits. The courts have not yet tested this.

4. Policy on Incentive Award Program

Directors discussed the second policy and Personnel Committee recommendations. The discussions were not conclusive, yet helped to chart out the range of items that need further deliberation.

- The Board should not give employees a reason to unionize because this would make it harder for the Board to guide the hiring, firing, and grievances of employees, and ensure the District's financial stability.
- Directors did not agree on value of the policy.
 - One felt that the policy should not be eliminated. Additional guidelines might help. Awards should be fairly distributed among management and staff. The Board has adequate oversight.
 - Another felt that the program was not a good practice and should be eliminated. The existing compensation package provides enough of an incentive.
 - Another preferred elimination but was open to the clarifications in Recommendation 2.
- It was clarified that Recommendation 2-d refers to the Board's policy 13010 relating to PERS, and not state policy.
- It was noted that the Incentive Award Program is in the employee manual, so new employees become aware of it whenever they obtain a copy of the manual.
- The Program is not a vested benefit.
- The policy does not clearly differentiate between merit pay and incentive awards. These also get confused with salary increases.
 - **ACTION ITEM:** Staff to research who else has an incentive program and how common this is, both within the San Juan family of agencies and the Sacramento region, including other special districts as relevant
 - **ACTION ITEM:** Staff to provide a list of all incentive awards provided in 2007, 2008, and 2009 according to job title, including the actual dollar amounts, percentage of the salaries and budget, and overall application (e.g., portion of staff which received an incentive award)

5. Policy on Employee Cost Sharing of Other Benefits (Health, Dental, Vision)

Directors discussed the third policy and Personnel Committee recommendations. The discussions were not conclusive, yet helped to chart out the range of items that need further deliberation.

- The state PERS system is changing, hence it was suggested that the Board wait one or two years before working on this policy.
- The Personnel Committee compared ACWA's Health Benefits Authority programs with PERS programs and found them comparable. The recommendations hence apply to any plans.
- The Board established a second tier cap on employer payment of health insurance premiums but so far has not used this to limit its payments.
- Concern was expressed that not enough is known about dental plans, and these should be better researched before making a decision to go with the lowest-cost options.
 - It was noted that currently the District offers only one plan, so "lowest cost" would only apply to future plans.
 - It was felt that this makes the terms "lowest cost" irrelevant.
- Strong concern was expressed about calling for the "lowest cost" plan when there was no actual information on the different plan options.
- It was suggested to cap and limit the contributions on all plans, and after a transition period of one or two years make the cap permanent.
- Legal counsel clarified that these benefits were not vested and the Board could change them.
- Changes could be implemented quickly depending on the established payment schedule (the plans might be paid a few months in advance). Open enrollment, when employees can change insurance plans, is held in September of each year, and implemented the following July.

6. Salary Survey

Directors discussed Personnel Committee recommendations on a salary survey. The discussions were not conclusive, yet helped to chart out the range of items that need further deliberation.

- The Directors agreed that the unique positions in the District, and its dual function as a wholesaler and retailer, make it hard to compare salaries with other districts.
 - Two Directors therefore felt that a survey should not be conducted. One suggested leaving this to the General Manager's discretion, given their intimate knowledge of employee duties.
 - Two other Directors felt the District had the responsibility to periodically conduct a survey.

- It was agreed that if a survey were conducted, careful effort must be made to describe the different tasks associated with a particular title and hence ensure that any comparison was meaningful rather than simply nominal.
- Directors agreed that neutral data gathering was important, but did not agree on who in practice should conduct a survey.
 - The survey could be kept in-house and either:
 - 1. Led by the District's General Manager and coordinated with input from other agencies in the San Juan family
 - 2. Led by another General Manager within the San Juan family, as proposed in the Personnel Committee's recommendations.
 - Any survey conducted in-house could create a possible conflict of interest because the person gathering data would be including information about themselves.
 - Concern was expressed about how the public might perceive an in-house survey led by San Juan Water District's General Manager.
 - The survey could be conducted by an outside consultant.
- In terms of costs, the Personnel Committee reiterated that the survey could build on existing Citrus Heights Water District survey, hence saving money.
- Directors did not agree on the geographic scope of the survey, and made the following suggestions:
 - The unique positions in the District required the survey to extend outside the immediate family.
 - The survey should also extend beyond the immediate Sacramento region.
 - State-certified positions are comparable, and hence for these positions the survey should be statewide. It would remain important to identify areas that were financially comparable in a meaningful way (e.g., the costs in Beverly Hills might not be appropriate for comparison), and/or include cost of living adjustments in the comparison.
 - The survey could extend nationally. Concern was raised that the different benefit systems and insurance policies of other states would undermine the value of such a geographically broad comparison.
- Directors agreed that they would retain the responsibility and authority to interpret the data and establish any salaries.

7. Public Comment

Members of the public provided comments twice during the workshop. Several people provided written copies of their statements. All comments are summarized at a high level in this section.

- Rick Hydrick, San Juan Water District, suggested that the future of water treatment and distribution would require greater precision and detail, as well as complex emergency response protocols. Staff have implemented numerous cutting-edge, complex tasks, and have made the district a recognized leader. The camaraderie, culture, and passion that

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make this possible depend on competitive benefits and incentives. Mr. Hydrick provided a written copy of his statement to the board.

- Tom Gray, Fair Oaks Water District (FOWD), noted that differences between the benefit packages between the San Juan family agencies have reciprocal effects on the other agencies. He acknowledged that San Juan Water District has highly skilled employees, and noted that the other family agencies do as well; San Juan Water District is not unique in that regard. He pointed out that SJWD's high retention statistics are due to its lucrative compensation package. The family agencies pay for San Juan Water District's compensation plan while accepting a lower plan for their own employees. FOWD is willing to help with a salary survey. The Board should clarify the rationale behind its 3% at 60 policy, when the standard is 2% at 55. Lastly, the Department of Public Health requires all districts to have certified operators on call, so characterizing someone as operating out of their class is technically inaccurate.
- Tom McClure, San Juan Water District, described his history with the District and how it had transitioned from a place with high turnover and unhappiness, to a place with substantial benefits and high professionalism. Employees chose to forego many perks and benefits along the way to the current system.
- Lianne Peterson, member of the public and ratepayer, suggested that all industries are facing economic hardship, and other companies have withheld raises and bonuses for a number of years, and do not provide similar benefits. In this economic climate, the District and its employees are not conveying a sense of urgency with regard to employee contributions to PERS.
- Daniel Gilliam, Fair Oaks Water District, suggested that employees need to have skin in the game when it comes to employee contributions to PERS. He echoed Tom Gray's comment that both SJWD and FOWD have great employees.
- Keith Durkin, San Juan Water District, suggested that the District was ahead of the curve because of its earlier attention to employee benefits. He understood the condition of the economy, but did not feel this justified changes to employee benefits. The Personnel Committee's white paper makes several broad statements that do not provide an accurate or complete picture to customers: PERS rates have fluctuated up and down, most water agencies do pay a portion of EPMC, and EPMC is factored into the District's total compensation. Some language is inflammatory. Mr. Durkin read from a prepared statement, and did not provide a copy of this to the board.
- Mary Morris, San Juan Water District, explained how the District has built a lean yet effective and flexible workforce, and positive workplace atmosphere. Employees have won awards and caused capital improvement plan savings. The board should use care in comparing employees through a salary survey. A union environment increases district costs (for example, negotiator fees of \$40,000 to \$50,000). If employee health insurance contributions were changed, open enrollment still only begins in September or October and becomes effective July 1.
- Greg Turner, San Juan Water District, suggested that the Board needs to clarify where it wants employee salaries to fall within the range of possible values. This is essential for a meaningful analysis and policy. The desired values had changed over time.

- Tom Gray, Fair Oaks Water District, noted that his Board supported building on the Citrus Heights Water District salary survey because hiring an outside consultant was expensive. The Boards would then interpret the data and provide direction on salaries. Also all agencies in the San Juan family demand the highest performance from their staff.
- Jeannette Roberts, member of the public and ratepayer, agreed with the recommendations of the Personnel Committee, and noted that the San Juan Water District did not want to imitate the City of Bell. The Board had a responsibility to modify employee benefits when this was possible, like during the current recession, rather than waiting until times improved.
- Tom McClure, San Juan Water District, noted that cost of living adjustments were not provided every year.
- Gretchen Bullock, San Juan Water District, suggested that the camaraderie and work ethic at the District is substantial, compared with her experience in a union agency. The District stayed slim during the financial boom, so changing benefits now when the District is in good financial shape makes employees feel penalized rather than rewarded for the extra efforts not to increase the number of employees during the busy years. Employees have made several tradeoffs over the years.

8. Closing Remarks

Director Ken Miller thanked members of the audience for their contributions, and emphasized that the Board is aware of and deeply appreciates the exceptional performance and culture of employees. Board President Costa similarly thanked observers and closed the meeting.