

# What a Finance Director should know about Human Resources

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# Question

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***What are some adjectives that finance professionals typically use to describe human resources professionals?***

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# Different Roles

## Finance

- Budgeting
- CAFR
- Revenues
- Expenses
- Affordability
- Sustainability
- Assets
- Liabilities
  - Debt, Pension, OPEB, Compensated Absences
- Capital & Infrastructure
- Payroll

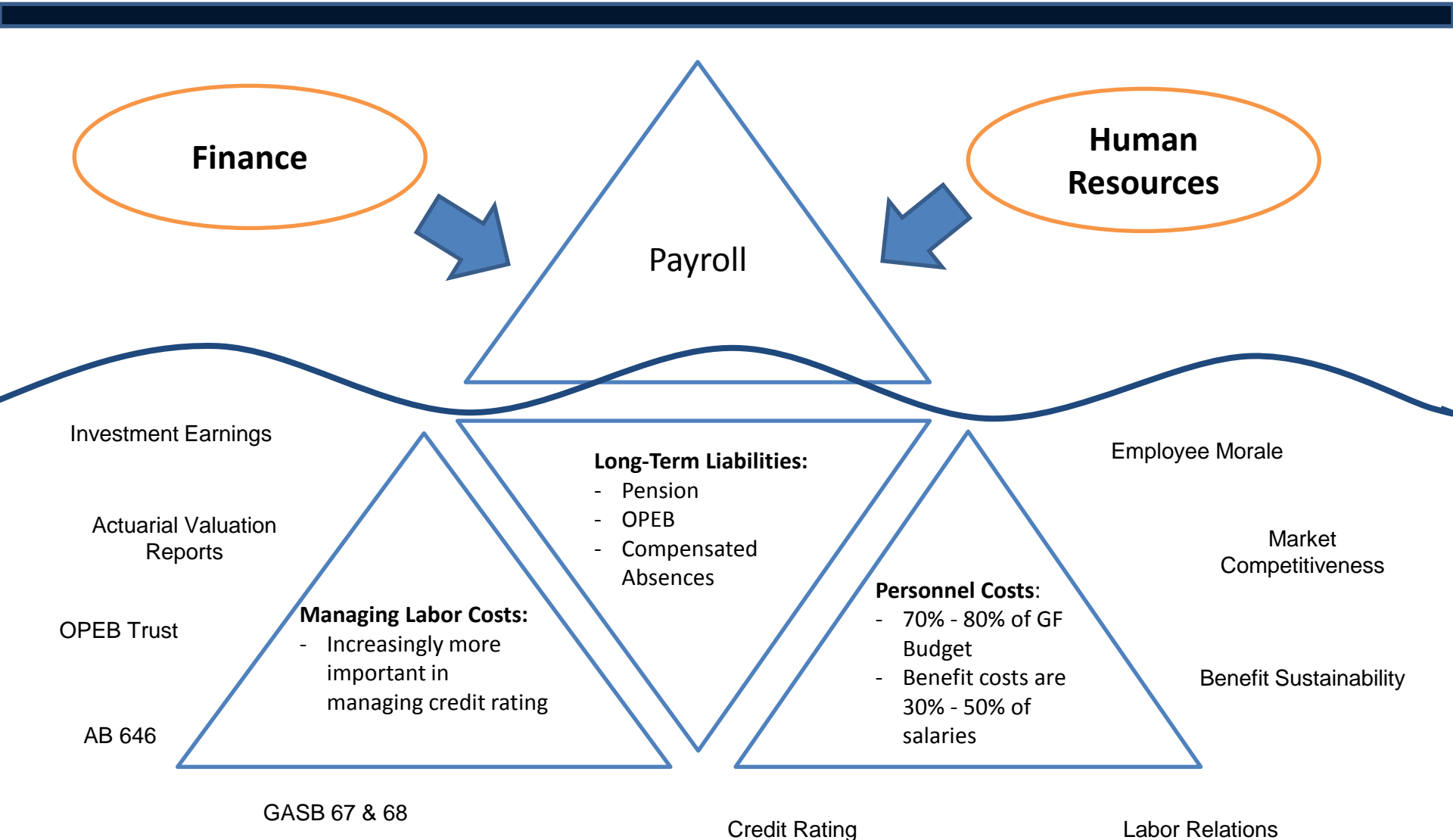
***Bottom-Line Oriented***

## Human Resources

- Labor Relations
  - Negotiations
  - Work rules/grievances
- Workplace Policies & Regulations
- Compensation
- Benefit Administration
  - Healthcare (Active & Retiree)
  - Pensions
  - FMLA
  - Paid Leave
- Employee information
- Succession Planning
- Recruitment/Retention

***People/Morale/Organization***

# Connections: Seen and Unseen



# Fiscal Context

- Labor costs typically 70% - 80% of General Fund budget or more
- Management of workforce costs is imperative to financial sustainability
- HR must be part of any long-term strategy for meaningful financial reform

**General Fund Expenditures**



***Finance and Human Resources are Inextricably Linked***

# 5 Things You Should Know About HR...

## 1. *HR Impacts You!*

- Hiring: Is process procedural or do they try and find the best fit for the organization?

*Poor hiring practices can lead to inefficiency*

- Labor Negotiations: Provide the structure of total compensation
  - ✓ Pay Levels
  - ✓ Pension, Health/Retiree Health Benefits, and time off
  - ✓ Management rights

*Improperly costing labor agreements or not understanding multi-year financial impacts can lead to out-of-control spending*

# 5 Things You Should Know About HR...

## 1. *HR Impacts You! (Continued)*

- Discipline: Process of defining expectations and holding employees to standards

*Cannot afford under-performing workers in today's fiscal environment*

- Data: HR has knowledge and data a Finance Director needs to make long-term financial projections – labor trends, pension and health cost trends to name a few

*Allow City leadership to make data-based decisions. Important to understand the context particularly important if City is contemplating reforms*

# 5 Things You Should Know About HR...

## 2. *HR Has Numbers You Need*

- CalPERS pension actuarial costs
- Workers compensation actuarial analysis
- Liability insurance actuarial analysis
- Risk Management
  - What is a manageable level of exposure for your organization?

- ✓ Do you review with HR Director?
- ✓ Do you know the trends in your org? Are costs going up?
- ✓ Do you know your exposure and risk?
- ✓ What is your program and where might it cost you big if not followed?



# 5 Things You Should Know About HR...


## 2. HR Has Numbers You Need (Continued)

- Who reads and, more importantly, understands your actuarial valuation report?

**SECTION 1 – PLAN SPECIFIC INFORMATION FOR THE MISCELLANEOUS PLAN OF THE CITY OF ALBANY**

**Required Employer Contribution**

	Fiscal Year 2013-14	Fiscal Year 2014-15
<b>Actuarially Determined Employer Contributions:</b>		
Required Employer Contributions (in Projected Dollars)		
Risk Pool's Net Employer Normal Cost	\$ 147,643	\$ 127,686
Risk Pool's Payment on Amortization Bases	81,148	89,550
Surcharge for Class 1 Benefits		
None	0	0
Phase out of Normal Cost Difference	0	0
Amortization of Side Fund	17,904	18,442
Total Employer Contribution	\$ 246,695	\$ 235,678
Projected Payroll for the Contribution Fiscal Year	1,624,592	\$ 1,435,324
	\$	
Required Employer Contributions (Percentage of Payroll)		
Risk Pool's Net Employer Normal Cost	9.088%	8.896%
Risk Pool's Payment on Amortization Bases	4.995%	6.239%
Surcharge for Class 1 Benefits		
None	0.000%	0.000%
Phase out of Normal Cost Difference	0.000%	0.000%
Amortization of Side Fund	1.102%	1.285%
Total Employer Contribution	15.185%	16.420%
<b>Minimum Employer Contribution Rate<sup>1</sup></b>	<b>15.185%</b>	<b>16.420%</b>
<b>Annual Lump Sum Prepayment Option<sup>2</sup></b>	<b>\$ 237,934</b>	<b>\$ 227,308</b>



**ACTUARIAL VALUATION**  
as of June 30, 2012

**for the  
MISCELLANEOUS PLAN  
of the  
CITY OF ALBANY**  
(CalPERS ID: 7759437962)

**REQUIRED CONTRIBUTIONS  
FOR FISCAL YEAR  
July 1, 2014 - June 30, 2015**

# 3. HR has Relationships and Influence

## HR relates to the organization differently than finance...

- Their relationships are **employee focused**:
  - Benefits administration
  - Training and succession planning
  - Outreach during times of employee crisis
- They **solve problems** for department heads and others
  - Discipline issues
  - Substance abuse in the workplace
  - Labor grievances
- They **influence compensation**:
  - Policies on internal pay relationships
  - Compensation comparables (Where should you be?)

# 4. They Impact the Organization's Future

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- Benefits Reform
- Affordable Care Act
- Fact-Finding & AB 646
- Succession Planning

# Benefits Reform

- CalPERS pensions growing 30% or more over next five years.
- Health costs rising consistently each year
- Unfunded OPEB and pension liabilities are growing in many jurisdictions

Many public agencies' rise in revenues are going to pay these premium increases

Benefit reform requires a partnership with HR and Finance

# Affordable Care Act

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“Employers have the option of modifying their plans to satisfy [ACA] requirements or allowing their employees to enroll in the health insurance exchanges to choose from the plans sold there and paying the penalty....

...the vast majority [of local governments] still appear to have no plan of action to deal with health reform’s new requirements. That has to change.”

*Governing Magazine, October 2012*

# AB 646: An Overview

- The need for coordination between HR and Finance is underscored by the recent passage of **AB 646** – which provides for mandatory, non-binding fact finding when labor negotiations reach an impasse
- Although the fact finding is non-binding, the fact finder's recommendation is very likely to **influence** the governing body's decision whether or not to implement the agency's last best offer in negotiations



# AB 646: An Overview

- Fact finding requires a detailed presentation of the agency's financial situation, including long term liabilities, reserves, and projections
- It also requires a detailed understanding of labor costs and trends, including the savings/cost of individual proposals
- Finance people need to be involved in every stage of preparation, and will be needed to testify
- Advisory fact-finding after impasse, prior to implementation
- Panel including one neutral member and one member appointed by each party
- AB 646 creates a uniform, standard impasse process
- Within 30 days of appointment, panel to make “findings of fact and recommend terms of settlement”

# AB 646 – Fact-Finding Criteria

1. State & federal laws applicable to employer
2. Local rules, regulations, or ordinances
3. Stipulations by parties
4. Public interest & welfare, and **public agency's financial ability**
5. Comparability of employment conditions with those in other agencies
6. Cost of living
7. Overall employee compensation
8. Other facts normally taken into consideration

*Gov. Code 3505.4(d)*



# Succession Planning

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- The loss of experienced executives without adequate replacements can have a substantial, immediate negative effect on an organization
- The ability to attract and retain qualified applicants across an organization is a key to its future

# 5. HR Can Be A Key Partner in Implementing Financial Plans

**How well do you communicate?**

**Do you feel you have to talk louder to be heard?**

**Is it working?**



## 5. HR Can Be A Key Partner in Implementing Financial Plans



**Have you tried to explain your financials?**

**...and what response did you get?**

# Bottom Line...It takes Intention and Work



**...keep working at it until you find language HR can understand**

# Invite Your HR Director to CSMFO...



**...help HR become an  
advocate for what  
Finance does.**