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Despite Tough Economic Times, City Pay Raises Continue

Long Beach Union Contracts Call For $6.3 Million In Increases During New Fiscal Year Beginning October 1

$100,000 Club Adds New Members; 22.5 Percent Of City Workers Paid $90K-Plus

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Publisher's Perspective

Preparing a city's annual budget in today's climate full of economic uncertainties and political shenanigans, is like playing pub darts with the other hand: you seldom come close to hitting the target.

How do you project retail sales revenue when consumer confidence is all over the map, businesses are closing and the unemployment rate remains high?

How do you eliminate blight and bring in new business when you have a state legislature that is naive to the benefits of redevelopment?

How do you gauge the price of oil when it climbs to $115 a barrel and three months later it's in the mid-$80 range? Will it drop another $30 per barrel in the next three months or hit $130?

The unknowns are plentiful and probably lead to many sleepless nights for budget managers, department heads and others responsible for delivering services to citizens while keeping the city on sound financial footing.

There is one certainty, though, that comes with each year's Long Beach city budget, no matter how tough it is for everyone else to make ends meet: pay increases.

Whether it's referred to as a step increase, a cost of living increase, a negotiated increase or a merit increase, the fact is, if a city employee in the same position is being paid more today than a year ago, bottom line, he or she got a pay raise.

How can Long Beach elected officials look at residents who are unemployed, losing their home, or forced to use food stamps and tell them, "We handed out pay raises to 800 city employees in the past 12 months."

While cities throughout the country are on the edge of bankruptcy, chopping services and laying off employees in huge numbers, Long Beach is giving pay raises. And it doesn't stop. In the new fiscal year beginning October 1, another $6.3 million in pay raises are scheduled for Long Beach city employees.

Don't blame the city manager because he has little control over salaries. The ones he does control have pretty much been frozen the past three years.

Don't blame union leaders, either. It's their job to represent their members and to fight for the best package and highest pay possible.

Don't blame the taxpayers of Long Beach who are picking up the tab because they don't get a vote, and if they did, you know there would be zero increases.

The blame falls squarely on the shoulders of the nine city councilmembers. They are the ones who get to vote on union contracts that outline compensation, or on salary resolutions that detail step increases.

Before we go any further, we should stress that these observations have nothing to do with whether employees "deserve" a particular level of compensation, but have everything to do with can we "afford" the increases. Let's call it "fair and affordable" pay. The city has had to trim many, many services and benefits for the public due to rising employee costs. Libraries, youth and senior programs, parks and recreation programs, street and sidewalk repairs are but a few examples, while concurrently increasing fees for services. All because councilmembers have allowed employees to dictate the playing field.

Step Increases

Several months ago during an interview with the Business Journal, 3rd District Councilmember Gary DeLong said he'd like to get rid of step increases. He's right. These "steps" are where most of the higher pay is coming, and it's nearly automatic unless the employee is really doing a bad job (there's a review before each step increase is given, but it's pretty much a done deal).

Here's how it works. When you start a job at the city, you usually come in at step one. In six months you go to step 2 and receive a 5 percent-plus pay increase. Six months later you're at step 3 and receive another 5 percent-plus increase, and six months after that you're at step 4 and get another 5 percent-plus increase. The next three step increases are annual, each at 5 percent-plus.

So, let's say John Doe starts with the city on January 1, 2011, at a petroleum engineer I classification (taken from October 1, 2010 Salary Schedule). His starting base salary is $7,092 a month. On July 1, 2011, he gets an increase to $7,447. On January 1, 2012, he's goes to step 3 at $7,881 per month. Six months later, he is at step 4 and his base salary is $8,286.

In just 18 months, John Doe goes from a salary of $85,104 to $99,432 – a nearly 17 percent increase. This huge jump in pay isn't for being an exceptional employee, just be average. Incredible, isn't it? This is all done with the blessing of the city council.

And don't forget, as an employee's base pay increases, so does the taxpayer contribution to that employee's retirement plan.

Pay increases don't stop with "steps." That's where the unions come in with their compensation proposals that include items such as "skill pay" that are added to the base salary. This can be considerable money. Police officers, for example, receive the following (taken from the 2009-2014 memorandum of understanding): $175 per month if they earned an AA degree, $350 a month for a bachelors and $450 a month for a masters; bilingual pay of 80¢ an hour; $350 per month if a member of the port security unit; $300 per month for detective pay; $350 per month for motor officers; marksmanship pay that ranges from $4 a month for marksman to $32 for master; etc.

Get Me To The "Median"

But there's more, especially with the public safety unions. It's called "median pay."

The cry of union leaders when negotiating contracts for their members has been: "Get us to the median salary of comparable cities." These are words they live by and we would not be surprised if they're tattooed on their body.

Many years ago, police and fire unions in California figured out the best way to get pay raises for their members was to begin comparing salaries among cities. So they came up with a list of "comparable cities" that usually went along with population, size of force, location, etc. Sometimes an entire county was included.

One list of comparable cities used by Long Beach includes: Anaheim, Glendale, Huntington Beach, Irvine, Newport Beach, Redondo Beach, Santa Ana, Santa Monica and Torrance.

One of those cities always has to be at the bottom of the compensation scale. Let's say it's Long Beach. So union leaders show councilmembers how they are paid less than the comparable cities and tell them, "We don't need to be the best paid, but get us to the median." It's a great line because to councilmembers the union doesn't appear greedy, just reasonable. So now Long Beach moves from last to say 5th on the list. Let's say Torrance drops to 10th place. So now, union leaders in Torrance go to their councilmembers and make the same pitch. And it works. This leapfrogging continues on an ongoing basis, pushing salaries higher and higher. This system also works for specific positions within the union, such as fire department battalion chiefs, who have experienced huge pay increases in Long Beach the past several years.

It's not just public safety unions who have used this technique, but they have been the most aggressive and successful.

Union leaders, such as the police officer's Steve James and fire's Rich Brandt, are good at what they do, and that is, take care of their members and get the best compensation package possible. They're also smart pitchmen, and probably attended Zig Ziglar or Anthony Robbins motivational sales presentations to learn how to deal with elected officials. In fact, it's the unions, not councilmembers, that have always set the budget agenda.

There is nothing wrong with police officers, firefighters, petroleum engineers, management personnel or any other city employee receiving higher compensation. What councilmembers need to start doing is asking: Is it fair and affordable?

One of the problems created by councilmembers in approving recent memorandums of understanding with the city's nine unions, is the length of the agreements. Five of the nine groups have contracts that extend five or six years. That really has tied the city's hands, especially during bad economic times when revenue generation is iffy. According to City Manager Pat West, the city from now on will prepare a three-year budget outlook to get a better handle on future revenue and expenses. Councilmembers would do well to limit union contracts to three years as well.

The "$100,000 Club"

Certainly, a $100,000 in base salary isn't what it used to be when the Business Journal started the "$100,000 Club" back in the 1990s. But it's still an excellent salary and well above the average.

The first listing, we believe, had 32 positions. Today it's 593. Today, 11.4 percent of all city employees are "club" members. If we add the 573 employees making between $90,000 to $99,999, then 22.5 percent of all city employees are at a base salary of $90,000 or more. A total of 751 of the 1,166 (64 percent) employees earning $90,000 or more are with the police or fire department.

In addition to the base salary, we the taxpayers are paying most of the health benefits (average of $850 per month per employee) and nearly all of the employees' very expensive payments into their retirement plan.

Employee compensation is the primary reason for this and most other cities' budget problems. On Page 4 of the "Fiscal Year 2012 Proposed Budget for Community Review" released on August 2, it states: "The vast majority of the three-year deficit [2012-2014] can be attributed to negotiated salary increases ($23.6 million) and pension cost increases ($13.2 million)."

City management, in an effort to offset the deficit, is now beginning to push unions to pay more of the pension costs – something the Business Journal urged a decade ago. Most city employees currently pay only 2 of the 8 or 9 percent "employee" fee toward their pensions. (Example: On a $100,000 base salary, the employee pays $2,000 and the taxpayers are paying $6,000 or $7,000 each year – with public safety personnel at the higher rate.)

There's also the "employer" fee set by the California Public Employees Retirement System (CalPERS) that is paid one hundred percent by taxpayers. That fee is very costly: currently 22.687 percent for sworn personnel and 16.072 percent for most other city employees. (Refer to accompanying boxed article, "Understanding Pension Payments Made By City.")

There has been some success in getting unions to pay more of the employee fee, but it's not enough. All city employees should pay all of the "employee" fee portion of their retirement. That is fair, and the unions know it's fair, but have been able to sidestep the issue for a decade or longer.

Additional progress is being made in changing the retirement formula for new hires. That's also very positive, but the benefits won't be realized for many years.

Oil Revenue Projections

The FY12 budget is projecting zero growth in revenue, which is the safest approach in this unpredicable economy. However, there is quite a bit of debate related to oil revenues. Some union representatives argue that the city is going to receive (or already has received) more revenue for the General Fund from oil than it is showing.

As discussed at the beginning of this article, the price of oil is certainly volatile and has experienced huge swings in the past several months. The city is smart at projecting oil revenue at a lower rate.

The Business Journal will examine this further in the next edition, but, for agrument's sake, let's say the unions are correct. Let's say the city is realizing millions of dollars more from oil than first projected. Why should that money go toward pay increases? Why can't it go toward needed services such as fixing streets, sidewalks and alleys? Why can't it go toward programs to encourage more businesses to open here, thus creating more jobs?

For Long Beach to move forward and get beyond this terrible economic time, it needs elected officials who are willing to put citizens first, not unions. It needs elected officials who, before signing a union contract, ensure that it's fair and affordable.

With city council elections for even-numbered districts coming up in less than a year, voters would be smart to push candidates on what their knowledge is of budget issues. If they haven't done their homework, they don't deserve your vote.

For charts and lists go to
http://www.lbbj.com/manage/uploads/lbbj_pdfs/100000ClubCharts2011_1.pdf