

MEMORANDUM

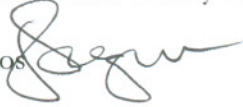
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AUG 05 2010

DAVID H. YAMASAKI  
Chief Executive Officer/Clerk,  
Superior Court of CA County of Santa Clara  
BY D. ALDYCKI

**DATE:** July 30, 2010

**TO:** Honorable Jamie Jacobs-May, Presiding Judge, Santa Clara County Superior Court

**FROM:** J. Logan, Assistant City Manager, City of Los Altos 

**SUBJECT:** **RESPONSE TO THE FINDINGS AND RECOMMENDATIONS IN THE FINAL REPORT BY THE 2009-2010 SANTA CLARA COUNTY CIVIL GRAND JURY; "CITIES MUST REIN IN UNSUSTAINABLE EMPLOYEE COSTS"**

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City of Los Altos City Council on July 27, 2010 took action to receive the Memorandum of Responses to Findings and Recommendations and authorized staff to send Memorandum in response to the 2009-2010 Santa Clara County Civil Grand Jury Report.

Response to Findings and Recommendations is enclosed herein.

A copy of the Response to Findings and Recommendations is also filed with the Clerk of the Court.



CERTIFIED AS A TRUE COPY

*Susan Kitchens*  
City Clerk, City of Los Altos, CA

## MEMORANDUM

**DATE:** July 27, 2010

**TO:** Honorable Jamie Jacobs-May, Presiding Judge, Santa Clara County Superior Court

**FROM:** Governing Body, City of Los Altos

**SUBJECT: RESPONSES TO FINDINGS AND RECOMMENDATIONS IN THE FINAL REPORT BY THE 2009-2010 SANTA CLARA COUNTY CIVIL GRAND JURY; "CITIES MUST REIN IN UNSUSTAINABLE EMPLOYEE COSTS"**

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**Finding 1:**

The costs of total compensation for employees have grown substantially in the past decade and now threaten the cities' fiscal stability.

**Response 1:**

Respondent (CITY of Los Altos) agrees with the finding.

**Recommendation 1:**

All of the cities in the County need to implement measures that will control employee costs. As a starting point, each city should determine the percentage of savings required from the total compensation package to reach budget stability, and provide choices of wages and benefits in collective bargaining sessions for the unions to choose to achieve that percentage goal.

**Response 1:**

The recommendation has been implemented. CITY historically and currently has a balanced budget, no structural deficit and a strategic plan to control employee compensation to avoid budget instability.

**Finding 2:**

Salary and wage increases do not reflect changes in economic conditions; e.g. even with minimal inflation, yearly COLAs are granted with little bearing on the actual increase in cost of living or market conditions.

**Response 2:**

Respondent agrees with the finding. Respondent analyzes market conditions and budget constraints, and negotiates with employees on pay increases if these are warranted. In FY2010-2011, no pay increases were granted outside of contractual pay obligations.

**Recommendation 2:**

Cities should not increase salaries and wages that are not supported by planned revenue increases. Cities should tie COLA increases to clear indicators and retain the ability to adjust or withhold based on current economic data.

**Response 2:**

The recommendation has been implemented. CITY has assessed expenses and revenues, and offers salary increases commensurate with strategic budget planning and economic indicators.

**Finding 3:**

Step increases are arbitrary and do not adequately represent an employee's added value to a city. Combined with COLAs, new employees' wages increase quickly and are not necessarily reflective of improved knowledge and skills.

**Response 3:**

Respondent agrees with the finding. CITY'S step increases are merit based and are not automatic. CITY does not use this pay practice.

**Recommendation 3:**

Cities should negotiate step progressions from the current three and a half years to seven years. Employees should not receive COLA increases while in step progression.

**Response 3:**

The recommendation has been implemented. CITY step increases are not automatic. The subject of pay increases are considered during the collective bargaining process. The feasibility of these combined recommendations will be considered in future negotiations.

**Finding 4:**

Medical insurance costs for active employees are growing year after year at rates that exceed most cities' revenue growth, while the employee contribution to medical care is minimal.

**Response 4:**

Respondent agrees with the finding. CITY has a regulated cap on the employer's contribution to health benefits and employees pay the difference if costs increase beyond this cap.

**Recommendation 4:**

Cities should negotiate that employees assume some of these increased costs for their medical benefits. To contain medical costs cities should consider the following:

- A. Split monthly premiums between the city and the employee and increase the employee's share, if already cost splitting, and remove any employee caps.

**Response 4A:**

The recommendation has been implemented. CITY cost is a regulated employer contribution cap; employee pays any increase over the employer's cap.

- B. Establish reasonable co-pays for doctors' visits, prescription drugs, and in-patient and out-patient hospital care.

**Response 4B:**

The recommendation has been implemented. CITY purchases medical plan coverage from CalPERS, and CalPERS regulates through its purchasing agreements the co-pays and related costs for medical services. The CITY investigated alternative medical benefit providers through a regional joint powers agreement with a medical benefit broker and found that cost for coverage was more expensive and provided less medical benefits for the employees.

- C. Prohibit an employee from being covered by both city-provided medical benefits and as a dependent of another city employee.

**Response 4C:**

The recommendation has not yet been implemented, but will be implemented in the future. The CITY will investigate the feasibility of this recommendation.

- D. Reduce cash-in-lieu payments.

**Response 4D:**

The recommendation has not been implemented, but will be implemented in the future. The CITY has investigated feasibility and determined that costs are lowered by a cash-in-lieu formula to incent employees to forgo medical benefits. CITY will continue to assess this benefit with respect to cost and impact on employees.

- E. Introduce a new lower premium, high-deductible medical plan.

**Response 4E:**

The recommendation has been implemented. CITY purchases medical plan coverage from CalPERS, and CalPERS regulates through its purchasing agreements the co-pays and related costs for medical services. The CITY investigated alternative medical benefit providers through a regional joint powers agreement with a medical benefit broker and found that cost for coverage was more expensive and provided less medical benefits for the employees.

**Finding 5:**

Pension formula changes instituted in the past decade, stock market losses, the aging "baby boomer" work force, and the growing unfunded pension and OPEB liability all contribute to making retiree pension and health care costs the most problematic and unsustainable expenses the cities are facing. The city contribution to pension plans and OPEBs far exceeds the employees contribution.

**Response 5:**

Respondent agrees with the finding.

**Recommendation 5a:**

Cities should:

- 1) Renegotiate and make provisions for increasing the employee's contribution for current pension plans.
- 2) Renegotiate to stop paying the employees' contribution amount to pension plans.
- 3) Renegotiate to implement a contribution amount for employees to OPEB; this contribution should provide for a reasonable split of costs between a city and the employee for retiree medical and dental benefits.

**Response 5a:**

The recommendation has been implemented. Recent negotiations resulted in increases for employee's contribution to the current pension plan and reduction of the employer's contribution. Consideration will be given to the feasibility of negotiating the OPEB costs in future negotiations.

**Recommendation 5b:**

Cities should thoroughly investigate reverting to prior pension formulas that were less costly.

**Response 5b:**

The recommendation has been implemented. Recent negotiations resulted in implementing a two-tier retirement system, thereby reducing the pension formulas and shifting the costs to the employees.

**Recommendation 5c:**

To provide a meaningful, long-term solution, the cities should negotiate agreements to:

- 1) Institute a two-tier system for pension and retiree health care for new hires.
- 2) Increase the retirement age from 50 or 55 to 60 or 65.
- 3) Calculate pensions on the last three to five years of salary.
- 4) Replace current post-employment health care plans with health savings plans.

**Response 5c:**

The recommendation has been implemented. Recent negotiations resulted in implementing a two-tier system with increase in retirement age, three-year retirement formula and increased cost to the employee. Consideration will be given to the feasibility of negotiating the health savings plans in the future.

**Finding 6:**

Public sector employees are granted a generous number of holidays, personal days, vacation days and sick leave annually. Rules and limits on accrual vary by city and union, but vacation days and sick leave can be accumulated and converted to cash or calculated into the pension benefit within those limits.

**Response 6:**

Respondent agrees with the finding.

**Recommendation 6a:**

Cities should renegotiate with the bargaining units to:

- 1) Reduce vacation time.

- 2) Reduce the number of holidays and/or personal days.
- 3) Cap sick leave and eliminate the practice of converting accumulated sick leave to cash or adding into their years of service for inclusion in their retirement benefit.

**Response 6a:**

Recommendation has not been implemented, but will be implemented in the future. CITY will consider the feasibility of this recommendation for future negotiations. All contracts are currently settled.

**Recommendation 6b:**

Cities should negotiate to substitute paid days off for unpaid days instead of imposing furloughs. For example, reduce paid holidays to major holidays only, consistent with private industry; and convert minor holidays to unpaid. Therefore, the public is not impacted by fewer services caused by furloughs, and the city saves the employee cost.

**Response 6b:**

Recommendation will not be implemented because it is not warranted. CITY has no furloughs. Public has not lost services.

**Finding 7:**

Cities traditionally determine their compensation packages by surveying the wages and benefits of other public sector employees in the same geographic area. There is major resistance to comparing themselves or mirroring trends with the private sector. This has allowed wages and benefits to become artificially high and out of sync with market trends.

**Response 7:**

Respondent agrees with the finding.

**Recommendation 7a:**

Cities should research competitive hiring practices and alter the approach to determine fair wages and benefits for each city by using public and private sector data.

**Recommendation 7b:**

Cities should renegotiate salaries and wages using valid market comparisons and not only the current wage index. Cities should utilize more market-oriented compensation practices so that salaries can adjust as competition for labor changes. Cities should reduce entry-level compensation for positions for which there are many qualified applicants.

**Responses to 7a and 7b:**

Recommendation has not yet been implemented, but will be implemented in the future in preparation for future bargaining sessions. All contracts are currently settled.

**Finding 8:**

All cities perform certain core functions to run smoothly and provide services to their residents. To reduce employee costs and streamline operations, the cities are in various stages of contracting services to private industry or partnering with other cities, special districts or the County to deliver services.

**Response 8:**

Respondent agrees with the finding.

**Recommendation 8a:**

Cities should explore outsourcing some functions and services to private industry. Cities should discuss the prospect with cities that are successfully doing this to determine best practices and areas for success. Cities should develop contracts with measurable objectives, performance goals, and timelines.

**Response 8a:**

Recommendation has been implemented. Respondent has fewer employees in the workforce in 2010 than in 2000. CITY'S on-going practice is to analyze and consolidate positions when they are vacant. CITY also analyzes the cost of labor from outsourcing and from shared services with other agencies, thereby reducing payroll costs.

**Recommendation 8b:**

Cities should create partnerships with other cities, special districts and/or the County for services, such as payroll, human resources, animal control, police and fire. Cities should investigate sharing the cost of new information technology systems.

**Response 8b:**

Recommendation has been implemented. Respondent has fewer employees in the workforce in 2010 than in 2000. CITY's on-going practice is to analyze and consolidate positions when they are vacant. CITY also analyzes the cost of labor from outsourcing and from shared services with other agencies, thereby reducing payroll costs.

**Finding 9:**

Cities can gain operational efficiencies and effectiveness with lower employee costs by making sure they are staffed with the correct numbers of people in the appropriate job classification in all departments and work groups.

**Response 9:**

Respondent agrees with the finding.

**Recommendation 9:**

Cities should analyze the functions performed by all job classifications and make adjustments in the work force. Consolidate functions within the same group or a similar group. Reassign appropriate work to lower paid job classifications. Eliminate unnecessary functions.

**Response 9:**

Recommendation has been implemented. Respondent has fewer employees in the workforce in 2010 than in 2000 as a result of progressive management. CITY's on-going practice is to analyze and consolidate positions when they are vacant. CITY also analyzes the cost of labor from outsourcing and from shared services with other agencies, thereby reducing payroll costs.

**Finding 10: Not Applicable**

**Finding 11:**

In many cities, the contract negotiation process is completed by placing the negotiated collective bargaining agreements on the consent calendar for approval, which is acted on quickly at the start of council meetings by a single motion and vote of the council.

**Response 11:**

Respondent agrees with the finding.

**Recommendation 11:**

Cities should consider holding well-publicized public hearings about the cities' goals of negotiations before negotiations begin, and again at the end of negotiations to report to citizens clearly what changes have been made in contracts.

**Response 11:**

Recommendation has not yet been implemented, but will be implemented in the future if so determined after further consideration by Council.

**Finding 12:**

Current contracts were negotiated in good faith by representatives of the cities and the bargaining units; they were approved by the city councils. Promises made to employees were made by elected officials, past and present. Responsibility for formulating and approving solutions to restore the cities' financial stability resides squarely with our elected officials. The economic downturn has placed additional pressure on the situation.

**Response 12:**

Respond agrees with the finding.

**Recommendation 12a:**

City council members and mayors should become better informed about the fiscal realities of their cities, long-term costs and commitments, and be cognizant of potential issues in labor agreements.

**Response 12a:**

Recommendation has been implemented, hence the successful conclusion of bargaining in June 2010 that resulted in a two-tier retirement system, three-year highest salary formula, and employees paying for more of the retirement benefit.

**Recommendation 12b:**

City councils and mayors should direct city administrators to (re)negotiate collective bargaining agreements that reverse the escalation of employee costs through concessions, cost sharing, and a second tier for new employees.

**Response 12b:**

Recommendation has been implemented, hence the successful conclusion of bargaining in June 2010 that resulted in a two-tier retirement system, three-year highest salary formula, and employees paying for more of the retirement benefit.



**Recommendation 12c:**

City councils and mayors should meet with the bargaining units to clearly outline the cities' financial health and show how employee costs are impacting the budget.

**Response 12c:**

Recommendation will not be implemented because it is not warranted. Management representative both met and conferred with Council and subsequently was able to attain Council directives during negotiations.

**Recommendation 12d:**

City councils and mayors should inform citizens of their plans for controlling unsustainable employee costs and remove politics from the equation.

**Response 12d:**

Recommendation has been implemented. This result has occurred during budget study sessions and Council meeting discussions.

**Finding 13: Not Applicable**