A Classic Case of Management/Labor Relations

A 20-Year Rift Is Sealed With Cooperation

Samuel A. Finz
and
Richard Templeton

Since its establishment in 1926 by pioneer land developer Joseph W. Young, Hollywood, Florida, has flourished as a residential community for North American retirees and as an international tourist destination.

Like other local governments of its size across the country, in its early years Hollywood experienced periods of tremendous growth, followed by urban sprawl and then by an exodus of the middle class to the new suburbs in newly developed outlying communities. In a service-based city that constantly demands more police protection, adult recreational programming, trash and debris removal, and emergency medical response, Hollywood's administration is being told by residents to be more productive, efficient, and effective, and above all, to reduce the cost of services and save money without lowering service levels. Sound familiar?

The Scenario

In the early 1990s, warning signs of a city in trouble were prevalent in Hollywood. Lower revenues, an aging infrastructure, and growing labor problems were not being addressed. Police and fire union contracts were rich with benefits compared with the general employees' union contract, leading first to serious unrest among the general employee ranks, then to grievances, arbitration, and contract stalemates.

During the negotiations for a three-year contract with the general employees' union (AFSCME Local 2432) in

1993, the union demanded a resolution to the differences among the pension benefits for fire, police, and general employees. General employees represent the city's largest employee group, with some 900 members. Both the fire and police unions already had negotiated successfully a 3 percent pension factor for their members; under this agreement, fire and police members with the required combination of service time and age could receive as a pension up to 81 percent of their three highest years' salary.

In 1993, contract negotiations with the general employees' union were expected to be different. This union was intolerant of the disparity and demanded major changes in benefits, particularly pension benefits. As a result of contract negotiations that included the city manager directly, both management and labor needed to leap communication hurdles and build communication inroads. The city conditionally approved establishing parity in the employee pension benefits that would allow the AFSCME group to receive the same pension percentage for each credited year of service as police and fire employees. The caveat that the city gave was that the union would have to prioritize the benefit as the single most important issue and would have to offer funding alternatives acceptable to the city. Key to later negotiations was the cooperative effort made by both parties to identify funding alternatives and to reach a collective bargaining accord.

To fund the pension benefit, the union proposed a two-tier wage system, commencing on October 1, 1994, with the first tier based on the current contract and the second tier 10 percent below first-tier wage rates. All new employees would be hired at the second tier. This move had been fought in prior years by the union on the basis that it would create salary and wage disparity, thus lowering salaries and wages across the board for average union members.

Furthermore, the union agreed to an employee contribution for dependent health care. (City employees before this contract did not contribute to health care costs.) And finally, union members agreed to changes in the leave accrual policy for general employees, thereby reducing the payout to employees at termination.

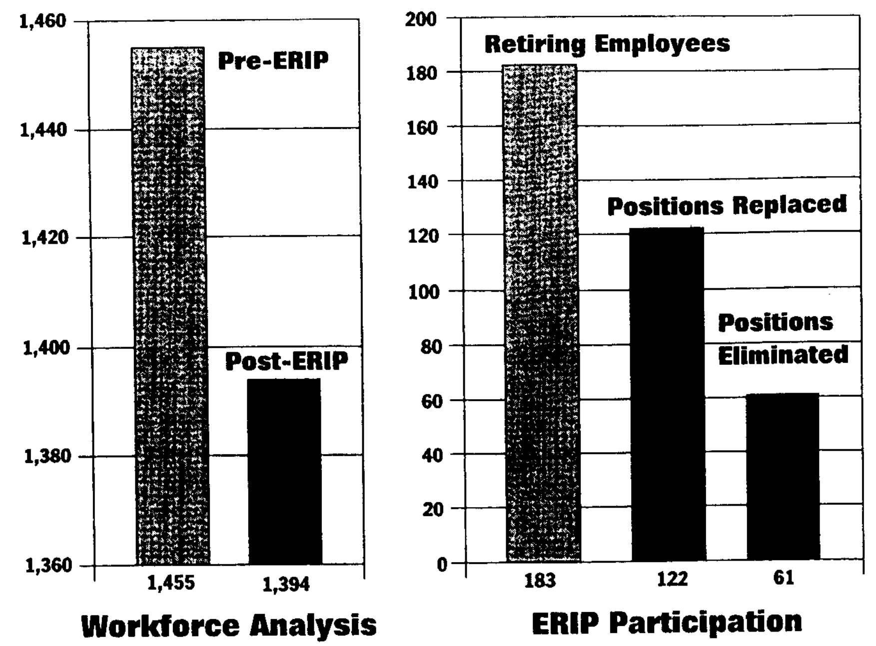
Incentive Plan Introduced

Along with several wage and benefit concessions made by the union as a direct result of collective bargaining and union negotiations, an Early Retirement Incentive Plan (ERIP) was introduced. The ERIP plan was designed to pay the total cost of the increased pension benefit, with no additional cost to the general fund. The city's pension fund now has a balance of more than $88 million in a separate treasury from the general fund used to operate the city. Employees are required by charter to contribute 7 percent of their salaries into the pension fund.

Notwithstanding the desire and willingness of union and management to negotiate modifications to the pension, pension plans in Hollywood are defined by charter and so can be changed only by a voter referendum. Thus, after contract negotiations, voters were presented in September 1994 with the pension issue and overwhelmingly approved the ERIP as a means of funding the increased general employees' pension benefits from 2½ to 3 percent, beginning in 1998.

There were, however, further hurdles to leap. State law required that if a pension plan was changed, funding for that change must start at the beginning of the fiscal year following the year in which the pension change had been enacted. To afford this benefit in 1998, funding would be necessary in 1996. Thus, ERIP was designed to generate current funding (1) through the early retirement of qualified em-

Figure 1: Impact on the Workforce



ployees and (2) through the concurrent savings generated by abolishing about one-third of the vacated positions and rehiring the remaining two-thirds of positions at some 75 percent of the salaries of those taking early retirement. This plan, if followed, would create sufficient savings to pay for the current annual cost of the proposed retirement benefit.

The Good News

ERIP was designed to encourage, through collective bargaining, early retirement, creating savings to pay for the additional retirement benefits. It also provided the added benefits of reducing the size of city government, lowering personnel costs, boosting the revenues available to provide services, and changing the structure of government in Hollywood (see Figure 1).

Response to and participation in ERIP was greater than anticipated. In the end, 183 city employees elected to participate in the program. The average length of service to the city of the 183 employees who chose ERIP was nearly 16 years. The city's actuary found that salary and benefit costs to the city would drop dramatically, by a total of $3.2 million annually—approximately $500,000 more than the $2.8 million in extra cost per year of the increased pension benefit. The program not only would pay for itself but actually would save an additional $500,000 per year in city contributions to the pension. The actuary also calculated an additional savings to the city of $227,547 that would result from lower Social Security taxes paid out (see Figure 2).

Of the 183 positions vacated, 122 will be filled with people who possess more advanced technological skills than do those who are retiring. Department heads have embraced the program and are committed to its successful implementation, thanks in large part to the chance to replace tenured employees with little or no city training with experienced employees trained in other jurisdictions to meet the technological challenges that Hollywood faces in the 1990s.

The city negotiated the ability to achieve part of the savings by entering into private contract agreements for city services, saving additional dollars while providing the same level of service. Hollywood's beach and right-of-way maintenance operations, for example, previously had cost the department of public works $400,000 annually in salaried personnel. Through competitive bidding with outside services, the city was able to secure an outside firm to perform the same service for $180,000, a net savings of $220,000. Other services, such as water-meter reading and billing, that may be performed

Figure 2: ERIP Savings

Department	Actual Savings
City Commission	$ 8,216
City Manager (including offices)	232,382
Financial Planning and Administration	220,370
Development Administration	184,578
Community Planning and Development	139,933
Police	524,172
Fire	59,038
Recreation and Parks	166,963
Public Works	871,576
Public Utilities	1,020,764
Internal Promotions	(453,521)
FICA Savings	227,547
Total Savings$	$3,202,018

more cost-effectively by outside contractual services, now are being reviewed and considered by the city with the union's endorsement.

A Cohesive Process

The collective bargaining process was one of the most cohesive ones in Hollywood history. Early in the process, the city hired an actuarial and consulting firm to assist in writing the guidelines for ERIP. The company's analysis showed that for the program to be cost-effective and to create the desired savings, ERIP should allow for the early retirement of city employees with a combined age plus years of service equal to 55. The consultant also determined that accumulated leave balances of ERIP employees exceeded $2.5 million. If these balances were used to achieve the early retirement criteria, the actual amount of Hollywood's general fund dollars needed would be reduced significantly. Therefore, employees with at least five years of service were eligible to purchase up to five years, using their accumulated leave balances.

Of the 183 people who will be retiring from Hollywood, four will retire with five years of service, and nine will retire under the age of 40. The city attorney determined that the city could not offer the program arbitrarily to only those employees over a certain age. While retiring employees receive medical benefits, the agreement governing the general employees' bargaining unit requires an employee contribution for dependent health care coverage for all city employees, thus offsetting the city's cost of providing these benefits.

Constant analysis of the ERIP program by both management and labor will allow the city to ensure that citywide budget goals are met and that program service levels are maintained. In an era when government spending and operations often are criticized for being excessive, Hollywood's ERIP has answered the concurrent calls for downsizing and fiscal responsibility. That this could be achieved with the full cooperation of union leaders and city management speaks to the change in the working relationship of these two groups. A 20-year rift has been sealed with a degree of cooperation previously unknown in the city of Hollywood.

Now, management and labor relations have reached an all-time high in Hollywood. Progressive labor relations techniques and the development of ERIP have allowed for a reversal of the poor labor relations that existed. The city believes that the partnership developed between labor and management through this program will induce more innovative programs designed to improve the efficiency and effectiveness of the city's services.

Hollywood is losing 183 employees with an average tenure of almost 16 years. While the institutional memory of these employees is difficult to recover, Hollywood is replacing them with employees trained in state-of-the-art technology. The remaining employees are committed to providing the same level of service that Hollywood residents have come to enjoy. A commitment by the city to train its employees regularly will ensure that skill levels remain at their highest. The streamlined organization produced by implementing ERIP will further ensure productivity improvements, efficiency, and effectiveness in government for all Hollywood residents. PM

Samuel A. Finz is city manager, Hollywood, Florida, and Richard Templeton is president, AFSCME Local 2432, Hollywood, Florida.

Results Look Promising

Hollywood based its decision regarding its Early Retirement Incentive Plan (ERIP) on an analysis conducted by an actuarial firm. The report is based on actuarial assumptions about certain actions. Administrators in Hollywood have promised both to the elected officials and to residents an ongoing analysis of the ERIP as data become available, the results of the actual costs of ERIP. After two months of implementation, the early retirement plan is proving successful.

Early estimates have suggested a $3.2 million annual savings throughout the city. These savings are essential to fund the annual $2.8 million cost of the added pension benefit—a rise from 2.5 to 3 percent—and to achieve parity among police, fire, and general employees. Any additional savings over $2.8 million are considered savings to be placed in a contingency fund to help balance the fiscal 1996 budget.

During a city reorganization when the plan was implemented, eight departments were consolidated into seven, and one department spun off two divisions to form two new administrative offices. Preliminary findings by the city's seven affected departments and by the three affected administrative offices now show a potential annual savings of $3.3 million, an additional savings of $100,000 over the original estimate.

"Clearly, these results show the plan is working," says City Manager Samuel A. Finz. "We are making adjustments as information becomes available to ensure the success of the ERIP."

Although findings are preliminary and monthly analyses will be conducted to ensure that the city is on track, the final program results will not be known until 1996, when all retiring employees have retired and all replacement staff have been hired. But with such positive reports in the first 60 days of program implementation, the program is well on its way to success.