

Association of Washington Cities Adopts Official Policy

1. Long Term Care paid from LEOFF 1 excess funds of 300 million.
2. Pension Governance Reform.
3. Factors to Consider in Binding Interest Arbitration for Police Officers and Fire Fighters.

Association of Washington Cities 2002 Statement of Policy & Resolutions

The cities and towns of Washington State, assembled in conference this twenty-first day of June 2002, adopt the following statement of policy and resolutions that will advance effective, responsive municipal government. We affirm our belief that local government is the level closest to the people and most able to respond to the needs of our communities. We request the Association of Washington Cities and towns (AWC) to promote the principles and directives described in this statement of policies and resolutions that relate to the authority, responsibility, and financing of cities and towns, and to federal and state laws and administrative regulations affecting cities and towns.

Personnel & Labor Relations

LEOFF I Long Term Care and Medical Liability

Background

The Law Enforcement Officers and Fire Fighters Retirement System Plan 1 (LEOFF1) was created in 1969 and covers all full-time law enforcement officers and fire fighters. The LEOFF 1 statutes provide that employers must pay for medical services incurred by active and retired members. The minimum medical services provided by statute include confinement in a nursing home or hospital extended care facility, as well as dental costs incurred due to injury.

Local disability boards are responsible for the approval of medical care costs for LEOFF 1 members. In general, cities and towns above 20,000 in population have their own disability boards. For approximately 130 cities and towns, county disability boards make the determinations on what medical costs must be paid by the jurisdictions within their purview.

While state statutes outline minimum medical coverage that LEOFF 1 members and retirees are entitled to, individual disability boards often grant benefits that exceed the minimum coverage.

Once granted, they become mandatory expenses for the employer. Recently, one county disability board determined that all dental expenses of LEOFF 1 retirees would be covered, except for cosmetic procedures.

The Office of the State Actuary's report on the actuarial valuation for LEOFF Plan 1 as of December 31, 2000, indicated the plan had a surplus in excess of \$1.4 billion. These are monies in excess of what is needed to cover all of the pension obligations. This surplus declined significantly in 2001 and is currently estimated at approximately \$300 million.

Many LEOFF 1 members are retired or will retire within the next few years. Medical expenses for retirees can be very costly. Nursing Home Care can cost \$5,000 - \$6,000 a month. Cities and towns have limited resources to meet the medical and long-term care costs of LEOFF 1 retirees. Some cities and towns may have to lay off active officers or firefighters to pay for a retiree's medical or nursing home costs.

"The LEOFF 1 pension surplus is a potential source of funds for the Legislature to allocate to local governments to assist with the payment of LEOFF 1 medical and long-term care costs."

AWC Position

AWC will:

- Seek adequate funding for local governments to address LEOFF 1 medical and long term care liabilities.
- Encourage the Legislature to review the use of surplus LEOFF 1 pension assets, when appropriate, in order to assist local governments meet LEOFF 1 medical and long term care obligations.
- Explore legislative and legal remedies to ensure that county disability boards do not take actions to approve excessive medical services that add to the extensive financial liability local governments have for LEOFF 1 medical and long-term care costs.

Adopted at the AWC annual business meeting on June 21, 2002.

Personnel & Labor Relations

Pension Governance Reform

Background

All of Washington's public pension programs, including the Public Employees Retirement System (PERS) plans and the Law Enforcement Officers and Fire Fighters (LEOFF) plans, are governed by the full Legislature and various committees dominated by legislators. They establish pension benefits, set contribution rates for employers and employees, adopt economic assumptions for management of the pensions, and generally serve as the responsible party managing these pension programs.

Employee organizations have advanced legislation the last few years proposing changes to the governance structure of the various pension systems. Many of these proposals would have created new pension boards dominated by employees who would manage the pension programs. Two initiatives (I-790 and I-797) have been filed in 2002 that would significantly change the management of the LEOFF Plan 2 (I-790) and PERS Plan 1 and PERS Plan 2 (I-797) programs. Both initiatives create pension boards dominated by employee groups that would be granted broad authority to manage the pension programs including the establishment of pension benefits.

Legislative repeal of the motor vehicle excise tax, voter approval of Initiative 747 restricting property tax collections, and a declining economy have significantly and negatively impacted the fiscal health of many cities and towns.

The state actuary has reported that pension contribution rates for both employees and employers will increase steadily through 2011 and beyond to pay for existing pension benefits. AWC remains very concerned with the fiscal health of cities and towns. It appears existing pension benefits will cost more over the next decade further eroding local governments fiscal position.

AWC Position

AWC opposes initiatives, including I-790 and I-797, and legislation that would:

- **Create a state public pension board that provides employee groups more representation than employer groups.**

- **Implement a public pension governance change that provides a separate board more powers than advisory to the Legislature.**

Adopted at the AWC annual business meeting on June 21, 2002.

Personnel & Labor Relations

Factors to Consider in Binding Interest Arbitration for Police Officers and Fire Fighters

Background

Interest arbitration is the process required when an impasse is reached in police and fire negotiations. This process applies to police departments in cities and towns of 2,500 population or greater. It also applies to all fire departments, regardless of population, with full time firefighters and unions.

Binding interest arbitration has proven to be a costly and complex process, resulting in substantial wage and benefit increases. There is a pattern of disproportionate increases awarded to uniformed employees compared to the rest of the workforce.

Under the existing statute, arbitrators generally give little consideration to a jurisdiction's ability to pay, other competing services and priorities, the local labor market, or settlements of other employee groups within the jurisdiction. With public safety expenditures accounting for nearly 45% of total budgets for cities and towns, it is crucial that arbitrators consider these factors.

As a result of Initiative 747, local governments are limited in their property tax levy increase to the lesser of 1% or the Implicit Price Deflator. This will significantly reduce property tax revenues in the coming years. Legislative repeal of the motor vehicle excise tax also significantly reduces local revenues.

The current statute requires different standards for police and fire regarding consideration of out-of-state comparable employers. For fire fighters, if there are an adequate number of in-state comparable employers, no other West Coast employers will be considered. For police officers, this is not the case. It makes sense to have police and fire treated the same. Where sufficient in-state comparables exist, out-of-state employers should not be used.

AWC Position

AWC will seek legislation that mandates arbitrators to consider:

- The financial ability of a city or town to meet the costs of the contract, excluding reserves, giving due consideration and weight to other competing city services and priorities, as determined by the local legislative body.
- Local labor market conditions.
- Internal equity with other city/town employees.

AWC will also seek legislation imposing the same comparability language for police officers and fire fighters by eliminating the need for other West Coast employers for police officers when sufficient in-state comparable employers exist.

Official Policy Postions Adopted June 21, 2002