

March 3, 2011

Jeff Welch
President
San Jose Fire Fighters, IAFF, Local 230
425 East Santa Clara Street, Suite 300
San Jose, CA 95113

Re: San Jose Fire Fighters, Local 230 Proposal

Dear Jeff:

On behalf of the City, we would like to extend our appreciation to you and your team for the recent contract proposal from the San Jose Fire Fighters, Local 230. Proposing to accept the ten percent (10%) ongoing total compensation reduction that we have asked of all City employees and officials is significant. We understand that the reduction in pay and benefits will have an impact on employees, and we sincerely appreciate the sacrifice in order to help the City through the current fiscal crisis and lessen the service reductions that will unfortunately be necessary in order to balance the City's budget. We share the goal of preserving to the extent possible the important services that the men and women of the San Jose Fire Department provide to our community.

We share your interest in reaching an agreement with the San Jose Fire Fighters this week, and we are optimistic that we can reach an agreement during our meeting today. There are issues we would like to resolve as part of the agreement and other items on which we would like to continue discussions and the meet and confer process.

As is always the case in negotiated agreements, there are items that are left unresolved that both the City and/or the union had an interest in including as part of the agreement. Since Monday, February 28, 2011, when you presented the San Jose Fire Fighters' proposal to us, we have given a lot of thought to which items we have an interest in resolving now as part of an agreement, and which items we would like to continue to discuss. This is particularly important given that your proposal would extend not only through the 2011-2012 Fiscal Year, but also through the 2012-2013 Fiscal Year, with an expiration date of June 30, 2013, for the new contract.

Based on the most recent estimates, there is a \$105.4 million General Fund deficit in Fiscal Year 2011-2012 and an estimated \$43.1 million shortfall in Fiscal Year 2012-2013. It is possible the deficits could increase due to impacts related to the Redevelopment Agency and/or even higher retirement contributions than are currently projected.

One of the issues the City is interested in resolving is the very high cost of sick leave payouts. The total cost for all City employees is estimated to be \$10.5 million in the upcoming fiscal year. Because of the City's fiscal situation, our interest is to use those funds to preserve jobs and services. Your proposal does not include any change in sick leave payouts, but offers to continue negotiations on that item. Although we would have preferred to include elimination of sick leave payouts as part of an agreement on a new contract, we are willing to accept your proposal to continue negotiations on that item. Our willingness is motivated by our interest in reaching an agreement on a new contract with the San Jose Fire Fighters this week.

Another priority item is retirement reform. We appreciate the San Jose Fire Fighter's recognition of the need for reform of pension and retiree healthcare benefits. We believe that the City and the San Jose Fire Fighters share an interest in providing retirement benefits at a cost that is sustainable for employees and for taxpayers. We appreciate that your proposal is made in that spirit, and we are intrigued by your proposal that would allow current employees to opt into a 2nd tier plan. Retirement benefit issues are very complex, and we need more time to discuss and analyze your proposal. However, as important as retirement reform is, we do not want that to hold up reaching agreement on a new contract. Similar to your proposal regarding sick leave payouts, we propose to continue negotiations on pension and retiree healthcare benefits.

Regarding retiree healthcare, we appreciate your proposal to begin phasing-in to full pre-funding of retiree healthcare benefits. Since all other bargaining units will be entering their third year of increasing contributions towards funding retiree healthcare benefits, our interest is to have the City and the San Jose Fire Fighters move to the level of contributions of the third year of the five year phase-in. This would result in an increase of 3.75% for employees represented by the San Jose Fire Fighters. However, your proposal is to start with an increase of 1.25% for employees, resulting in a difference of 2.5%. Although our interest remains to begin at a 3.75% increase, we are willing to accept your proposal to begin with an additional 1.25% contribution beginning June 26, 2011, as part of an agreement we reach this week on a new contract. The City will establish a trust by July 1, 2011, and we will work collaboratively with Local 230. As you know, the City has selected outside tax counsel to assist us with the creation of the trust.

There are two items on which the City has not yet made a decision. One involves the Fire services provided at the Airport, and the other is the layoff process that was discussed by the City Council on Tuesday, March 1, 2011. Although no decisions have been made, we do not want either of these items to preclude us from reaching an agreement on a new contract this week. Therefore, we are proposing to continue discussions on these two items. We acknowledge the potential meet and confer obligations depending on what direction the City would like to take on these items.

In recognition of the City's agreement to include a two year delay in the phase in to retiree healthcare and the delay in the implementation date of the change in the healthcare co-pay plan, 85/15 cost sharing, and health/dental in lieu caps, we also would like to resolve three grievances as part of the overall agreement. The three grievances are related to special operations premium pay, support paramedic pay, and uniform allowance.

We are also including a proposed side letter regarding a Pilot Wellness Program. We hope you see this as a positive step in improving our existing wellness efforts.

As is the case for Local 230, if we do not reach an agreement this week, the City reserves the right to change proposals and to include the many other issues that are not included as part of the potential tentative agreement. We understand that Local 230 can do the same. That being said, our efforts are focused on what would be included as part of an agreement that is reached this week.

Lastly, but very importantly, we want to thank you and the rest of the Local 230 leadership team for your professionalism, courtesy, and spirit of collaboration with which you have approached the recent discussions with the City. It has been recognized by the City Manager, the City Council, and by me and the members of my staff. It is most sincerely appreciated, and we are optimistic that this is the beginning of a new relationship with the San Jose Fire Fighters. We know you agree that the more difficult the issues, the more important it is to have constructive communication. You have our commitment to work with you in that spirit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alex Gurza', with a long horizontal flourish extending to the right.

Alex Gurza
Director of Employee Relations