

**LETTER OF AGREEMENT #1
BETWEEN THE CITY OF STOCKTON AND
THE STOCKTON CITY EMPLOYEES' ASSOCIATION
Amendment to the July 1, 2012 - June 30, 2013 MOU**

RECITALS

This Letter of Agreement (LOA) has been jointly prepared by the designated representatives of the City of Stockton (City), a public agency within the meaning of section 3501(c) of the Government Code of the State of California, and the designated representatives of the Stockton City Employees' Association (SCEA), to modify the Memorandum of Understanding between the City and SCEA for the period ending June 30, 2013 (MOU) as follows:

WHEREAS, under the parties' prior MOU effective December 9, 2008 through June 30, 2014 (prior MOU sections 16.6 and 16.7), employees hired on or after January 1, 2009 were eligible to receive retiree medical benefits to be provided through a through a Retiree Medical Trust (Trust);

WHEREAS, prior MOU section 16.6 provided for an employer contribution equal to 2% of base salary and also provided for employee contributions equal to 3% of base salary; employee contributions were deducted pre-tax from January 1, 2009 through approximately July 15, 2011;

WHEREAS, pursuant to the advice from the City's benefits counsel that until the City obtained a letter ruling from the Internal Revenue Service that the employee contributions were not taxable it should treat them as after-tax contributions, employee contributions were deducted after withholding applicable employment taxes from approximately July 16, 2011 through June 30, 2012;

WHEREAS, employer and employee contributions were held in an escrow account pending the establishment of a qualified Trust vehicle for contributions, and as of June 30, 2012, employer and employee contributions had not been transferred to a Trust; and

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WHEREAS, the parties agreed to eliminate sections 16.6 and 16.7 in the MOU effective July 1, 2012 through June 30, 2013.

AGREEMENT

NOW THEREFORE, based on the foregoing and on the City's current financial condition, the City and SCEA, after meeting and conferring in good faith under section 3505 of the Government Code of the State of California, have agreed that the contributions which would have been made to a Trust should accrue to the benefit of the impacted bargaining unit employees. Therefore, the parties agree as follows:

1. Employer Contributions. In conjunction with the elimination of prior MOU section 16.6, the City shall, as soon as practicable, transfer all employer contributions made pursuant to prior MOU section 16.6 to Health Reimbursement Accounts (HRAs) established for the benefit of each affected bargaining unit member.

a. If any members eligible for employer contributions left City employment on or before June 30, 2012, the employer contribution associated with those individuals shall be paid to those individuals, less any appropriate tax withholdings.

2. Employee Contributions. Employee contributions deducted from individual employee paychecks during the period from January 1, 2009 through June 30, 2012 will be paid to the individual members, including any members who have left City employment.

a. For deductions which were made pre-tax, SCEA acknowledges and agrees that this will result in a net increase in the employees' taxable wages for 2012 and may result in increased income tax liability. The City will report the amount of the lump sum distribution representing pre-tax contributions as the employee's wages and withhold all appropriate taxes before making the lump sum distribution. The lump sum distribution and appropriate withholdings will be reflected on each member's 2012 Form W-2.

b. Deductions that were made on an after-tax basis will also be included in the lump sum but these will not be reported as the employee's wages nor will any taxes be withheld on these amounts.

3. The parties understand that the refund of contributions could create tax liability on behalf of both employees and the City and agree that each should bear their own tax liability. On behalf of itself and its members, SCEA waives any cause of action based on City conduct regarding the tax treatment of the would-be contributions or benefits under prior MOU sections 16.6 and 16.7 and releases the City from any liability or potential liability resulting therefrom.

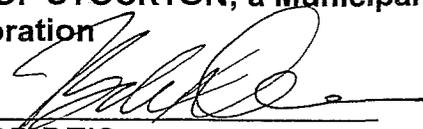
4. In consideration for this agreement and for transferring the employer contributions to HRAs for individual bargaining unit members (or for providing the employer contribution to former bargaining unit members who have left City employment or left the bargaining unit), SCEA agrees that payments to current or former bargaining unit members shall be distributed in a lump sum only upon execution by the member of a waiver releasing the City from liability for (a) any conduct regarding the tax treatment of the would-be employee contributions or benefits under prior MOU sections 16.6 and 16.7; and (b) any and all rights to receive any payment from a Trust for retiree medical benefits upon retirement for the member and dependents. Sample employee waiver forms are included in Attachments A and B.

IN WITNESS WHEREOF, this Letter of Agreement was agreed to by SCEA on October 4, 2012, and affirmed by an affirmative vote of the Stockton City Council on October 23, 2012, and is effective on this date first set forth above.

CITY OF STOCKTON, a Municipal Corporation

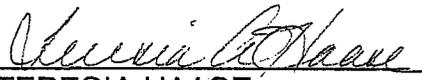
Stockton City Employees' Association

By: 
VERONICA SEGURA
President

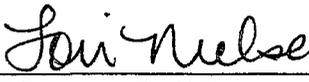
By: 
BOB DEIS
City Manager

ROSE LAW, A PROF. CORP.

By: 
JOSEPH W. ROSE
Its: Legal Counsel to SCEA

By: 
TERESIA HAASE
Director of Human Resources

ATTEST:

By: 
BONNIE PAGE
City Clerk



APPROVED AS TO FORM:

By: 
JOHN LUEBBERKE
City Attorney