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## Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County

In the cities of San Mateo County, employees' wages and compensation packages continue to escalate, despite the deficit environment that has existed since the dot-com bubble burst and despite the aggravated deficits experienced in the more recent economic downturn.

To accommodate escalating employee costs, and balance their budgets, cities have increased user fees, raised taxes, issued bonds, transferred funds from their reserves, and postponed needed infrastructure projects. Because personnel costs typically comprise 70% of the operating budgets in the cities of San Mateo County, any cost-containment measures must halt and reverse the escalation of employee-costs.

In this report, the 2008-2009 San Mateo County Civil Grand Jury analyzes examples of wages, post-retirement health care and pension benefits, as well as current benefits and city hiring practices that increase public employee costs.

The report also recommends to cities and voters actions they can implement to reverse this upward trajectory.

The 2008-2009 San Mateo County Civil Grand Jury concludes and recommends that:

- The escalating employee costs can and should be reversed so civic services and infrastructure improvements are not neglected.
- In addition to stop-gap measures, such as temporary wage freezes and furloughs, long-term solutions should be implemented.
- Labor union contracts for newly hired municipal employees should be introduced to reduce the cost to cities of both pension and post-retirement health care plans.
- For current, as well as newly hired employees, salary increases, total days off, the ability to convert sick leave to cash, and vacation pay must be contained.
- The practice of narrowly basing salaries and compensation packages entirely on those of nearby cities should be reconsidered. Hiring practices should be expanded to include competition with the private sector.
- Where cost-efficiencies can be achieved, services should be contracted out to other cities or private sector firms.
- Cooperation between cities to reduce overlapping functions should be pursued.
- Political barriers to change exist because all those negotiating employee contracts--staff, unions and city council members--benefit when wage and compensation packages increase.
- Barriers to change should be neutralized by providing for increased public involvement and, possibly through ballot measures.



# Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County

## Issue

How can the escalation of employee costs in the cities of San Mateo County be reversed?

## Background

During the dot-com boom, from 1995 to 2001, the labor market was very tight, and the cities in San Mateo County and the rest of Silicon Valley had to offer competitively high wages, good benefits, and good pensions to attract qualified workers. The stock market was booming, and pensions were inexpensive to fund. Flush with revenues, city services and staff expanded. During this period, job security, salaries, pensions, and benefits became enshrined in union contracts, so when the dot-com bubble burst and city revenues declined, the cities found themselves chained to employee obligations they could no longer afford.

The police and firefighter unions were empowered to greatly expand wage and benefits for their members after California enacted a binding arbitration law in 2001. The law was struck down in 2003 by the California Supreme Court, but the negotiated gains were not reversed.

After the dot-com boom, cities started experiencing chronic deficits. New taxes and user fees were introduced, bonds were issued, and infrastructure projects were postponed to accommodate the new economic realities.

The economic downturn, which began in the fall of 2008, is exacerbating city fiscal problems for five major reasons:

- Revenues from property taxes are not increasing as much as projected.
- Revenues from sales taxes are decreasing.
- Contributions from the State are decreasing.
- Anticipation that the California Public Employees' Retirement System (CalPERS) will require cities to make larger than projected contributions.<sup>1</sup>
- Personnel costs are scheduled, by contract, to rise.

In this report, the 2008-2009 San Mateo County Civil Grand Jury takes a broad look at personnel costs in the cities of San Mateo County and examines what can be done to reverse their upward trajectory so that cities become economically sustainable.

Cities are limited to the following options for reducing personnel costs:

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<sup>1</sup> CalPERS is a retirement system that was created in 1932 to provide retirement benefits for state employees. As of 2007, CalPERS provides retirement benefits to approximately 443 of 478 California cities and to all the cities in San Mateo County.

- Cities can change pensions and retiree health care benefits<sup>2</sup> for new hires.
- Cities can renegotiate contracts for existing employees with the unions.
- Cities can change personnel policies.
- Citizens can consider ballot measures, which, if passed, could mandate change for new hires and for personnel policies. Such measures can be initiated by the cities or the citizens.

## Investigation

The 2008-2009 San Mateo County Civil Grand Jury interviewed city managers, city finance directors, and a union official. The Grand Jury reviewed labor contracts, various Comprehensive Annual Financial Reports, and city budgets. Additionally, the Grand Jury surveyed cities for information on employee compensation, retirement benefits, current benefits, obligations for post-retirement health care benefits, pension plans, and other information.

## Findings and Discussion

The 2008-2009 San Mateo County Civil Grand Jury found that:

- Eighteen cities forecast that employee costs will increase by at least 4% per year over the next five years, even as revenues decline.
- Approximately 70% of general fund budget expenses in most full-service San Mateo County cities are spent on employee salary and compensation packages because cities are primarily providers of services.
- The opportunity for significantly increasing revenues is limited to increasing taxes and fees.
- Controlling employee costs, from a long and short-term perspective, is the only meaningful way chronic deficits can be overcome.

The findings and discussion of the report are divided into three major sections:

- 1) Salary and Compensation Packages
  - a) Retirement Pension Benefits
  - b) Other Post Employment Benefits (OPEBs)
  - c) How Pensions and OPEBs are Funded by the Cities
  - d) Benefits for Current Employees
  - e) Salaries for Current Employees
- 2) Personnel Policies
  - a) How Wage and Compensation Policies Are Set
  - b) Staff Size
- 3) The Role of Politics
  - a) The Nexus Between City Council Members, Unions and Staff
  - b) Public Involvement

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<sup>2</sup> California Supreme Court ruled that retirement pension benefits cannot be decreased for existing employees but has not yet made a similar ruling on retiree health care benefits.

# 1. Salary and Compensation Packages

## a) Retirement Pension Benefits

### Defined-Benefit Plan:

Employees in a defined-benefit retirement system are promised a specific, life-long annual pension at the time of their retirement, related to their years of service and the salary they received at the time of retirement. In addition, as part of the pension plan, benefits are provided for disability and death, with payments in some cases going to survivors or beneficiaries of eligible members.

In the cities of San Mateo County, as well as many public sector organizations, benefited employees are enrolled in a defined-benefit retirement system. Benefited employees include all full-time employees and many part-time employees. The cities make Social Security contributions for non-benefited employees.

### CalPERS

The defined-benefit plan in which city employees in the cities of the County are enrolled is CalPERS. Contributions made by the cities to retirement benefits are deposited in CalPERS. CalPERS invests, manages, and distributes money to employees when they retire. Cities are required to increase their contributions when the costs of benefits increase and/or when investment returns decline.

### Examples of How the CalPERS Formula Works for Regular Employees

Each city chooses among legislatively approved formulas that determine the amount of lifelong pensions. The formulas are shown in Appendix 1. The most common formula for regular employees, who are workers other than police officers and firefighters, is 2.7% at age 55. Applying this formula takes 2.7% of the last year's salary multiplied by years of service, which they can start receiving at age 55, upon retiring.

- Regular city employees who worked for 30 years will receive 81% of their last year's salary for life.
- Regular city employees who worked for 20 years will receive 54% of their last year's salary for life. (Table 1)
- In addition, employees will receive an annual cost of living adjustment (COLA) of up to 2% a year.

### Examples of How the CalPERS Formula Works for Safety Employees

#### Police Officers and Firefighters

The typical formula for safety employees is 3% at age 50, upon retirement, which means that an employees will receive 3% of their last year's salary, multiplied by the number of years of service, which they can start receiving at age 50.

- Employees who worked for 30 years, using that formula, will receive 90% of the last year's salary for life.
- Employees who worked for 20 years will receive 60% of the last year's salary for life.
- In addition, employees will receive an annual cost of living adjustment (COLA) of up to 2% a year.



Table 1 provides examples of lifetime retirement pension benefits based on the formulas reviewed above for regular and safety employees. The examples in the table assume that the employee has worked in the cities for the years specified, but in fact, the employees in the example below may have been in the CalPERS system with other cities longer than the table assumes, and if they were, their pensions will be larger than shown.

**Table 1: Examples of Lifetime Retirement Pensions**  
(Does Not Include Health Care Benefits or Annual COLAs)<sup>3</sup>

| <b>Employee</b>               | <b>Last Year Salary</b>  | <b>Number Years Worked and Age</b> | <b>Percentage of Last Year of Salary</b> | <b>Annual Retirement Pension</b> |
|-------------------------------|--------------------------|------------------------------------|--|----------------------------------|
| Regular employee<br>2.7% @ 55 | \$110,725 <sup>(1)</sup> | 30 years,<br>age 55                | 81%                                      | \$89,687                         |
| Regular employee              | \$86,709 <sup>(2)</sup>  | 20 years,<br>age 55                | 54%                                      | \$46,822                         |
| Regular employee              | \$63,465 <sup>(3)</sup>  | 10 years,<br>age 52                | 27%                                      | \$17,135                         |
| Safety employee<br>3% @ 50    | \$110,968 <sup>(4)</sup> | 30 years,<br>age 50                | 90%                                      | \$99,871                         |
| Safety employee               | \$96,434 <sup>(5)</sup>  | 20 years,<br>age 50                | 60%                                      | \$57,860                         |

(1) The median 2008 salary for regular employees with 30 plus years in South San Francisco.

(2) The median salary for regular employees with 20 years in South San Francisco.

(3) The median salary for regular employees with 10 years in South San Francisco.

(4) The median salary for a Hillsborough safety officer with 30 years.

(5) The median salary for a Hillsborough safety officer with 20 years.

**NOTE:** Employees carry their years of service with them as long as they stay in CalPERS, so a 52 year old employee may have been employed in South San Francisco 10 years, but s/he may have many more years for the purpose of calculating the actual retirement benefits s/he will receive.

<sup>3</sup> Formulas on Tables 1 and 2 express as percent of salary correlated with years of service and age for both safety and regular employees can be seen at: <http://www.calpers.ca.gov/eip-docs/member/retirement/service-retire/benefit-charts/pub-9-2.5percent-55.pdf>

Table 2 demonstrates the differences in lifetime pension benefits when a less generous formula is applied to regular employee salaries, as shown above in Table 1. In this case, the formula is 2% at age 55 and was the most prevalent formula used by cities until about 2006.

**Table 2: Lifetime Retirement Benefit For Regular Employees Using the 2% at Age 55 Formula**

| <b>Employee</b>  | <b>Last Year Salary</b> | <b>Number Years Worked and Age</b>          | <b>Percentage of Last Year of Salary</b> | <b>Annual Retirement Pension</b> |
|------------------|-------------------------|---|--|----------------------------------|
| Regular Employee | \$110,725               | 30 years, age 55                            | 60%                                      | \$66,453                         |
| Regular Employee | \$86,709                | 20 years age 55                             | 40%                                      | \$34,683                         |
| Regular Employee | \$63,465                | 10 years age 52<br>(Can collect in 3 years) | 20%                                      | \$12,729                         |

Table 3 shows the retirement formulas used by cities at the beginning of 2009. Most cities increased their formulas from 2% at age 55 to the 2.7% at age 55 currently used. Also, instead of basing retirement on an average of the last three year's salary, the last year of salary is now most commonly used. Note that the cities appear to proceed in unison.

**Table 3: Retirement Formulas for San Mateo County Cities**

| San Mateo County City    | Retirement Formula - The Percentage Gained For Each Year Worked and Age Needed to Retire |           | Pension Based on Last Year's Salary or the Average of Three Years |
|--------------------------|--|-----------|---|
|                          | Safety   | Regular   | All Employees   |
| Atherton                 | 3% @ 50  | 2.0% @ 55 | 3 Year Average  |
| Belmont (see Table 4)    | 3% @ 50  | 2.0% @ 55 | Last Year   |
| Brisbane (see table 4)   | 3% @ 55  | 2.7% @ 55 | Last Year   |
| Burlingame               | 3% @ 50  | 2.5% @ 55 | Last Year   |
| Colma                    | 3% @ 50  | 2.5% @ 55 | Last Year   |
| Daly City                | 3% @ 55  | 3.0% @ 60 | Last Year   |
| East Palo Alto           | 3% @ 55  | 2.5% @ 55 | 3 Year Average  |
| Foster City              | 3% @ 50  | 2.7% @ 55 | 3 Year Average  |
| Half Moon Bay            | 3% @ 50  | 2.0% @ 55 | Last Year   |
| Hillsborough             | 3% @ 50  | 3.0% @ 60 | Last Year   |
| Menlo Park               | 3% @ 50  | 2.7% @ 55 | Last Year   |
| Millbrae                 | 3% @ 50  | 2.7% @ 50 | Last Year   |
| Pacifica                 | 3% @ 50  | 2.5% @ 55 | Last Year   |
| Portola Valley           | -  | 2.0% @ 55 | 3 Year Average  |
| Redwood City             | 3% @ 50  | 2.7% @ 55 | Last Year   |
| San Bruno                | 3% @ 50  | 2.7% @ 55 | Last Year   |
| San Carlos (see Table 4) | 3% @ 50  | 2.7% @ 55 | Last Year   |
| San Mateo                | 3% @ 50  | 2.0% @ 55 | Last Year   |
| So San Francisco         | 3% @ 50  | 2.7% @ 55 | Last Year   |
| Woodside                 | -  | 2.5% @ 55 | Last Year   |

Table 4 shows that some cities have introduced a two-tier system for newly hired employees (New Hires) in which the retirement formula is reduced. The employees who were in the system before the reduction will continue to receive the more generous pensions.

**Table 4: Cities That Have Reduced Retirement Formulas for New Hires**

| San Mateo<br>County City | Police      |           | Firefighters |           | Regular Employees |           |
|--------------------------|-------------|-----------|--------------|-----------|-------------------|-----------|
|                          | Prior Hires | New Hires | Prior Hires  | New Hires | Prior Hires       | New Hires |
| Belmont *                | -           | -         | 3% @ 50*     | 3% @ 55*  | 2.0% @ 55         | 2.0% @ 60 |
| Brisbane                 | 3% @ 50     | 3% @ 55   | 3% @ 50      | 3% @ 55   | 2.7% @ 55         | 2.0% @ 60 |
| San Carlos *             | 3% @ 50     | 3% @ 55   | 3% @ 50*     | 3% @ 55*  | 2.7% @ 55         | 2.5% @ 55 |

\* Belmont-San Carlos Fire Department

#### **b) Other Post Employment Benefits**

All San Mateo County cities provide other post employment benefits (OPEBs) in addition to pension benefits to their retirees. OPEBs typically include health, dental, vision, prescription, or other health care benefits provided to eligible retirees, their families, and in some cases, their beneficiaries. However, benefits vary widely, from no additional contributions after retirement, to full retiree and dependent coverage for life, after a vesting period. These health benefits are tax-free.

Retiree health insurance premiums have been escalating. The increased number of baby boomers reaching retirement age and employees retiring at a younger age are affecting this cost.

Cities are required by the Governmental Accounting Standards Board (GASB) to calculate their long-term retiree health obligations by June 2010, depending upon the amount of city revenues. Therefore, complete information is not yet available. The magnitude of the obligations may be seen in Table 5. Eligible employees are those that are already vested.

**Table 5: Other Post Employment Benefits, Where Known<sup>4</sup>**

| San Mateo County City | Eligible Employees | Eligible Retirees | OPEBs Expenditures (\$/yr) | Estimated Liability (\$) | Health Expenditure per Retiree (\$/yr) |
|-----------------------|--------------------|-------------------|----------------------------|--------------------------|--|
| Atherton              | 34                 | 12                | 33,365                     | -                        | 2,780                                  |
| Belmont               | 123                | 56                | 358,000                    | 8,645,000                | 6,393                                  |
| Brisbane              | 81                 | 25                | 104,000                    | -                        | 4,160                                  |
| Burlingame            | 256                | 216               | 1,750,000                  | 66,300,000               | 8,102                                  |
| Colma                 | 50                 | 14                | 138,000                    | -                        | 9,857                                  |
| Daly City             | 520                | 294               | -                          | -                        | -                                      |
| East Palo Alto        | -                  | -                 | -                          | -                        | -                                      |
| Foster City           | 65                 | 31                | 119,856                    | 2,974,000                | 3,866                                  |
| Half Moon Bay         | 50                 | 10                | 8,722                      | -                        | 877                                    |
| Hillsborough          | 85                 | 82                | 677,385                    | 15,378,000               | 8,261                                  |
| Menlo Park            | 235                | 67                | -                          | 13,000,000               | -                                      |
| Millbrae              | 90                 | 50                | 267,754                    | 0                        | 5,355                                  |
| Pacifica              | 110                | 10                | 21,908                     | -                        | 2198                                   |
| Portola Valley        | -                  | -                 | -                          | -                        | -                                      |
| Redwood City          | 534                | 248               | 1,274,543                  | 51,844,000               | 5,140                                  |
| San Bruno             | -                  | -                 | -                          | 2,040,000                | -                                      |
| San Carlos            | 106                | 60                | 242,000                    | 6,691,000                | 4,033                                  |
| San Mateo             | 540                | 380               | 722,000                    | 20,000,000               | 1,900                                  |
| So San Francisco      | 397                | 232               | 1,200,000                  | -                        | 5,172                                  |
| Woodside              | 47                 | 34                | -                          | -                        | -                                      |

### Modified Healthcare Plans

Hillsborough and Brisbane have recently introduced modified plans for all or some of their new employees. In both cases, the obligations of the cities end when the employee retires. For example, Hillsborough contributes \$75 a month to a tax-free Health Savings Account for each eligible employee hired after 2002, which, after vesting, the employee can take into retirement. Three of Hillsborough's four labor unions, including a police union, have accepted this arrangement. These plans are tax sheltered, and an employee can contribute to them. However, in both cases, the cities continue to fulfill more generous obligations to employees who were hired prior to adoption of the defined contribution plans.

In San Carlos, employees hired before January 1, 2009, who have worked with the city for ten years, receive a contribution to their health care of a minimum of \$610 per month for life. That amount increases by the same percentage as the contributions increase for current employees. However, for employees hired after January 1, 2009, that amount will decrease to \$350 per month, for life, for retired employees. The vesting period is 15 years. The amount will not fluctuate.

<sup>4</sup> Updated from the 2007-08 San Mateo County Civil Grand Jury report. <http://www.sanmateocourt.org/grandjury/2007/reports/benefits.pdf>

### **c) How Pensions and Other Post Employment Benefits are Funded by Cities**

To cover pension obligations made by the cities, city workers pay fixed rates into CalPERS, while the rate for cities is adjusted every three years. Rates are determined by the performance of CalPERS investments and the anticipated pension obligations, as calculated for each city. The payment is made as a percentage of employee salaries.

Table 6 shows the percentage of salary paid to both CalPERS and OPEBs (where known). Note how much higher contributions are for police, who are all eligible to receive retirement pensions based on the 3% at age 50 formula, compared to regular employees, most of whom receive a pension based on the 2.7% at age 55 formula, or less.

**Table 6: Employer Contributions as a Percentage of Salary to CalPERS and OPEBs**  
(Where Known)

| San Mateo County City | Employer Contributions as a Percentage of Salary to CalPERS Retirement |                 |                   | Employer Contributions as a Percentage of Salary to OPEB Retirement (Where Known) |              |                   |
|-----------------------|--|-----------------|-------------------|---|--------------|-------------------|
|                       | Safety Employees   |                 | Regular Employees | Safety Employees  |              | Regular Employees |
|                       | Police   | Firefighters    |                   | Police  | Firefighters |                   |
| Atherton              | 38.66  | -               | 20.10             | -   | -            | -                 |
| Belmont               | 30.06  | -               | 13.05             | 9.4   | 9.4          | -                 |
| Brisbane              | 14.80  | 14.80           | 13.49             | -   | -            | -                 |
| Burlingame            | 19.99  | 16.12           | 11.85             | -   | -            | -                 |
| Colma                 | 27.10  | -               | 13.18             | -   | -            | -                 |
| Daly City             | 22.25  | 22.25           | 19.67             | 2.5   | 2.5          | 2.5               |
| East Palo Alto        | 19.08  | -               | 11.58             | -   | -            | -                 |
| Foster City           | 33.01  | 33.01           | 13.93             | 1.0   | 1.0          | 1.0               |
| Half Moon Bay         | 30.33  | -               | 13.39             | -   | -            | -                 |
| Hillsborough          | 37.36  | 29.53           | 25.41             | -   | -            | -                 |
| Menlo Park            | 34.90  | -               | 15.24             | 4.0   | 4.0          | 3.2               |
| Millbrae              | 16.88  | 19.58           | 11.91             | -   | -            | -                 |
| Pacifica              | 37.52  | 31.37           | 22.23             | 20.0  | 15.5         | 5.9               |
| Portola Valley        | -  | -               | 14.07             | -   | -            | -                 |
| Redwood City          | 29.38  | 29.38           | 15.42             | 3.9   | 3.9          | 3.5               |
| San Bruno             | 30.72  | 30.72           | 14.22             | 9.0   | 9.0          | 8.0               |
| San Carlos            | 38.19<br>*17.63  | 52.24<br>*17.63 | 17.38             | 6.7   | 6.7          | 7.6               |
| San Mateo             | 28.14  | 28.14           | 11.18             | 2.0   | 2.0          | 2.0               |
| So San Francisco      | 29.13  | 29.13           | 17.22             | -   | -            | -                 |
| Woodside              | -  | -               | 12.03             | -   | -            | -                 |

\*For new hires with 3% at age 55 (versus 3% at age 50, as shown in the figure above).

## Employee Contributions to Retirement Pensions and OPEBs are as Follows:

- Regular employees contribute 8% of their salaries to CalPERS when the city formula is 2.70% at age 55, and 7% into CalPERS when the city formula is less.
- Safety employees contribute 9% of their salaries to CalPERS when the city formula is 3% at age 50, and 8% into CalPERS when the city formula is less.
- Employees in San Mateo County cities contribute nothing to OPEBs.
- For non-benefitted employees, who are enrolled in Social Security and Medicare, both the employer and employee pay 6.2% of gross compensation up to the current limit of \$106,800, toward retirement benefits. The employer and employee each pay 1.45% of gross wages, with no limit, toward Medicare. The retirement age for receiving full Social Security benefits is 67 for persons born after 1960.

## Methods Cities Use to Cover Pension and OPEBs Debt

To meet the pension and OPEBs obligations already incurred, some cities such as San Carlos, San Mateo, Daly City, and Burlingame, have issued Retirement Obligation Bonds ranging in an amount from \$11 million to \$36 million. These bonds need not be voter approved.

Bonds scheduled to be issued by the City of Pacifica in 2008, to cover unfunded city employee pension liabilities in the amount of \$17.7 million, were not put up for sale because the municipal bond market had collapsed. Therefore, the City of Pacifica will continue to pay CalPERS interest on that obligation, which is currently 7.75%.<sup>5</sup>

The City of Menlo Park diverted \$13 million from its general fund to cover its retiree health care liability.

### d) Benefits For Current Employees

Benefits for current employees include:

**Healthcare:** In almost all cities, the cost of employee health, dental, orthodontia, and vision care is completely covered, or almost completely covered, by the cities. These costs are rising. In Daly City, for example, the cost of medical, dental, and vision per employee in 2009 ranged from \$977 to \$1,221 per month, up from \$884 to \$1105 per month, in 2008. In five County cities, any increase in the cost of health care for current employees is automatically applied to retirees.

**Other Benefits:** Other benefits include tuition, childcare costs, longevity bonuses, and others.

**Days Off:** Employees are paid time off for holidays, vacations, personal leave days, plus time for sick leave. Table 7 shows the number of possible days off for a regular, non-management

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<sup>5</sup> Emde, Lionel, *Pacifica Riptide*, "Our Fiscal Crisis: Pacifica Pension Obligation Bonds Unsold," April 19, 2009, [http://www.pacificariptide.com/pacifica\\_riptide/2009/04/our-fiscal-crisis-pacifica-pension-obligation-bonds-unsold.html](http://www.pacificariptide.com/pacifica_riptide/2009/04/our-fiscal-crisis-pacifica-pension-obligation-bonds-unsold.html), and confirmed by the City of Pacifica



employee who has worked for a city for four years. The median number of years of regular-employee tenure is approximately ten.

**Paid Time Off:** The number of vacation days typically increases based on length of employment. For example, a regular non-management employee in the City of Half Moon Bay will receive the following:

- After working four years, an employee will receive a time-off total of five weeks plus two days per year, not counting up to twelve days of sick leave.
- After working eleven years, an employee will receive a time off total of eight weeks plus three days per year, not counting up to twelve days of sick leave.

**Accumulated Vacation Days** can be:

- Converted to cash at termination or retirement and/or
- Added to the number of years of service and calculated into the retirement benefit, sometimes at the higher salary being received at retirement. Restrictions may be imposed. For example, in San Carlos, the maximum accrual time is two years, and any time beyond two years is cashed out.

**Unused Sick Days** can be:

- Converted to cash at termination or retirement. Cash conversion rates range from 15% to 50% of the value of unused sick leave. There are also caps on the amount of leave that can be converted.
- Added to the number of years of service and calculated into the retirement benefit.
- Applied as health credits: these are used to extend or enhance post-retiree health care plans.

**TABLE 7: Days Off for a Regular Employee, Who Has Worked 4 Years with a City**

|                     | Vacation Days per Year for a Regular Employee | Holidays              | Floating or Personal Leave Days | Total Possible Days Off | Plus (+) Sick Days per Year |
|---------------------|---|-----------------------|---------------------------------|-------------------------|-----------------------------|
| Atherton            | 15  | 11                    | 1                               | 5 weeks<br>2 days       | +2 weeks<br>2 days          |
| Belmont             | 10  | 11                    | 2                               | 4 weeks<br>3 days       | +2 weeks<br>2 days          |
| Brisbane            | 15  | 12 + 2 days<br>@ 4 hr | 3                               | 6 weeks<br>1 day        | +2 weeks<br>2 days          |
| Burlingame          | 10  | 14                    | -                               | 4 weeks<br>4 days       | +2 weeks<br>4 days          |
| Colma               | 10  | 13                    | 3                               | 4 weeks<br>3 days       | +2 weeks<br>2 days          |
| Daly City           | 13  | 10 + 2 days<br>@ 4 hr | -                               | 4 weeks<br>4 days       | +2 weeks<br>2 days          |
| East Palo Alto      | 10  | 12                    | -                               | 3 weeks<br>1 days       | + 3 days                    |
| Foster City         | 12  | 11 + 2 days<br>@ 4 hr | -                               | 4 weeks<br>4 days       | +2 weeks<br>2 days          |
| Half Moon Bay       | 12  | 14                    | 1                               | 5 weeks<br>2 days       | +2 weeks<br>2 days          |
| Hillsborough        | 15  | 11                    | 2                               | 6 weeks                 | +2 weeks<br>4 days          |
| Menlo Park          | 13  | 11                    | 4 days +<br>2 hrs               | 6 weeks<br>1 day        | +2 weeks<br>2 days          |
| Millbrae            | 12  | 10                    | 3                               | 5 weeks<br>5 days       | +2 weeks<br>2 days          |
| Pacifica            | 11  | 11                    | 2                               | 4 weeks<br>4 days       | +2 weeks<br>2 days          |
| Portola Valley      | 10  | 13                    | 0                               | 4 weeks<br>3 days       | +2 weeks<br>2 days          |
| Redwood City        | 10  | 12                    | 2                               | 4 weeks<br>4 days       | +2 weeks<br>2 days          |
| San Bruno           | 10  | 11                    | 3 days +<br>4 hrs               | 5 weeks                 | +2 weeks<br>2 days          |
| San Carlos          | 12  | 10                    | 5                               | 5 weeks<br>2 days       | +2 weeks<br>2 days          |
| San Mateo           | 16  | 10                    | 3                               | 4 weeks<br>4 days       | +2 weeks<br>2 days          |
| South San Francisco | 15  | 11 + 2 days<br>@ 4 hr | -                               | 5 weeks<br>2 days       | +2 weeks<br>2 days          |
| Woodside            | -   | 13                    | 24                              | 7 weeks<br>2 days       | none                        |

## **e) Salaries for Current Employee**

Employee union contracts have automatic salary increases, known as “step” increases. The first increase will typically come after the initial six months in a position, and the last will be reached in 3.5 years.<sup>6</sup> Then, the employee may go on to Step II. These scheduled increases do not include pay-for-performance adjustments.

In addition, step categories are increased annually to reflect COLA increases. In the years starting July 1, 2008 and ending June 30, 2011, the COLA increase in one San Carlos contract is scheduled to rise by 9.5%.

It is beyond the resources of this Grand Jury to analyze the salaries of the twenty cities in San Mateo County. However, from the Bureau of Labor Statistics the Grand Jury learned that nationwide, state and local government workers are paid an average of \$25.30 per hour, which is 33% higher than the private sector’s \$19.00 per hour. The gap widens to 42% when pensions and other benefits are included.<sup>7</sup> The Grand Jury recognizes that the private sector covers a wider range of jobs than the public sector.

### **Representative Salaries**

From cities, the Grand Jury learned that:

- Daly City has 562 full-time employees, including police and firefighters. In 2009, the median salary for a maintenance worker without current benefits or retirement benefits is \$84,610. Twelve employees earned less than \$50,000 per year. One hundred ninety-five employees have base salaries of more than \$100,000.
- South San Francisco has 371 full-time employees, including police and firefighters, who have worked for the city at least one year. In 2008, the median salary, without current benefits or retirement benefits, was \$83,873. Without firefighters and police, the median salary was \$65,335. Twenty-five employees earned less than \$50,000 per year. Eighty-seven earned more than \$100,000.
- In Hillsborough, the 2009 median salary for 113 full-time employees is \$92,133 without current or retirement benefits. Ten employees will earn more than \$100,000, and four will earn less than \$50,000.
- In Foster City, the median salary in 2009, for 212 full-time employees including police and firefighters, is \$83,685 without current or retirement benefits. One employee will earn less than \$50,000. Fifty-six will earn more than \$100,000 a year.

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<sup>6</sup> An Administrative Assistant position in San Carlos, beginning in 2010, will make \$4,684 per month. After six months in that position, the employee will make \$5108 a month. After three and a half years, that employee will make \$5,913 per month.

<sup>7</sup> <http://www.bls.gov/news.release/ecec.nr0.htm>

## Representative Increases in Salaries and Benefits

From newspaper articles the Grand Jury learned that:

- In Menlo Park, from 2001 to 2006, the number of full-time equivalent employees dropped 13%, but personnel costs increased 27%.<sup>8</sup>
- In 2007, Menlo Park employees received a 35% boost in pension benefits.<sup>9</sup>
- In the City of San Mateo, total payroll increased from \$54.1 million in 2006 to \$61.5 million in 2008-- an increase of 12.1%. These figures include current benefits but not retirement benefits.<sup>10</sup>
- In Burlingame, total payroll jumped 11% from 2006 to 2008.<sup>11</sup>
- On February 9, 2009, the Pacifica City Council approved a new one-year contract with the fire battalion chiefs represented by Teamsters Local 856, retroactive to July 1, 2008. The contract featured a lump-sum payment of \$4,778.96 for members of the bargaining unit, a three percent increase in the base hourly rate, and an option of two different health plans. The monthly contributions from the city per employee are either \$1,022 or \$1,154<sup>12</sup>
- In January 2009, the Menlo Park City Council approved a raise that will increase the total pay for eight police sergeant positions 30 percent-- from \$107,086 to \$131,452-- by 2011. In that year, the new sergeants' contract will cost the city \$2.29 million, \$529,000 more than the \$1.76 million it paid in the current 2008-09 fiscal year.<sup>13</sup>
- For the five years from 2003-2008, the Consumer Price Index for the Bay Area increased by a total of 13.1% or an average of 2.6% a year.<sup>14</sup>

## 2. Personnel Policies

### a) How Wage and Compensation Packages are Set

From interviews, the Grand Jury learned that most cities set their compensation packages by surveying the wage index for a handful of like cities in the general area-- not for the employment market at large. In union negotiations, cities will often negotiate to a place on the wage index rather than negotiating what they think are reasonable salaries. If the wages in their percentile increase due to new negotiations, all negotiated salaries increase. Additionally, the Grand Jury learned that this practice of limiting the survey to other cities is based on the assumption people from the private sector are not qualified for public sector jobs.

The City of Burlingame stopped using this survey in 2008<sup>15</sup>:

A city official told the Daily Post: "The practice of using neighboring cities as an index had created a system where cities are essentially bidding against each other for the highest wages. The collective bargaining process makes it a 'keeping up with (the) Joneses' kind of thing.... It continually puts a great inflationary pressure on salary and wages."

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<sup>8</sup> *Almanac*, "Menlo Park Employee Benefits, a Growing Burden," July 5, 2006

<sup>9</sup> *Almanac*, "Menlo Park Contracts Will Boost Benefits 35%," February 14, 2007

<sup>10</sup> *Daily Post*, "San Mateo City Salaries Listed," March 3, 2009

<sup>11</sup> *Daily Post*, "Burlingame Slows Down Payraises," March 17, 2009

<sup>12</sup> *Ibid*: Emde, Lionel; For verification see <http://www.cityofpacific.org/civica/filebank/blobload.asp?BlobID=3284>

<sup>13</sup> *Almanac*, "Viewpoint," May 6, 2009

<sup>14</sup> <http://www.squarefeetblog.com/commercial-real-estate-blog/2009/01/16/san-francisco-consumer-price-index-cpi-december-2008-update/>

<sup>15</sup> *Daily Post*, "Burlingame Slows Down Payraises," March 17, 2009

The impact of using such a survey is evident in the case of firefighter compensation. Firefighters often receive the same compensation packages as police officers and, in all cases more than regular employees. (Table 3) While there is a shortage of police officers, there are 300 to 1000 applicants for every firefighter job vacancy.

### **b) Staff Size: Merging, Streamlining, and Contracting Services**

**Merging services:** From interviews, the Grand Jury learned that the twenty County cities have unnecessary duplication of services for small population pockets, and that there are many opportunities for services in different cities to merge. Some cities have merged their police and/or firefighters with other cities or outsourced the police and fire duties to the County. Some dispatch services have merged. Two neighboring cities share management recreation staff. The San Mateo County Office of Education supplies all payroll services for the more than 150 County public schools.

**Streamlining:** Many cities have streamlined functions by web-enabling their employment applications, building applications, Requests for Proposals, and other services.

**Contracting Services:** From interviews, the Grand Jury learned that services can be less expensive for cities to contract with private companies to execute functions usually performed by employees. Cities have contracted out childcare services that operate on city land, recreation services, landscaping, street sweeping, tree trimming, plan-checking, information technology functions, road surfacing, fleet maintenance, and custodial work.

When contracting services are considered, some cities will allow city departments to submit proposals to maintain the services in-house. There may be legal limitations in the types of services that can be contracted and the manner in which these services can be performed.

Table 8 shows there are differences among staff sizes in the twenty cities of San Mateo County. Many factors contribute to determining the “right staff size.”

**Table 8: Comparison of Population Size with City Staff Size**  
(as of December 2008, not including part-time or seasonal workers)

| <b>San Mateo County City</b> | <b>Population</b> | <b>Full Time Equivalent Employees</b> | <b>Includes Police</b> | <b>Includes Firefighters</b> |
|------------------------------|-------------------|---------------------------------------|------------------------|------------------------------|
| Atherton                     | 7,194             | 51                                    | yes                    | no                           |
| Belmont                      | 26,078            | 135                                   | yes                    | no                           |
| Brisbane                     | 3,694             | 117                                   | yes                    | yes                          |
| Burlingame                   | 28,185            | 258                                   | yes                    | yes                          |
| Colma                        | 1,197             | 45                                    | yes                    | no                           |
| Daly City                    | 106,361           | 562                                   | yes                    | yes                          |
| East Palo Alto               | 31,500            | 117                                   | yes                    | no                           |
| Foster City                  | 28,803            | 213                                   | yes                    | yes                          |
| Half Moon Bay                | 13,046            | 52                                    | yes                    | no                           |
| Hillsborough                 | 10,825            | 115                                   | yes                    | no                           |
| Menlo Park                   | 30,785            | 244                                   | yes                    | no                           |
| Millbrae                     | 21,387            | 136                                   | yes                    | yes                          |
| Pacifica                     | 39,616            | 199                                   | yes                    | yes                          |
| Portola Valley               | 4,500             | 14                                    | no                     | no                           |
| Redwood City                 | 75,400            | 546                                   | yes                    | yes                          |
| San Bruno                    | 41,750            | 253                                   | yes                    | yes                          |
| San Carlos                   | 27,718            | 111                                   | yes                    | no                           |
| San Mateo                    | 92,482            | 580                                   | yes                    | yes                          |
| South San Francisco          | 60,552            | 495                                   | yes                    | yes                          |
| Woodside                     | 5,352             | 21                                    | no                     | no                           |

### 3. The Role of Politics

#### a) The Nexus Between Unions, City Council Members and Staff

In all San Mateo County cities, salaries, retirement pension plans, other post employment benefit plans, as well as the current health care benefits, workplace rules, salary ranges, and increases are negotiated by unions on behalf of their members. Each city negotiates with three to twelve unions, usually for three-year contracts. (Appendix 2)

The negotiating unit for San Mateo County cities includes city council members and the city manager. They negotiate with the assistance of a labor negotiator. There is a conflict of interest because council members and the city manager, as well as the union members, will benefit in some ways when salaries and compensation packages increase.

When compensation packages are increased senior staff also benefit because although not represented by a union, their salaries and benefits increase proportionally to those whom they manage. Some city council members will benefit financially because they can become vested after five years, during their second terms, and receive healthcare and pension benefits for life.

Additionally, city council members benefit because they will maintain union support, and, in almost all County cities, unions play an active election role. According to the December 2008 edition of the newsletter *Labor*, “The San Mateo County Central Labor Council was successful in winning 75 percent of endorsed local ballot measures and candidate races.”

A *Daily Post* editorial<sup>16</sup> quotes from a candidate questionnaire, crafted by the unions for city council candidates, that includes the following sample questions:

“What steps would you support to balance the city’s budget?

- a) require city workers to take unpaid time off,
- b) ask voters to raise taxes,
- c) reduce wages and benefits of city workers,
- d) increase user fees,
- e) lay off city workers.”

“If elected, will you use your influence as a city council member to support workers who are organizing to form a union or negotiating for a union contract?

a) yes, b) no.”

“If the current city council votes to privatize the city’s child care programs, will you vote to rescind this decision? a) yes, b) no.”

During an interview, a union representative told the Grand Jury in addition to supporting their candidates with funding, union members print, distribute, and mail literature, manage phone banks, and help with candidate campaigns. Unions will also negatively campaign against candidates they oppose.

#### b) Public Involvement

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<sup>16</sup> *Daily Post*, “Take the quiz unions give to candidates,” February 9, 2009

Under California law, labor union negotiations are held in closed session. According to a survey the Grand Jury sent to twenty cities, less than half the cities in San Mateo County hold public discussions before the closed session. Almost all cities place the negotiated contracts on the city council consent calendar, where contracts may be voted on without further discussion among the council members, unless a member of the city council specifically requests that the contract be discussed.

At the September 8, 2008 City of Pacifica council meeting, for example, three contract issues appeared on the consent calendar and were adopted without discussion. The staff report did not describe the fiscal impacts of these decisions, referring readers to the fiscal year 2008-2009 budget in which the increases were anticipated.<sup>17</sup>

### **Ballot measures:**

In some charter cities and counties outside of San Mateo County, ballot initiatives have recently given citizens a chance to vote on retirement and health care benefits.

San Francisco, the City of San Diego, and Orange County have recently passed ballot initiatives as follows:

1. In June 2008, San Francisco voters approved two ballot measures limiting the future cost of retiree health care benefits:
  - a) New employees will contribute two percent of their salary to a new retiree health care fund and the employing agency will contribute one percent.
  - b) New employees must work ten years to receive half of their health care costs when they retire and twenty years for full coverage, whereas previously, if they worked five years they were 100% vested.
2. In November 2006, the City of San Diego required voter approval to any increases in retiree benefits.
3. In November 2008, Orange County voters decided that future retirement increases must be voter approved.

### **Conclusions**

The 2008-2009 San Mateo County Civil Grand Jury concludes:

1. Employee wages and compensation packages are not affordable. The escalating employee costs can and should be reversed in the twenty cities of San Mateo County.
2. Long-term solutions, in addition to stop-gap measures such as temporary wage freezes and furloughs, are needed.
3. Union contracts for new municipal employees can be introduced, reducing the cost to cities for both pension and post-retirement health care plans.
4. For current, as well as newly hired employees, salary increases, total days off, and the ability to accrue and cash out sick leave, can be contained.
5. The practice of basing compensation packages on those of nearby cities contributes to higher employee costs overall.

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<sup>17</sup> *Ibid*: Emde, Lionel; for verification see:  
<http://www.cityofpacifica.org/civica/filebank/blobdload.asp?BlobID=3110> see #6 on consent calendar & attachment  
<http://www.cityofpacifica.org/civica/filebank/blobdload.asp?BlobID=3146> see consent calendar minutes



6. Cost-efficiencies have been achieved by contracting out some services to other cities or to private-sector firms.
7. Cooperation among cities to reduce overlapping functions has been successfully implemented.
8. Political barriers-to-change exist because the people negotiating employee contracts-- staff, unions and city council members-- all benefit when wage and compensation packages increase. These barriers can be neutralized with public involvement and, possibly, through ballot measures.

## Recommendations

The 2008-2009 San Mateo County Civil Grand Jury recommends that the city or town council of: Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, Woodside, take the following actions:

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City- Staffing Action Plan.
2. Create a Citizen “Wage Benefit and City Staffing” Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with:
  - a) Attending the session(s) convened per Recommendation One
  - b) Creating and reviewing the Wage, Benefit and City-Staffing Action Plan (Action Plan) that is produced by the Task Force from this session
  - c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election

The items in the Action Plan should address but not be limited to:

- 1. Creating a two-tier system retirement and healthcare benefits system for new hires to:**
  - a) Replace current post employment healthcare plans with health savings plans.
  - b) Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60.
  - c) Base pensions on the average of the last three to five years of salary.
  - d) Make provisions for increasing employee contributions to current pension and post-retirement healthcare plans.
- 2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees to:**
  - a) Eliminate the practice of converting accumulated sick leave to cash.
  - b) Reduce vacation time.
  - c) Reduce the number of personal days.

- d) Increase employee contributions to current health, vision, and dental insurance.
- e) Extend the length of time between automatic salary increases.

### **3. Initiating competitive hiring practices to:**

- a) Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.
- b) Employ more market-oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.
- c) Consider the number of applicants for respective jobs, when negotiating salaries, noting, for example, that there are often 300 to 1000 applicants for firefighter jobs.
- d) Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police recruits.
- e) Join with other cities, and/or the County to create a central training center that promotes cross-training and succession planning for existing staff, and, additionally, introduces qualified applicants from the private sector to public sector service.

### **4. Reducing need for Staff by:**

- a) Expanding the use of technology to streamline services.
- b) Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.
- c) Creating partnerships with other cities and/or the county to include, for example: payroll, human resources, landscaping, fire fighting, police, recreation, and, custodial work. The County already provides centralized training and dispatch services.

### **5. Increasing Public Involvement by:**

- a) Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits.
- b) Making public the Memorandums of Understanding (MOUs) with the unions that result from these negotiations.
- c) Placing the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena.

### **6. Involving Taxpayers:**

- a) If a city council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the city council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them.

## **Appendix 1: CalPERS Formula Charts**

1. For Local Miscellaneous Members (dated 04-21-05)  
2% @ 55; 2% @ 60; 2.5% @ 55; 2.7% @ 55; 3% @ 60
2. For Local Safety Members  
2% @ 50; 2% @ 50; 2.5% @ 55; 3% @ 50; 3% @ 55

## **Appendix 2:**

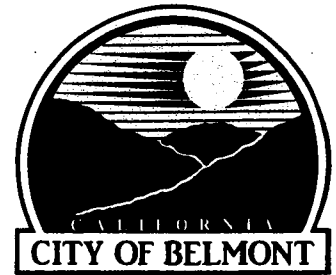
Many cities post Union Contracts on their websites.

Go to:

1. City website.
2. City Departments
3. Personnel (or Human Resources)
4. And find the contacts listed there.

For Daly City, for example, which negotiates with 12 separate unions, go to

[http://www.dalycity.org/city\\_services/depts/hr/mous.htm](http://www.dalycity.org/city_services/depts/hr/mous.htm)



September 1, 2009

Hon. George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Subject: Grand Jury Report, Employee Costs

Dear Honorable George A. Miram:

On behalf of the Belmont City Council, enclosed is the City of Belmont's response to the findings and recommendations in the 2008-2009 Civil Grand Jury Report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County. Specifically, attachment A is the City of Belmont's response and attachment B is the City Manager's Association response.

The City's response was discussed and approved at the Belmont City Council meeting of August 11, 2009.

If we can be of further assistance, please feel free to contact my office at (650) 595-7408.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack R. Crist".

Jack R. Crist  
City Manager

cc: Mayor and City Council  
City Clerk  
Human Resources Director

## Attachment A

### **City of Belmont's Response to the 2008-2009 San Mateo County Civil Grand Report on the Upward Trajectory of Employee Costs in Cities**

The City of Belmont has studied the above mentioned report and respectfully submits the responses below. Responses have been organized into three sections which correspond with the Grand Jury Report: 1) Introduction, 2) Findings and Discussion and 3) Recommendations.

#### **Introduction**

The 2008-2009 Civil Grand jury report states:

*"In the cities of San Mateo County employees' wages and compensation packages continue to escalate despite the deficit environment that has existed since the dot com bubble burst and despite the aggravated deficits experienced in the more recent economic downturn. To accommodate escalating employee costs and balance their budgets cities have increased user fees, raised taxes, issued bonds, transferred funds from their reserves and postponed needed infrastructure projects. Because personnel costs typically comprise 70% of the operating budgets in the cities of San Mateo County any cost containment measures must halt and reverse the escalation of employee costs."*

This statement contains the assumptions upon which the report was written. One needs to critically analyze these assumptions as they apply to the City of Belmont as responses are constructed. The following points are offered:

- a) The City of Belmont has only been in a "deficit environment" for the last year. Prior to that, City General fund revenues exceeded the rate of employee cost growth. Belmont was one of only four cities in the County whose employee cost growth rate was less than revenue growth. It is only in the last year that the City has experienced budget deficits and the City Council has made expenditure reductions sufficient to eliminate these deficits.
- b) During the period from the Dot Com recession until 2008, the City has not been transferring money out of reserves, but instead is increasing its General fund reserves.
- c) Infrastructure capital funding for utilities such as sewer is being funded through user charges. Long term bonds are utilized to finance long term assets such as pipelines and treatment plant renovation. This is a best practice of the private sector as well as government.
- d) General government infrastructure such as streets and roads have not had an adequate funding source for decades. Employee cost growth is not the problem with general government infrastructure funding. The problem is simply inadequate funding sources such as gas tax.
- e) While the City did enhance Public Safety pensions to the 3% @ age 50 formula, it did not enhance miscellaneous employees' pensions. Miscellaneous employee pensions remain on the 2% @ age 55 formula.

- f) User fees are increased to cover cost increases, but taxes have not been amended in years.
- g) Employee costs are not in excess of 70% of the operating budget in Belmont. In Belmont, the number is 66 %.

Based on the above, the Grand Jury assumptions do not neatly correlate with what is actually happening in Belmont. Employee costs have historically tracked with the rate of inflation and have been less than General fund revenue growth. The employee cost budget as a per cent of the operating budget is well below cautionary levels.

Further, the Grand Jury report is completely silent on the fact that all of the San Mateo County Cities are union shops with negotiated labor agreements in accordance with State Statutes. The City of Belmont has a long history of negotiating reasonable labor agreements and then honoring them throughout the life of the contract. We intend to continue that past practice.

### **Findings and Discussion**

We disagree partially with some of the findings as specified below.

#### ***Salary and Compensation Packages***

##### ***a) Retirement Pension Benefits***

###### ***Table 3: Retirement Formulas for San Mateo County Cities***

It should be noted that the City of Belmont did not opt for an enhanced retirement formula as did the majority of the other cities surveyed. Belmont has chosen to maintain the 2%@ 55 formula for its miscellaneous (non-safety) employees.

###### ***Table 4: Cities That Have Reduced Retirement Benefits for New Hires***

This table shows Belmont having two retirement formulas for non-safety employees, one for prior hires and one for newly hired employees. This finding is incorrect, Belmont does not have different retirement benefit formulas for prior employees and new hires. Belmont currently has the 2%@55 retirement formula for all non-safety employees.

In addition this table does not show the retirement formulas for Belmont's Police Officers. The table should read 3%@50 for both prior and new hires.

### **Recommendations**

***The 2008 2009 San Mateo County Civil Grand Jury recommends that the city or town council of Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, Woodside take the following actions:***

- 1) ***Convene at least one public session in 2009 devoted to controlling employee costs***  
*By reviewing all applicable issues in this report including but not limited to the issues*

*presented below. The session should result in a Wage Benefit and City Staffing Action Plan*

**City Response:**

The City has not yet implemented this recommendation however the City does intend to implement this action in fiscal year 2009-2010.

Convening a public meeting to discuss City employee compensation in general is a reasonable suggestion. However, state law requires the City to bargain in good faith with recognized bargaining units and developing specific action plans in a public forum would be problematic from a labor relations and confidentiality standpoint. A reasonable middle ground might be to solicit public input in a public City Council meeting prior to beginning contract negotiations with the recognized bargaining units.

Holding a public meeting to discuss controlling employee costs would not be a problem. Staff could author a report articulating all the facts related to Belmont's employee costs segregated between public safety and non safety employees. It is a policy matter for the City Council to decide. The Mayor and Vice Mayor set the agenda. They could simply direct the City Manager to develop such a report.

**2) *Create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members drawn by lottery from resident applicants charged with:***

- a) Attending the sessions convened per Recommendation One.*
- b) Creating and reviewing the Wage Benefit and City Staffing Action Plan (Action Plan) that is produced by the Task Force from this session.*
- c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election.*

**City Response:**

This recommendation requires further analysis and discussion with the members of the City Council.

The Grand Jury recommends more extensive involvement of citizens in decision-making related to public employee compensation. The City of Belmont encourages input from the public in regard to this matter. However, the City respectfully submits that a "Wage, Benefit and Staffing Task Force" made of volunteer residents selected at random may be counterproductive to the goals articulated in the Grand Jury report. The City Council, rather than a randomly selected task force, is the appropriate body to create an action plan addressing the issues raised by the Grand Jury.

The City supports the solicitation and consideration of public input though public meetings during the planning process at the outset of labor negotiations. In addition, the City believes consultation with those educated in the field is well-advised to avoid potential legal concerns relating to compensation. Yet ultimately, the City Council is appropriately charged with creating policy pertaining to public employee compensation in the City.

Issues related to public sector employee compensation are intricate and at times involve complex legal issues. Furthermore, changes in compensation for public employees may have a significant impact on both City finances and the provision of services, and can be momentous decisions for any city council. Specialized knowledge in this area of expertise is required in order to make prudent decisions regarding civil service compensation. Task Force members selected at random may be ill equipped to deal with the intricacies and legal requirements related to public sector compensation.

To appropriately evaluate compensation issues, the Belmont City Council regularly consults with individuals knowledgeable in this area of the law. The Council contracts with an outside attorney negotiator to advise the City and conduct labor negotiations on behalf of the City. In addition, the City has utilized a Finance Committee, composed of a Certified Public Accountant and the City Attorney, to advise the Council on complex compensation issues in the past. The Council hones its knowledge relating to public sector compensation on an ongoing basis and remains amenable to various compensation models and options to balance spending control with the ability to recruit and retain qualified civil servants.

Based on input from citizens and the City's advisors, the City Council must ultimately make the decisions relating to compensation that it was elected to carry out. This includes creation of the recommended action plan.

Having stated the above, the City Council will also be considering and discussing the option of placing a sub-committee consisting of citizens, council members, and Human Resources to meet two-four times a year to educate the community and council.

***The items in the Action Plan should address but not be limited to:***

- 1. Creating a two tier system retirement and healthcare benefits system for new hires to:***
  - a) Replace current post employment healthcare plans with health savings plans*
  - b) Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60*
  - c) Base pensions on the average of the last three to five years of salary*
  - d) Make provisions for increasing employee contributions to current pension and post retirement healthcare plans*
  
- 2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two tier system for new employees to:***
  - a) Eliminate the practice of converting accumulated sick leave to cash*
  - b) Reduce vacation time*
  - c) Reduce the number of personal days*
  - d) Increase employee contributions to current health vision and dental insurance*
  - e) Extend the length of time between automatic salary increases*

**City Response:**



This recommendation requires further analysis and discussion with the city council as well as the respective labor organizations. The above referenced items impact wages, and other terms and conditions of employment and are subject to meet and confer/ negotiations.

The Grand Jury supports the concept of placing measures on the electoral ballot to address “two-tiering” retirement compensation. As discussed below, this function is one of many that City Council members are elected to perform. The power to set compensation for City employees is a mandate of significant magnitude granted to the Council by the California Constitution, and is a function that the Council carries out in earnest and with substantial commitment.

The Belmont City Council endorses the creation of an action plan prior to the beginning of labor contract negotiations. However, the Council respectfully submits that the Council itself, as elected by the voters, is appropriately charged with its creation. The issue of two-tiered retirement and benefit plans is a legitimate topic for future bargaining. However, the City of Belmont has not enhanced retirement benefits for non-safety employees, therefore the comment would not have application in Belmont.

### ***3) Initiating competitive hiring practices to:***

- a) Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.***

#### **City Response:**

The City has implemented in part this recommendation as specified below. The City currently considers comparable jobs of other similar/comparable public sector/cities within the peninsula and as agreed upon by both the City and respective labor organizations.

Broadening the compensation horizon by considering comparable jobs in both the private and public sector can be achieved after careful analysis of positions that have similar duties/responsibilities and qualifications; union organizations are typically part of the discussions. There are some job positions that have true comparables and are transferrable/interchangeable from private to public sector and vice versa. Examples of those positions include some administrative assistant/office positions; maintenance positions, some computer/information technology positions. Conversely, there are some jobs that have no close comparables to the private sector. Those jobs include police officer and fire fighter.

The City of Belmont in its recent labor negotiations with two labor organizations (American Federation of State County and Municipal Employees and Mid Management Confidential Employees Association) was able to negotiate a Merit/Longevity Bonus program that rewards employees with six or more years of service with overall performance of outstanding or exceeds standards. Rather than giving *only* cost of living adjustments (COLA) regardless of performance, the City has implemented this “pay for performance” program to encourage increased productivity and higher level of performance which ultimately results in a higher level of service and accountability to the citizens and community. Total monies that would have normally been allocated directly for automatic COLAs were allocated to a portion of COLA as well as Merit/Longevity Pay. This is an example

of how the City of Belmont has adopted a best practice/compensation strategy of the private sector.

***b) Employ more market oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.***

**City Response:**

This recommendation requires further analysis and discussion with the members of respective labor organizations.

The recommendation of employing more market oriented compensation practices so that salaries can adjust up or down in time of high and low competition for labor needs to be looked at carefully—are we referring to employees already with the organization or candidates being considered for employment? A number of these issues obviously are subject of meet and confer with the union organizations. This strategy could be a bit unstable due to the unknown. A variation of the recommendation would be agreed upon contractual language that could be a trigger holding in abeyance normal salary adjustments in times when the organization can demonstrate its significant economic changes, i.e. loss in revenue. This is a more proactive step—we would not frantically be reacting to situations by trying to renegotiate with the unions, or implementing furloughs, hiring freezes or possible lay offs when the problem arises.

***c) Consider the number of applicants for respective jobs when negotiating salaries noting for example that there are often 300 to 1000 applicants for firefighter jobs.***

**City Response:**

The City has implemented this recommendation as specified below. The City considers the number of applicants for respective jobs when negotiating salaries noting for example that there are often 300 to 1000 applicants for firefighter jobs can be utilized during the salary negotiations at the time of job offer. Agencies have the ability, if there is no loss in compensation for potential new hires, to bring new employees at the step1 or at the lowest step of the salary range. If the first choice candidate declines, the agency can easily go to candidate #2. With a large candidate pool, the agency has options. Conversely, if the labor market is tight and agencies are having difficulty in attracting applicants, agencies may want to hire at a higher step or if allowable, provide sign-on bonuses. At this time, the City of Belmont does not offer sign-on bonuses. These sign-on bonuses are one time lump sum payments and are tied to successful performance and length of employment. It is a known one time cost. Public sector organizations may want to consider this vs. the long-term cost commitments tied to salary. It also allows public agencies to compete better with the private sector.

***d) Develop more applicants by initiating outreach programs to universities community colleges returning veterans and local high schools especially for police recruits.***

**City Response:**

The City has implemented this recommendation in part as specified below. The City intends to increase its efforts by the end of this fiscal year. Developing more applicants by initiating outreach programs to universities/ community colleges, returning veterans and local high schools, especially for police recruits, is being done. Belmont could certainly expand our outreach to an even younger population. Why not start at the junior high levels and hold "career days". One idea would be to introduce a program which highlights the sometime unknown career opportunities in local government. In addition the program could market working in the public sector by highlighting the ability to make a difference in the community while earning competitive wages and benefits.

*e) Join with other cities and or the County to create a central training center that promotes cross training and succession planning for existing staff and additionally introduces qualified applicants from the private sector to public sector service.*

**City Response:**

The City has implemented this recommendation as specified below. Belmont has joined with other cities of San Mateo and the San Mateo County to create a central training center that promotes cross training and succession planning for existing staff and additionally introduces qualified applicants from the private sector to public sector service.

Belmont has been and continues to be involved in the Management Talent Exchange Program (MTEP). The MTEP program which partners cities in San Mateo County and Santa Clara County provides exchange employment opportunities for employees. We have offered four opportunities in the Finance, Human Resources, and Park and Recreation Departments to allow for interested and qualified individuals from various other cities to learn and contribute at the City of Belmont. In addition, several City staff have participated in the program.

Most recently, San Mateo County Human Resources Directors rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. Belmont's Human Resources Director is on the planning committee along with a few representatives from other Cities. The idea to achieve a more effective and efficient way to deliver training opportunities that is more cost effective for the cities of San Mateo County and the County of San Mateo.

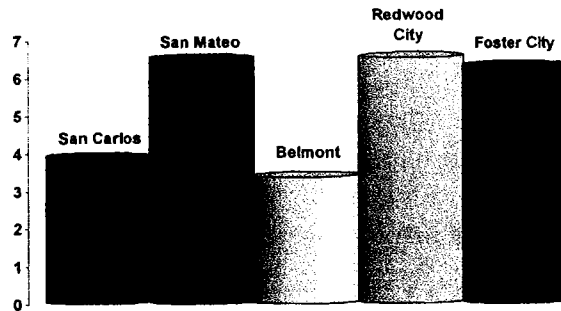
**4) Reducing need for Staff by:**

**City Response:**

The City has implemented this recommendation as specified below.

It terms of reducing the need and number of staff, it should be noted the City of Belmont has significantly less employees per 1,000 residents as compared to its neighboring cities, as the chart below illustrates:

**Number of General Fund Employees per 1,000 Residents**



***a) Expanding the use of technology to streamline services.***

Belmont has been and continues to introduce the use of technology in an effort to streamline services. To date the City has implemented the following:

- Automated phone system in the permit center which allows citizens and customers to make inspection appointment as well as inquire on the status of permits, projects and code enforcement issues.
- The City of Belmont website has Questys, an online searchable database which allows the public to search for City items of interests (i.e. staff reports, meeting minutes, resolutions, etc.).
- The Parks and Recreation Department utilizes an online registration system which allows citizens to register for classes and programs at any time day or night.
- The City is currently working on an “e-vision” project which when completed will create a 24/7 virtual City Hall where citizens and customers can do City business twenty four hours a day, seven days a week.

***b Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.***

Belmont currently contracts out for the following services:

- Traffic signal maintenance
- Janitorial services
- Specialized building maintenance (i.e. plumbing, electrical and HVAC)
- Street median maintenance
- Specialized engineering services
- Land use planning services

- c) *Creating partnerships with other cities and or the county to include for example payroll, human resources, landscaping, fire fighting, police recreation and custodial work. The County already provides centralized training and dispatch services.*

The City of Belmont is always open to partnerships. The City continues to obtain fire services from the Belmont –San Carlos Fire Department through a joint powers authority (JPA) with the City of San Carlos. Other current shared services include:

- Animal Control
- Solid Waste Management
- Library Services
- Sewage Treatment
- Fiscal and HR Services
- Fire Dispatch
- Transportation Planning
- Specialized Police functions such as SWAT

5) **Increasing Public Involvement by:**

- a) *Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members who negotiate compensation packages receive the same negotiated benefits.*

**City Response:**

The City has not yet implemented this recommendation but will do so prior to initiating closed session negotiations.

The City is not opposed to holding public hearings prior to initiating closed session negotiations. Such meetings would provide the public the opportunity to comment on issues and concerns pertaining to negotiations and allow for public suggestions on future contracts. In advance of the closed session, the City would convene a public hearing to obtain feedback, in this instance the public could comment about the cost and salaries of employees and concerns or suggestions they may have. The public could include various parties such as the labor organizations representatives, public interest groups, and the citizens/taxpayers of the community.

- b) *Making public the Memorandums of Understanding MOUs with the unions that result from these negotiations.*

**City Response:**

The City has implemented this recommendation as specified below.

The City posts on its public website the Memorandums of Understanding (MOUs) with each of its three bargaining groups. These are typically available shortly after negotiations have concluded and the documents have been ratified and adopted. The public can review anything from salary information, benefits offered, and terms and conditions of employment.

***c) Placing the MOUs as a current agenda item after two weeks of making them public and invite discussion in a public arena***

**City Response:**

The City will not be implementing this recommendation as specified below. Placing the MOUs as a current agenda item after two weeks of making them public and invite discussion in a public arena does not make sense. If a MOU has ratified or if there is a tentative agreement between the union and city, what value will a public discussion have at this point? The City's suggestion is to hold the public meetings in advance of the close sessions; the city would have the ability to consider what the public is proposing and can consider incorporating it into the City's proposal. The city is also in support of creating a labor sub-committee as needed.

**6) Involving Taxpayers**

- a) If a city council is reluctant to create a two tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions the city council should place ballot measures initiating such two tier systems on local ballots and allow voters to support or reject them.*

**City Response:**

The City will not be implementing this recommendation, specifically as it relates to placing ballot measures initiating such two tier systems on local ballots for reasons specified below.

**Non-Safety**

Once again, the City of Belmont never enhanced non-safety retirement formulas as other cities did. Therefore, this portion of City pension costs is not in need of reduction. The City of Belmont non-safety pension costs as reported in the Grand Jury Report are 13.1% of payroll. This compares very favorably with the County wide average of 15.3% shown in Table 6 of the Grand Jury Report (p. 12). The City has been steadfast in maintaining a 2% at 55 retirement formula for miscellaneous employees, and has firmly resisted efforts to bargain for an enhanced formula.

**Safety**

The City has shown willingness to create two-tier compensation. As noted by the Grand Jury report, the Belmont-San Carlos Fire District implemented two-tier pension for firefighters. Individuals hired prior to the agreement over two-tier pension receive a retirement formula of 3% at 50, and employees hired after the date of the agreement receive a retirement formula of 3% at 55.

The Grand Jury supports the idea of placing changes to employee compensation on the electoral ballot. The City responds, as discussed above, that Council has a constitutional mandate to set employee compensation on an annual basis, as part of the annual budget process. As the Council was elected, in part, to fulfill this function, it devotes careful

consideration to the process and issues involved. The City Council firmly believes that this mandate should not be disregarded, and the State Constitution provides that the responsibility cannot be delegated or passed on to any private person or body.

The Council's mandate to prepare, analyze and approve the City budget, including employee compensation, is addressed thoughtfully and thoroughly. The Council must sometimes deal with challenging and complex dilemmas that arise during this annual process. When such issues arise, the Council seeks to scrupulously undertake and resolve the tough questions it was elected by the voters to take in hand. The City Council respectfully submits that its past performance demonstrates that it is in no way reluctant to take on the complex issues related to employee compensation, including a "two-tier" approach to pension and health benefits..

**San Mateo County  
City Managers Association**

**Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

The Cities of San Mateo County have received and reviewed the "San Mateo County Grand Jury report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County." We appreciate the efforts of the Grand Jury to elevate this very complex issue for cities and one that has recently been under much public scrutiny. This response is being sent on behalf of a San Mateo County task force that began cooperatively looking at the issue of public employee wages and benefits in the County in June 2008, prior to the release of the Grand Jury report. In this response, which has also been sanctioned by the San Mateo County City Manager's Association and Human Resources Association, we provide the following information:

- I) Background information – in addition to what is provided in the grand jury report, this response will provide additional background information related to this issue.
- II) Common and shared interests – the response will also highlight the stakeholders' common and shared interests. Stakeholders include the tax-payers, City Councils, City personnel, labor groups, and the grand jury.
- III) General responses to the grand jury's recommendation – These responses will be provided from a regional perspective and elaborate on initiatives that have already been developed and/or implemented throughout San Mateo County.

**D) Background Information:**

As the grand jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table and they were empowered then to bargain significant wage and benefit enhancements for their members. At this same time, cities were having much difficulty in attracting police and fire candidates in what was a very tight, "dot-com" labor market. As the grand jury recommends, cities did consider the number of applicants for these occupations when negotiating salaries in the 1990's. In that era, candidates were hard to come by and wages were not competitive with the overall Silicon Valley labor market. Many public employees do not participate in social security and do not have the stock option plans and 401(k) plans that were experiencing substantial investment return growth during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that are beyond affordability in today's economy.

Another factor that contributed to pension enhancements was the proposed costs supplied by the California Public Employee's Retirement System (CalPERS). When initially adopted, pension enhancements were calculated by Cal PERS and reported in actuarial



**San Mateo County  
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evaluations to cost close to zero for many agencies. This was due to the unprecedented investment returns earned by the retirement system in the latter part of the 1990's. Although many agencies were skeptical of these "free benefits", the convergence of the tight labor market, binding arbitration and ostensibly inexpensive enhancements created a fertile environment for wage and benefit expansions for labor units. As more and more cities began implementing these benefits, others felt the pressure to provide the same for their employees. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness, issues of within-agency equitability, and inexpensive enhancements caused many agencies to enhance miscellaneous benefits as well. Clearly over the last few years cities have realized that their worst fears were being realized and the costs associated with these salary and benefit changes were no longer sustainable.

In an effort to address the issues subsequently discussed in the Grand Jury's report, in the spring of 2008 San Mateo County cities created the Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken that would better inform the staff and elected officials, as well as, possibly secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for the committee has been to develop confidential labor relations information that will allow the staff and elected leaders a better understanding of total employee cost trends in the county and how their jurisdiction fits into that broader picture. As evidenced by the testimony provided to the Grand Jury by different City Managers we believe the MERC has been able to elevate this important issue.

**II) Stakeholder Interests Regarding Escalating Costs of Wages and Benefits**

In order to fully understand this issue from a policy perspective, MERC, the City Managers Association and the Human Resources Association felt it was imperative to identify key interests that should guide policy development and implementation for the elected officials within the County. Though not explicitly stated, these interests are embedded throughout the Grand Jury's report:

- a) Attract and retain a highly qualified municipal workforce.  
By and large, positions in the municipal workforce require specialized skills, knowledge and education. Cities employ a plethora of occupations from Engineers to Attorneys to Firefighters and Police Officers. Municipal governments must maintain a competitive compensation package that is adaptable to the needs of our diverse workforce as well as the fluctuations in the overall economy.

**San Mateo County  
City Managers Association**

b) **Maintain City services and infrastructure.**

Clearly the costs of maintaining the workforce cannot come at the expense of failing sewer systems, water plants, library services and recreation programs. The taxpayer who funds City services and programs should have those services and programs available to him/her now and in generations to come.

c) **Honor the tenets of public service.**

Many who join municipal organizations do so for the challenging and rewarding work, the ability to make a difference in their communities and the relative security in their positions in a stable organization. Cities don't offer the "glitz" associated with many private sector organizations, but we do offer a sense of purpose and meaning in serving the community. As such, we must examine our current compensation programs that reward performance and insure that these programs are not so costly that we are forced to continually reduce our workforces because of the exorbitant costs associated with each full-time equivalent employee.

**III) General responses to the recommendations**

MERC surveyed City Managers, Human Resources Directors and Finance Directors in San Mateo County regarding the Grand Jury's recently released report and has confirmed support for consideration of the options that follow. Many respondents pointed out that they currently employ the stated recommendations:

- a. **Creating a two tier retirement and health-care benefits system for new hires.**
- b. **Replacing current post-employment health care plans with health saving plans funded during active employment with the agency.**
- c. **Lobbying Cal PERS to increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60 for non safety employees**
- d. **Basing pensions on the average of the last three to five years of salary.**
- e. **Making provisions for increasing employee contributions to current pensions and post-retirement health care plans. In addition we believe that cities should be looking to active employees to pay for some portion of their health care, vision, and dental cost.**
- f. **Review the practice of converting accumulated sick leave to cash and consider placing caps on accumulation of sick leave.**
- g. **Broadening the compensation discussions by considering comparable jobs in both the private and public sectors. It is important to point out that some professions will not have comparable positions, especially sworn safety positions. A better comparison may be to look at the ratio of salary to benefit costs of private employers and also the average salary increases given in mid-size, private organizations in the region.**
- h. **Consider the number of applicants for respective jobs when negotiating salaries.**

**San Mateo County  
City Managers Association**

- i. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police positions.
- j. Join with other cities, and/or the County to create central training center that promotes cross-training and succession planning for existing staff.
- k. Using technology to streamline services.
- l. Explore contracting out some functions currently performed by city employees, but give those employees an opportunity to cost effectively retain those functions within the organization.
- m. Create partnerships with other cities and/or the county including payroll, human resources, landscape maintenance, firefighting, police, recreation, and custodial work.
- n. Making public the memoranda of understanding with labor units that come out of the labor negotiations. The majority of agencies clarified that the contracts are available at the public meeting where they're approved as well as posted on an on-going basis on the agency's website.

As the jury members know from their research, there are a number of examples in San Mateo County where cities have implemented two tier retirement benefits in both the areas of retiree health and retiree compensation. The same is true in the area of shared services. Additionally, in just the last few months the Human Resources Directors have rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. For many years cities in San Mateo County have been involved in recruitment consortiums and outreaching employment opportunities to universities, community colleges, and local high schools, and just this year implemented a regional internship program for college students. These activities, coupled with a regional job applicant website and employee relations joint powers authority a few examples of shared or regionalized services that are effective and efficient models for government operations.

There was no support for the recommendation to "create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants". Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.

**San Mateo County  
City Managers Association**

Although there is general support for conducting a public meeting(s) to solicit community input regarding potential actions or changes that would be appropriate relative to rising cost for public employees, there is concern that using that public forum to develop a specific action would be problematic from a labor relations and confidentiality standpoint. As employers, we have an affirmative obligation to collectively bargain with our units. However, there is agreement that the public input received at such a meeting should be taken into consideration in the development of an action plan to guide the city's future actions relative to labor negotiations.

There was no support for the recommendation to develop local ballot initiatives should the elected Council members be reluctant to support two tier retirement systems relative to pensions and health benefits. That recommendation appears to challenge the wisdom of the republic form of government where voters elect representatives to invest the time and energy to understand the issues and once so informed they vote to set public policy. Although we generally share and appreciate the members of the grand jury's passion for their conclusion that a two tier system is in order, we cannot support the notion that if duly elected representatives do not share their conclusion that an elected body should be denied its ability to make such a decision.

On behalf of the City Managers Association and Human Resources Association of San Mateo County I thank you for your attention to this very complex issue. As we examine the area of wages and benefits to public employees we will all need to work together and think creatively to attract and retain our workforce while still providing critical services to our community. The grand jury's report elevates the discussion and brings the issue center stage in San Mateo County. Clearly the situation that exists today did not occur over night nor will efforts to make desired changes be achieved over night. Although not addressed in the Grand Jury Report the legal constraints and labor laws relative to good faith bargaining will clearly constrain elected and appointed officials in their efforts to make suggested changes. We are hopeful that through collaboration and cooperation with elected officials and labor leaders we will implement many of the recommendations in the report.

Sincerely,



Connie Jackson  
Chair San Mateo County City Managers Association

Cc: MERC Members  
City Manager's Association of San Mateo County  
Human Resources Association of San Mateo County



## CITY OF BRISBANE

50 Park Place  
Brisbane, California 94005-1310  
(415) 508-2100  
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July 20, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Dear Judge Miram:

The City Council and staff of the City of Brisbane have received the Grand Jury's report, "Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County."

To ensure accurate information is available for the public, we are providing the following notations regarding the report:

- Table 4 reflects the cities with reduced retirement formulas for new hires. While the City of Brisbane does have a two-tier retirement plan in place for our regular (Miscellaneous CalPERS members) employees, the City does not have a two-tier retirement in place for Fire or Police. The City of Brisbane only has the lower safety formula of 3%@55 for all Fire and Police employees.
- Table 7 does not seem to accurately reflect total possible days off consistently for all cities. For example, the City of Brisbane is listed as Total Possible Days Off equaling 6 weeks and 1 day, based on 15 vacation, 13 holidays and 3 floating holidays for a total of 31 days. The Town of Colma has 4 weeks and 3 days listed, based on 10 vacation, 13 holidays and 3 floating or personal for a total of 26 days. It appears that Colma should be listed having 5 weeks and 1 day instead.
- The FTE noted on Table 8 includes our part-time and seasonal workers. The correct FTE for this table should be 69 FTEs, not 117 FTEs.

Aside from these notations, our agency agrees with the findings in this report as they pertain to the City of Brisbane.

Several of the recommendations in the report have already been implemented by the City of Brisbane, including:

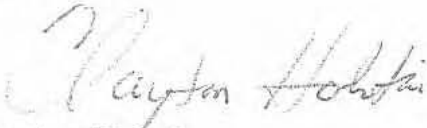
- Negotiated contracts and implemented two-tier retirement and retiree medical plans for new hires



- Created partnerships with the City of Burlingame for Parks and Recreation Director and the City of Daly City for Fire Administration services. Previously partnered with the City of Millbrae for shared Police Chief services
- Currently implementing incentives such as partial service retirement and golden handshake provisions to reduce staff
- Provide MOUs to the public on our city website
- Initiated competitive hiring practices by outreach to local universities, colleges and high schools during open recruitments
- Currently working collaboratively with other public agencies to create a regional training program
- Participating in the Management Talent Exchange Program of San Mateo County and Santa Clara County to provide external training opportunities to key staff members for succession planning purposes

In the course of our on-going strategy and planning to control employee costs, we will use the other recommendations as possible guiding principles for future labor negotiations and recruitments. Thank you for the opportunity to respond to this important issue.

Sincerely,



Clayton Holstine  
City Manager

Approved at September 21, 2009 Board meeting.

OFFICE OF THE MAYOR

August 11, 2009

Mr. John C. Fitton  
Court Executive Officer  
Clerk & Jury Commissioner  
Superior Court of San Mateo County,  
400 County Center, Redwood City, CA 94063-1655



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Dear Mr. Fitton,

Re: City of San Mateo Response to the Grand Jury Report Entitled: "Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County" dated June 4, 2009

We have reviewed the above report, and are presenting this response to the Grand Jury's findings and recommendations.

1. The City of San Mateo's employee compensation philosophy is driven by the need to attract and retain a quality work force in order to meet the needs and demands of a mature and sophisticated community of 95,000 residents. We strive to have equity in pay across the organization, grounded in the City's ability to pay.
2. Step increases, which incrementally bring employees to the top step of their salary range, are not automatically applied in the City of San Mateo. Increases are only granted upon documented satisfactory performance.
3. The City of San Mateo maintained services, reserves, and a balanced budget until the current severe economic downturn.
4. San Mateo's existing multi-year contracts with employee groups provide for pay increases of approximately 3% per year, which mirrors the Bay Area Consumer Price Index. In the current year, these employee groups agreed to forego their contracted pay increases in 2009 and/or take furlough days.
5. Retirement costs increased significantly in recent years. The dot-com bust resulted in an unprecedented three straight years of negative returns on CalPERS investments. The PERS rate is adjusted annually, not every three years as stated in the report.
6. The Safety retirement formula of 3% at 50 is, with few exceptions, the norm in County. The non-safety formula in the City of San Mateo is 2% at 55 and is one of the lowest in the County. The City of San Mateo's contracts with CalPERS do not allow for the conversion of unused sick leave into retirement service credit.
7. In the City of San Mateo, non-Safety employees participate in Social Security, while Safety employees do not. The City of San Mateo's participation in Social Security is not elective; we are legally required to participate. Our hourly (per



- diem) employees are in a deferred compensation plan as an alternative to Social Security.
8. Health costs have significantly increased nationwide over the past several years. The City of San Mateo has recently tiered health benefits for new hires in an effort to manage future costs.
  9. Our retiree health plan pays \$160 per month towards the premium, which makes our OPEB liability \$16M (the \$20M stated in the report is outdated) one of the lowest in the County. As a result, the annual expenditure for this benefit has been flat for many years. In order to prefund our liability according to GASB 45/Accounting Standard, we would need to set aside \$0.3M per year in addition to the \$0.7M current annual payment. Contrary to what was stated in the report, the City of San Mateo has not issued OPEB (or pension) obligation bonds.
  10. We reviewed our compensation policies and practices with the City Council at a public meeting/Study Session held on August 10, 2009.

#### **Responses to Grand Jury Findings**

1. Employee wages and compensation packages are not affordable. The escalating employee costs can and should be reversed in the twenty cities of San Mateo County.  
*Respondent agrees with the finding. The City of San Mateo has already taken actions to make progress in this area.*
2. Long-term solutions, in addition to stop-gap measures such as temporary wage freezes and furloughs, are needed.  
*Respondent agrees with the finding. The City of San Mateo has already taken actions to make progress in this area.*
3. Union contracts for new municipal employees can be introduced, reducing the cost to cities for both pension and post-retirement health care plans.  
*Respondent agrees with the finding. However, any changes to these benefits must be negotiated in good faith as part of the legally required collective bargaining process.*
4. For current, as well as newly hired employees, salary increases, total days off, and the ability to accrue and cash out sick leave, can be contained.  
*Respondent agrees with the finding. However, any changes to these benefits must be negotiated in good faith as part of the legally required collective bargaining process.*
5. The practice of basing compensation packages on those of nearby cities contributes to higher employee costs overall.  
*Respondent agrees with the finding; competitive compensation needs to be addressed. The City of San Mateo, given its relatively large size as compared to*



*other cities on the Peninsula, relies on affordability, as well as a greater geographical area when reviewing compensation practices.*

6. Cost-efficiencies have been achieved by contracting out some services to other cities or to private-sector firms.  
*Respondent agrees with the finding, and has a long history of this practice.*
7. Cooperation among cities to reduce overlapping functions has been successfully implemented.  
*Respondent agrees with the finding, and has a history of taking such actions.*
8. Political barriers-to-change exist because the people negotiating employee contracts – staff, unions and city council members – all benefit when wage and compensation packages increase. These barriers can be neutralized with public involvement and, possibly, through ballot measures.  
*Respondent disagrees with the finding, but the City of San Mateo strongly supports transparency in the establishment of compensation. Transparency in establishing compensation is addressed through the development of a compensation philosophy, public meetings for review of the Memoranda of Understanding, and placement of this material on our website. The City uses an interest-based approach for labor negotiations to ensure our ability to retain and attract quality employees and to meet service objectives, and addresses the City's financial ability to pay. Throughout the negotiation process, we remain committed to addressing employees' interests, and negotiate in good faith as part of the collective bargaining process. The City Council, as elected representatives of San Mateo, establish policy in all of these areas.*

### **Responses to Grand Jury Recommendations**

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City-Staffing Action Plan.  
*A public session on this matter was held with the City Council on August 10, 2009. After hearing public comment, the City Council directed staff to take appropriate action regarding issues related to employee compensation. As we move forward, the City of San Mateo will continue to utilize an array of service delivery options, including regional shared service agreements, in-sourcing, and outsourcing when appropriate.*
2. Create a Citizen “Wage, Benefit and City Staffing” Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with:
  - a) Attending the session(s) convened per Recommendation One
  - b) Creating and reviewing the Wage, Benefit and City-Staffing Action Plan (Action Plan) that is produced by the Task Force from this session

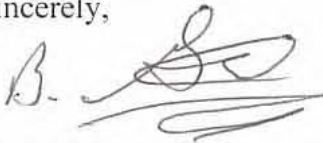
Mr. John C. Fitton  
August 11, 2009  
Page 4

- c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election

*This recommendation will not be implemented. The City Council believes the ultimate responsibility to establish compensation is appropriately determined by the elected representatives of the community. The City is not able to circumvent the collective bargaining process, as it is legally required to bargain with its employee organizations in good faith.*

Thank you for this opportunity for the City of San Mateo to respond to the June 4, 2009 Grand Jury report.

Sincerely,

A handwritten signature in black ink, appearing to read 'B. Grotte', with a stylized flourish underneath.

Brandt Grotte  
Mayor

cc: City Council  
City Manager  
City Attorney  
Human Resources Director



## The City of Burlingame

501 PRIMROSE ROAD, BURLINGAME, CA 94010-3997  
[www.burlingame.org](http://www.burlingame.org)

ANN KEIGHRAN, MAYOR  
CATHY BAYLOCK, VICE MAYOR  
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August 19, 2009

Honorable George A. Miram  
Judge of the Superior Court  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

### **Re: Response to 2008-2009 Grand Jury Report - Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County**

Dear Judge Miram:

We have reviewed the 2008-2009 Grand Jury report, filed on June 4, 2009, on Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County. We appreciate and share the Grand Jury's concerns regarding the rising cost of employee compensation. This response was approved by the City Council at a public meeting held on August 17, 2009. Following are the City of Burlingame's responses to the report.

#### **Findings**

##### 1. Salary and Compensation Packages

###### *a) Retirement Pension Benefits*

The City of Burlingame agrees with the findings in this section, and wishes to clarify the City's retirement formulas:

|                          |                    |
|--------------------------|--------------------|
| Miscellaneous Employees: | 2.5% at 55 formula |
| Fire Safety Employees:   | 3.0% at 55 formula |
| Police Safety Employees: | 3.0% at 50 formula |

###### *b) Other Post Employment Benefit*



The City of Burlingame agrees with the findings in this section, and wishes to clarify that the City has reduced the retiree medical benefit for police safety employees hired after June 26, 2006, and miscellaneous employees hired after March 31, 2008. The reduced retiree medical benefit requires a 20 year vesting period with the City of Burlingame to qualify for full coverage of the lowest cost medical premium for employee and spouse. The City recognizes the need to reduce retiree medical benefit costs even further for future employees, and will be working with labor to address this issue in future contract negotiations.

b) *How Pensions and OPEBS are Funded by the Cities*

The City of Burlingame wishes to clarify the findings in this section:

- The CalPERS employer contribution rate is adjusted each year, based on an actuarial valuation conducted by CalPERS. The actuarial valuation is based on data as of the fiscal year ending two years prior to the rate taking effect. For example, the July 1, 2009 employer contribution rate is based on actuarial data as of June 30, 2007.
- Regular (Miscellaneous) employees contribute 8% of their salaries to CalPERS when the retirement formula is 3.0% at 60, 2.7% at 55, or 2.5% at 55. The employee contribution is 7% when the formula is 2.0% at 55 or 2.0% at 60.
- Safety employees contribute 9% of their salaries to CalPERS regardless of which formula they have.
- The City of Burlingame issued Pension Obligation Bonds as a means of restructuring the debt for the unfunded liability of the retirement plan. In so doing the City is saving \$300,000 per year in debt payments.

c) *Benefits for Current Employees*

The City of Burlingame wishes to clarify the findings in this section:

Healthcare: The City of Burlingame pays the monthly premiums, up to a maximum of the Kaiser family premium, for healthcare coverage for current employees. Depending upon the plan enrolled in, employees pay co-payments, deductibles, and the difference in premium amount if they elect a higher cost health plan.

Accumulated Vacation Days: Employees are eligible to accrue a maximum of two years of vacation time. Employees who reach this limit may not accrue additional vacation time until the vacation balance has been reduced to less than two times their annual accrual. Accumulated vacation time cannot be added to the years of service and/or calculated into the retirement benefit; unused vacation must be paid out upon retirement or termination.

Unused Sick Days: The amount of sick time an employee can accrue is capped. The maximum amount of sick leave time that may be paid out upon retirement is approximately 30%. Unused sick leave may be converted to service credit upon retirement.

Days Off for Regular Employee Who Has Worked 4 Years with the City: The figures in the chart are correct except for the accrual of sick days. The majority of employees accrue 12 days (96 hours) of sick leave per year (2 weeks and 2 days); Fire employees accrue 120 hours of sick leave per year.

d) *Salaries for Current Employees*

The City of Burlingame wishes to clarify the findings in this section:

The City's contracts with employee groups include annual "step increases." An employee may receive a step increase at the end of a six month period if performance is exemplary. The salary range generally increases annually to reflect COLA increases. In FY 2009-2010, all non-police employee groups agreed to forego the 2% to 3% COLA that was otherwise required in their union contract. All non-police labor units also waived contracted salary increases in 2004 in recognition of budgetary constraints.

2. Personnel Policies

a) *How Wage and Compensation Packages are Set*

The City of Burlingame agrees with the findings in this section and wishes to clarify that, with the exception of the Fire contracts, the City has removed contract language that specifies compensation increases tied to a position in the market.

b) *Staff Size: Merging, Streamlining, and Contracting Services*

The City of Burlingame agrees with the findings in this section. The City of Burlingame has been a strong advocate for shared services. The City merged its Fire Departments with the Town of Hillsborough in 2004 to create the Central County Fire Department, generating a savings of approximately \$1M per year for each City. The City is currently sharing a Parks and Recreation Director with the City of Brisbane, and is leading efforts to consider sharing or merging other services as appropriate.

The City of Burlingame has reduced staff size from 258 to 248 full time equivalent employees for FY 2009-10. The City provides a full range of services to the public including police, fire, parks (including tree trimming), recreation, public works (including water, sewer, and streets), and libraries.

3. The Role of Politics

a) *The Nexus Between Unions, City Council Members and Staff*

The City acknowledges the observations made by the Grand Jury relative to the influence that organized labor plays in supporting some elected officials, as well as the fact that, as seems to be the case in both private and public sector, top management receives the benefit of increases provided to other employees as upper management's compensation and benefits are usually set at or above what the other staff receive. However, the City would like to point out that compensation and



benefits for top management (at the CEO/City Manager and Board/Council) level in the public sector shows that elected leaders have been far more diligent in controlling top level compensation than the elected board members of private corporations.

b) *Public Involvement*

Although the City supports the idea of more public involvement at the onset of negotiations with labor groups, experience is clear that public participation in public meetings relative to labor relations items has historically been very low. The recommendation to delay approval of labor contracts by two weeks to allow for public comment, fails to take into consideration that fair bargaining laws and labor relations necessitates that it would be best to have such hearings at the onset of negotiations. The City of Burlingame has made and will continue to make Labor Memorandums of Understanding available to the public at city hall and on our web site.

**Conclusions**

1. Employee wages and compensation packages are not affordable. The escalating employee costs can and should be reversed in the twenty cities of San Mateo County.  
*Agree. The City of Burlingame has taken a leadership role in addressing this issue through the formation of the San Mateo County Municipal Employee Relations Committee (SMC-MERC). The City is also looking at various ways to contain employee costs within the City of Burlingame.*
2. Long-term solutions, in addition to stop-gap measures such as temporary wage freezes and furloughs, are needed.  
*Agree. The City is looking at both short and long term solutions to contain employee costs.*
3. Union contracts for new municipal employees can be introduced, reducing the cost to cities for both pension and post-retirement health care plans.  
*Agree. As indicated in the Findings section, the City has already implemented a reduced retiree medical benefit for new employees hired after 2006, and will be looking for additional ways to decrease costs in these areas. However, any such changes will need to be negotiated in good faith through the collective bargaining process.*
4. For current, as well as newly hired employees, salary increases, total days off, and the ability to accrue and cash out sick leave, can be contained.  
*Agree. Any changes in these areas would need to be negotiated in good faith through the collective bargaining process.*
5. The practice of basing compensation packages on those of nearby cities contributes to higher employee costs overall.  
*Agree. The labor market, as reflected in the compensation packages of other comparable cities, is an undeniable factor, given the public nature of public sector compensation packages. However, it should not be the only nor the primary factor. Except for in the fire contracts, the City has eliminated the practice of setting salaries to a particular position in the survey market.*



6. Cost-efficiencies have been achieved by contracting out some services to other cities or to private sector firms.

*Agree. The City has engaged in this practice and will continue to do so as feasible.*

7. Cooperation among cities to reduce overlapping functions has been successfully implemented.

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8. Political barriers to change exist because the people negotiating employee contracts – staff, unions and city council members—all benefit when wage and compensation packages increase. These barriers can be neutralized with public involvement and, possibly, through ballot measures.

*Disagree. The City Council is elected to represent the interests of the community, and establishes policy for all areas of city government, including employee compensation. The City is legally required to collectively bargain with its employees, and adhere to all laws governing the negotiations process. Employee agreements are subject to council approval, and are approved at public meetings. The City believes that, rather than ballot measures, the more effective approach would be to continue the education of all the stakeholders regarding these issues.*

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The City of Burlingame defers to the City Managers Association (CMA) response to the recommendations (Attachment A). The Burlingame City Manager took a lead role in the development of the consensus response, so Burlingame's position is consistent with the CMA response. Specific language from the City Manager Association response that is applicable to these recommendations is in quotations below.

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“Although there is general support for conducting a public meeting(s) to solicit community input regarding potential actions or changes that would be appropriate relative to rising cost for public employees, there is concern that using that public forum to develop a specific action would be problematic from a labor relations and confidentiality standpoint. As employers, we have an affirmative obligation to collectively bargain with our labor groups. However, there is agreement that the public input received at such a meeting should be taken into consideration in the development of an action plan to guide the city's future actions relative to labor negotiations.”

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2. *Create a Citizen “Wage Benefit and City Staffing” Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with a) attending the session(s)*



*convened per Recommendation One, b) Creating and reviewing the Wage, Benefit, and City-Staffing Action Plan that is produced by the Task Force from this session, and c) if not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election.*

“There was no support for the recommendation to “create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants.” Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.

There was no support for the recommendation to develop local ballot initiatives should the elected Council members be reluctant to support two tier retirement systems relative to pensions and health benefits. That recommendation appears to challenge the wisdom of the republic form of government where voters elect representatives who are charged with the responsibility of investing time and energy to investigate and understand the issues and once so informed, to set public policy. Although it generally shares and appreciates the members of the grand jury’s passion for their conclusion that a two tier system is in order, the City cannot support the Grand Jury’s notion that if duly elected representatives do not share the Grand Jury’s conclusion, then that elected body should be denied its ability to make such a decision.”

The City of Burlingame concurs with the majority of the action items listed in the Grand Jury Report. Again, the City’s position is commensurate with the San Mateo County City Manager’s Association Response to the San Mateo County Grand Jury Report (Attachment A). In addition, the City offers the following information which is more specific to the actions taken by the City of Burlingame and the City Managers Association.

#### Development of City Managers Association Response to the Upward Trajectory

The San Mateo Grand Jury’s report was welcome support on the need to address issues that caused the Burlingame City Council to call for the cessation of blind dependency on compensation market surveys for public sector labor contracts back in December of 2007.

As a result of salary market information associated with negotiations with the fire union in the fall of 2007, the Burlingame City Council made it clear that compensation costs were growing at an unsustainable rate and changes needed to be made. Because staff felt that one city could not by itself change the dynamics of an employment market, it was agreed that the City would undertake efforts to raise the issue for discussion county-wide. Burlingame



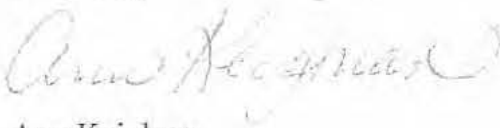
developed information for a presentation at the San Mateo County Council of Cities in April of 2008. The information demonstrated that over the five previous years, the ten cities that Burlingame surveyed had an average annual employee cost growth of twice their revenue growth. As shown on Attachment B, Burlingame presented a number of suggestions as to how cities could begin to address the issue, some of which were included in the Grand Jury recommendations.

As a result of the March 2008 Council of Cities meeting, the San Mateo County City Managers Association created SMC-MERC (San Mateo County Municipal Employee Relations Committee), which is comprised of City Managers, Human Resources Directors and Finance Directors from various cities, to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities.

As the Chair of the SMC-MERC Committee, upon receipt of the Grand Jury Report, the Burlingame City Manager undertook a survey of City Managers and Human Resources Directors to ascertain the level of support for the recommendations contained in the Grand Jury Report. A letter was prepared and approved by the San Mateo County City Managers Association which enumerates areas of support and disagreement with the San Mateo Grand Jury recommendations (Attachment A). At the same City Managers meeting, the City Managers Association also approved a Position Paper (Attachment C) calling for creation of two tier retirements to allow for less expensive retirement options for new employees. Both of these letters demonstrate wide support for most of the recommended action items contained in the Grand Jury Report and concurrence that changes must be made. However, the City Managers believe it would be more effective and efficient to continue to work through the SMC-MERC as the forum to develop information and options for San Mateo County cities, rather than have Human Resources Directors and City Managers work with 20 different citizen committees (one for each city) to educate them on the problem and the options to address it.

Thank you for the opportunity to respond to this report, and please feel free to contact me if you require additional information.

Sincerely,



Ann Keighran  
Mayor

Attachments:

- A. San Mateo County City Managers Association Response to Recommendations of the San Mateo County 2008-2009 Grand Jury Report "Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County"
- B. Suggestions Presented at March 28, 2008 County Council of Cities Meeting
- C. City Managers Association Draft Statement on Local Government Retirement Benefits



**San Mateo County  
City Managers Association**

**Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

The Cities of San Mateo County have received and reviewed the "San Mateo County Grand Jury report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County." We appreciate the efforts of the Grand Jury to elevate this very complex issue for cities and one that has recently been under much public scrutiny. This response is being sent on behalf of a San Mateo County task force that began cooperatively looking at the issue of public employee wages and benefits in the County in June 2008, prior to the release of the Grand Jury report. In this response, which has also been sanctioned by the San Mateo County City Manager's Association and Human Resources Association, we provide the following information:

- I) Background information – in addition to what is provided in the grand jury report, this response will provide additional background information related to this issue.
- II) Common and shared interests – the response will also highlight the stakeholders' common and shared interests. Stakeholders include the tax-payers, City Councils, City personnel, labor groups, and the grand jury.
- III) General responses to the grand jury's recommendation – These responses will be provided from a regional perspective and elaborate on initiatives that have already been developed and/or implemented throughout San Mateo County.

I) Background Information:

As the grand jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table and they were empowered then to bargain significant wage and benefit enhancements for their members. At this same time, cities were having much difficulty in attracting police and fire candidates in what was a very tight, "dot-com" labor market. As the grand jury recommends, cities did consider the number of applicants for these occupations when negotiating salaries in the 1990's. In that era, candidates were hard to come by and wages were not competitive with the overall Silicon Valley labor market. Many public employees do not participate in social security and do not have the stock option plans and 401(k) plans that were experiencing substantial investment return growth during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that are beyond affordability in today's economy.

Another factor that contributed to pension enhancements was the proposed costs supplied by the California Public Employee's Retirement System (CalPERS). When initially adopted, pension enhancements were calculated by Cal PERS and reported in actuarial



**San Mateo County  
City Managers Association**

evaluations to cost close to zero for many agencies. This was due to the unprecedented investment returns earned by the retirement system in the latter part of the 1990's. Although many agencies were skeptical of these "free benefits", the convergence of the tight labor market, binding arbitration and ostensibly inexpensive enhancements created a fertile environment for wage and benefit expansions for labor units. As more and more cities began implementing these benefits, others felt the pressure to provide the same for their employees. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness, issues of within-agency equitability, and inexpensive enhancements caused many agencies to enhance miscellaneous benefits as well. Clearly over the last few years cities have realized that their worst fears were being realized and the costs associated with these salary and benefit changes were no longer sustainable.

In an effort to address the issues subsequently discussed in the Grand Jury's report, in the spring of 2008 San Mateo County cities created the Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken that would better inform the staff and elected officials, as well as, possibly secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for the committee has been to develop confidential labor relations information that will allow the staff and elected leaders a better understanding of total employee cost trends in the county and how their jurisdiction fits into that broader picture. As evidenced by the testimony provided to the Grand Jury by different City Managers we believe the MERC has been able to elevate this important issue.

II) Stakeholder Interests Regarding Escalating Costs of Wages and Benefits

In order to fully understand this issue from a policy perspective, MERC, the City Managers Association and the Human Resources Association felt it was imperative to identify key interests that should guide policy development and implementation for the elected officials within the County. Though not explicitly stated, these interests are embedded throughout the Grand Jury's report:

- a) Attract and retain a highly qualified municipal workforce.  
By and large, positions in the municipal workforce require specialized skills, knowledge and education. Cities employ a plethora of occupations from Engineers to Attorneys to Firefighters and Police Officers. Municipal governments must maintain a competitive compensation package that is adaptable to the needs of our diverse workforce as well as the fluctuations in the overall economy.



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City Managers Association**

b) Maintain City services and infrastructure.

Clearly the costs of maintaining the workforce cannot come at the expense of failing sewer systems, water plants, library services and recreation programs. The taxpayer who funds City services and programs should have those services and programs available to him/her now and in generations to come.

c) Honor the tenets of public service.

Many who join municipal organizations do so for the challenging and rewarding work, the ability to make a difference in their communities and the relative security in their positions in a stable organization. Cities don't offer the "glitz" associated with many private sector organizations, but we do offer a sense of purpose and meaning in serving the community. As such, we must examine our current compensation programs that reward performance and insure that these programs are not so costly that we are forced to continually reduce our workforces because of the exorbitant costs associated with each full-time equivalent employee.

III) General responses to the recommendations

MERC surveyed City Managers, Human Resources Directors and Finance Directors in San Mateo County regarding the Grand Jury's recently released report and has confirmed support for consideration of the options that follow. Many respondents pointed out that they currently employ the stated recommendations:

- a. Creating a two tier retirement and health-care benefits system for new hires.
- b. Replacing current post-employment health care plans with health saving plans funded during active employment with the agency.
- c. Lobbying Cal PERS to increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60 for non safety employees
- d. Basing pensions on the average of the last three to five years of salary.
- e. Making provisions for increasing employee contributions to current pensions and post-retirement health care plans. In addition we believe that cities should be looking to active employees to pay for some portion of their health care, vision, and dental cost.
- f. Review the practice of converting accumulated sick leave to cash and consider placing caps on accumulation of sick leave.
- g. Broadening the compensation discussions by considering comparable jobs in both the private and public sectors. It is important to point out that some professions will not have comparable positions, especially sworn safety positions. A better comparison may be to look at the ratio of salary to benefit costs of private employers and also the average salary increases given in mid-size, private organizations in the region.
- h. Consider the number of applicants for respective jobs when negotiating salaries.



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- i. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police positions.
- j. Join with other cities, and/or the County to create central training center that promotes cross-training and succession planning for existing staff.
- k. Using technology to streamline services.
- l. Explore contracting out some functions currently performed by city employees, but give those employees an opportunity to cost effectively retain those functions within the organization.
- m. Create partnerships with other cities and/or the county including payroll, human resources, landscape maintenance, firefighting, police, recreation, and custodial work.
- n. Making public the memoranda of understanding with labor units that come out of the labor negotiations. The majority of agencies clarified that the contracts are available at the public meeting where they're approved as well as posted on an on-going basis on the agency's website.

As the jury members know from their research, there are a number of examples in San Mateo County where cities have implemented two tier retirement benefits in both the areas of retiree health and retiree compensation. The same is true in the area of shared services. Additionally, in just the last few months the Human Resources Directors have rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. For many years cities in San Mateo County have been involved in recruitment consortiums and outreaching employment opportunities to universities, community colleges, and local high schools, and just this year implemented a regional internship program for college students. These activities, coupled with a regional job applicant website and employee relations joint powers authority a few examples of shared or regionalized services that are effective and efficient models for government operations.

There was no support for the recommendation to "create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants". Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.



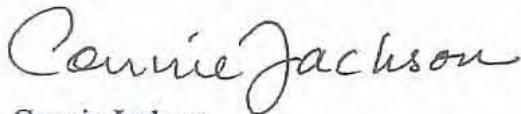
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City Managers Association**

Although there is general support for conducting a public meeting(s) to solicit community input regarding potential actions or changes that would be appropriate relative to rising cost for public employees, there is concern that using that public forum to develop a specific action would be problematic from a labor relations and confidentiality standpoint. As employers, we have an affirmative obligation to collectively bargain with our units. However, there is agreement that the public input received at such a meeting should be taken into consideration in the development of an action plan to guide the city's future actions relative to labor negotiations.

There was no support for the recommendation to develop local ballot initiatives should the elected Council members be reluctant to support two tier retirement systems relative to pensions and health benefits. That recommendation appears to challenge the wisdom of the republic form of government where voters elect representatives to invest the time and energy to understand the issues and once so informed they vote to set public policy. Although we generally share and appreciate the members of the grand jury's passion for their conclusion that a two tier system is in order, we cannot support the notion that if duly elected representatives do not share their conclusion that an elected body should be denied its ability to make such a decision.

On behalf of the City Managers Association and Human Resources Association of San Mateo County I thank you for your attention to this very complex issue. As we examine the area of wages and benefits to public employees we will all need to work together and think creatively to attract and retain our workforce while still providing critical services to our community. The grand jury's report elevates the discussion and brings the issue center stage in San Mateo County. Clearly the situation that exists today did not occur over night nor will efforts to make desired changes be achieved over night. Although not addressed in the Grand Jury Report the legal constraints and labor laws relative to good faith bargaining will clearly constrain elected and appointed officials in their efforts to make suggested changes. We are hopeful that through collaboration and cooperation with elected officials and labor leaders we will implement many of the recommendations in the report.

Sincerely,



Connie Jackson  
Chair San Mateo County City Managers Association

Cc: MERC Members  
City Manager's Association of San Mateo County  
Human Resources Association of San Mateo County

### Suggestions Presented at March 28, 2008 County Council of Cities Meeting

1. Create a County wide public sector compensation review task force to work with HR Directors/City Managers and experts to develop options and strategies for consideration.
2. Consider ways to interject some public scrutiny and some focus on ability to pay into the dynamics
  - a. Set some disclosure standards
    - i. i.e. a review of salary settlements relative to past and projected revenues,
    - ii. possibly disclose the trend of % of revenue going to employee costs.
    - iii. Trend line your employee cost against investment in CPI
      1. In our City employee cost has risen at 50%
  - b. Establish some county wide goals for "responsible" labor contracts
    - i. Discourage contractual agreements to pay based on "survey says"
    - ii. Encourage total compensation comparisons and discourage creation of differentials that are in addition to the salaries.
    - iii. Encourage use of CPI for mid contract adjustments vs. annual surveys.
    - iv. Consider annual disclosure of total compensation comparisons.
  - c. Consider the value of community activist that will make an issue out of questionable labor contract clauses.
  - d. Stop using public sector market as the only indicator for setting salaries
    - i. As easy as saying x portion of this year's increase will use the market and Y portion will be tied to CPI or some how bring in your own revenue growth as a "control".
  - e. Have a council of cities annual forum to review what has happened in the county over the past year.
3. Key element of Arne Croce's work in the San Mateo has been trying to interject the private sector dynamics into the public sector culture. Private sector has to keep improving and sharpening their pencils to stay competitive. We should be attempting to do that in some way re:
  - Consider the idea of including private sector comparable compensation in areas like water quality operators, landscape maintenance workers
  - In Burlingame over the last five years our employee cost have risen at 8% a year where as our private contract WQCP operator has had 3.1% increases.





## DRAFT

### Statement on Local Government Retirement Benefits

03/15/08 D R A F T v2.0

#### Background

For more than 60 years, the State of California and local governments have offered a “defined benefit” retirement plan to employees. This system provides a guaranteed annual pension based upon retirement age and years of service. Most, but not all, municipalities in California are part of the Public Employees’ Retirement System (PERS).

Over the years, local government retirement costs have risen and fallen based on two key factors: the investment returns of PERS and the level of benefit payments provided to employees. In the late 1990’s the California legislature enacted significant benefit enhancements for public employees in the PERS system that were optional for participating local governments. At that time, some retirement plans were deemed to be “super funded” and many local governments adopted benefit enhancement plans. For example, most public safety personnel are on the “3% @ 50” plan.

When the retirement system suffered serious investment losses in the early part of this decade, these losses combined with the benefit enhancements to cause dramatic increases in employer contribution rates. On average, cities in our two counties have seen the percentage of their General Fund budget dedicated to PERS costs increase by X% since 2000, while their retirement liability funding had decreased from X% to X%.

In the past five years, a number of proposals have been introduced to reform or dramatically revise the public pension system in California. In 2004, a task force of the League of California Cities began an extensive study of the defined benefit system and proposed reforms. In 2005, the League board of directors accepted a report on pension reform from the task force as an initial assessment and for consideration in the ongoing debate of this issue. The report included a number of “general principles” and specific reform recommendations. To date, no concrete action has been taken by the legislature.

Recently, the city managers of San Diego County have begun a dialogue on this issue and made some recommendations.

#### Discussion

While the debate is ongoing, no clear consensus has been achieved and no action appears eminent. The city managers of Santa Clara and San Mateo counties believe it is important to take a proactive stance on this issue which has long-term implications for the fiscal stability of our cities. This issue is even more important now, given the tremendous losses suffered in the stock market in the past year. In May, 2009, PERS annual returns were down 25% from the previous year. This is on top of losses of 5.1% in Fiscal 2008. PERS assumes a 7.75% gain annually to maintain its pension obligations. Based on this year’s negative returns, employer rates are expected to jump significantly as of July 1, 2011.



Therefore, as a matter of public policy, we endorse the following principles for a revised pension system.

### Guiding Principles

- Our communities deserve fiscal policies that preserve local government's ability to meet community needs, while attracting competent and motivated employees to public service.
- The defined benefit system has worked and is an important part of attracting and retaining public servants; this continues to be important as fewer young employees are entering the public sector.
- Current retirement programs are not fiscally sustainable. The costs are escalating beyond our ability to manage them; and the benefits exceed what taxpayers themselves can receive and what is needed to attract employees.
- Ideally, this situation would be addressed at a statewide level and there would be consistent standards for all. We can not, however, afford to wait for a statewide solution. Therefore, the cities of Santa Clara and San Mateo counties support implementation of a reduced level of retirement benefits for all new employees of agencies in the region.
- Each city has different histories, perspectives, and fiscal conditions; a "one size fits all" approach may not be realistic, but all cities in the region compete for the same employees and therefore should move in the same direction to a sustainable, lower-cost benefit.
- Career public employees should have a reasonable standard of living after retirement.
- Each city has the legal duty to meet and confer in good faith with its recognized bargaining unit representatives concerning changes to existing terms and conditions of employment.
- Every city is committed to moving toward a two tier system for all new contracts beginning after June 30, 2010.
- Any new system or tier should be fair to employees, sustainable for taxpayers and employers, and based on objective actuarial data.

### Action Steps

The city manager associations of Santa Clara County and San Mateo County support the statements in this document and their members pledge to work with their elected officials and labor groups to implement its principles. We further pledge to work with other city managers across the state and the League of California Cities to advocate for changes consistent with this document.

July 30, 2009

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Dave Anderson, SCCCMA

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Connie Jackson, SMOGMA



# CITY OF DALY CITY

333-90TH STREET

DALY CITY, CA 94015-1895

PHONE: (650) 991-8000

August 25, 2009

Hon. George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

RE: Civil Grand Jury Report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County

Dear Judge Miram:

On behalf of the City Council of Daly City, I have been requested to submit for the City the following responses to the Civil Grand Jury findings and recommendations pertaining to the above referenced report:

1. The City of Daly City **agrees** with the finding that eighteen cities in San Mateo County forecast that employee costs will increase by 4% per year over the next five years, even as revenues decline.
2. The City of Daly City **agrees** with the finding that approximately 70% of general fund budget expenses in most full-service San Mateo County cities are spent on employee salary and compensation packages because cities are primarily providers of services.
3. The City of Daly City **concurs** with the finding that opportunities for significantly increasing revenues are generally limited to increasing taxes and fees.
4. The City of Daly City **agrees** that controlling employee costs, from a long and short-term perspective, is essential to addressing structural budget deficits. Daly City has recognized this for a number of years and is one of only three cities in San Mateo County that has not provided public safety with enhanced 3% at 50 retirement benefits.

As to each Grand Jury recommendation related to the referenced report, the City offers the following responses:

1. The City of Daly City **partially agrees** with the recommendation and thus convened a public session on July 13, 2009 during which the Grand Jury Report was reviewed with the City Council. The public session covered all applicable issues contained in the report, but it did not result in the implementation of a Wage, Benefit and City Staffing Action Plan. The reason that such a plan will not be implemented at this time is because it is not reasonable to undertake the actions recommended including replacing post employment healthcare plans with health savings plans, increasing the age at which employees are eligible to receive retirement benefits from age 50 or 55 to age 60, basing pensions on the average of the last three to five years of salary instead of single highest year and moving

Hon. George A. Miram

August 25, 2009

RE: Civil Grand Jury Report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County

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to increase employee contributions to current pensions and post-retirement healthcare plans outside of the collective bargaining and budgetary processes. All of the reforms envisioned by the Grand Jury Report, which the City supports in principle, require the direct involvement and hopefully the agreement of labor unions to implement.

2. The City of Daly City **will not** implement at this time the recommendation to create a Citizen "Wage, Benefit and City Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applicants. The reason that this recommendation will not be implemented is because it is not reasonable to expect such a complex set of issues to be addressed effectively by randomly selecting volunteer applicants rather than selecting community members that possess particular expertise, experience and backgrounds that can provide valuable insight and resources to adequately undertake such an assignment. Prior to any future Task Force being appointed by the City Council, much more detailed public education concerning the subject must occur. The subject of employee compensation and benefits will be incorporated as part of the curriculum of the Daly City Citizens Academy as a means to further educate the public about these important issues. Access to more complete education and information, such as the exemplary work generated by the Grand Jury Report, will better inform the City Council, labor unions and the public about the need for reform. Better informed City Councilmembers will be best positioned to subsequently make more sound decisions relative to future wages, benefits and City staffing levels.
3. The City of Daly City **will not** implement at the present time the recommendation to create a two-tier retirement and healthcare benefits system for new hires. While in principle the City supports this necessary reform, the reason this recommendation cannot be implemented at this time is because it is not reasonable to undertake a complete restructuring of retirement and healthcare benefits without a thorough analysis of the impacts of such action including the immediate versus long-term savings, recruitment and retention of employees, and involving labor in good faith negotiations to secure concurrence for such changes and restructuring in a collective bargaining environment.
4. The City of Daly City **cannot implement, without further analysis**, the recommendation to renegotiate contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees. The actions called for by this recommendation legally require the City to meet and confer with effected labor groups. Thus, it will require extensive fiscal and operational analysis in anticipation of commencing negotiations with the City's labor groups on these issues. All of the City's existing labor contracts will be open effective June 30, 2010. At that time, the City may elect to act on the various benefits modifications recommended by the Grand Jury subject to collective bargaining laws.
5. The City of Daly City has **already** implemented a variety of competitive hiring practices recommended by the Grand Jury Report. The City is participating in the Municipal Employee Relations Committee of the (MERC) for the specific purpose of identifying and developing information and analysis to assist San Mateo County cities in objectively understanding the dynamics that are occurring relative to employee costs and recruitment,



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and to provide options for consideration by local elected officials to address the rise in employee costs in excess of revenue growth. Information developed by the MERC will allow cities to broaden comparative compensation evaluations by examining public sector and comparable private sector jobs. The data compiled can facilitate applying more market-oriented compensation practices, so that long-term, salaries can potentially be adjusted up or down based on relative competition for labor.

Daly City has implemented an extensive outreach program to universities, community colleges and high schools as part of a "preparing the next generation" strategy to encourage public service careers. The City also hires interns to support full-time staff in completing assigned tasks. In addition, the City has Police Explorer and Police Assistant Programs to facilitate interest in law enforcement careers.

Finally, the City is involved in the San Mateo County Training Consortium for public employees in Peninsula cities. The cities in the County also participate in a Management Talent Exchange Program that promotes cross-training and succession planning for employees at all levels in municipal organizations.

6. The City of Daly City has implemented a staff downsizing strategy for several years. A total of 42 unfunded vacant positions have been eliminated. Recent actions to consolidate operations and reduce staffing at the City's Corporation Yard have resulted in a savings of \$206,000. Technology has been implemented to streamline services and work is currently underway to expand the use of technology to improve services without increasing staff. Certain functions such as median landscaping are currently contracted out and in the future more opportunities may be available for contracting services. However, in such instances current employees may be asked to competitively bid for any services that may potentially be contracted.

Daly City has been a leader in creating partnerships with other cities and the County to deliver services and will continue to pursue additional partnerships and collaborations to provide more cost effective and efficient services. The North County Fire Authority is an exemplary model of just such a partnership which provides fire and paramedic services to the cities of Daly City, Pacifica and Brisbane, under the leadership of Daly City's Fire Chief. Daly City also uses the services of San Mateo County's Training Consortium and is examining the possibility of contracting for consolidated dispatch services.

7. The City of Daly City **will not** implement the recommendation to hold public hearings on public employee contract issues prior to initiating Closed Session negotiations. The legal issues involved in such action make this recommendation unreasonable. There is full public disclosure of the final terms of Memorandums of Understanding when the City Council takes action on the MOUs.

Daly City has already implemented the Grand Jury recommendation to make MOUs public. This is done by placing the MOUs on the City's website.

Hon. George A. Miram

August 25, 2009

RE: Civil Grand Jury Report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County

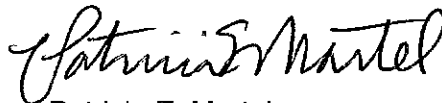
Page 4 of 4

8. The City of Daly City **will not** implement, at this time, the recommendation to involve taxpayers in determining whether or not to create a two-tier wage and compensation system for newly hired employees because presently such action is not warranted. As a result of the Grand Jury's report, the City Council is cognizant of the need to more closely examine the increasing costs of employee compensation and benefits and identify options for curtailing these costs in the future. The City Council and City Manager will focus considerable time and effort in preparation for the next round of contract negotiations to discuss how to control such costs beginning with the next negotiated MOUs. If, through collective bargaining, the City and its unions are not able to reach consensus on the compensation and benefits reforms needed to bring those costs into line with the City's revenues, it may be necessary for the City Council to initiate ballot measures that would create a two-tier system. However, as the elected policy makers, the City Council has the responsibility to be fully informed and educated on compensation and benefits issues affecting City employees, and subsequently to make the hard decisions required to establish appropriate public policy relative to these expenditures. If the City Council cannot achieve consensus on required changes and actions to address these issues, they may determine at a future date that a vote of the electorate should be undertaken. In the meantime, much more information and education pertinent to the issues of compensation, pension and health benefits reform must be provided to elected officials, labor unions and the public to better inform the public policy discussion that will lead to thoughtful and effective changes to the current system.

The City of Daly City appreciates the opportunity to provide written responses to the San Mateo County Civil Grand Jury Report on Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County. The City Council of Daly City approved the responses contained herein on August 24, 2009.

Should you or the Grand Jury require additional information, please contact me directly at (650) 991-8127.

Very truly yours,



Patricia E. Martel  
City Manager

PEM/rp

cc: City Council  
Annette Hipona, City Clerk  
Rose Zimmerman, City Attorney



**City of East Palo Alto**  
Office of the City Manager  
Redevelopment Agency

2415 University Avenue • East Palo Alto, CA 94303

**TO:** Honorable Mayor and City Council Members  
**FROM:** Alvin D. James, Interim City Manager  
**SUBJECT:** Grand Jury Response: Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County  
**DATE:** January 19, 2010

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**RECOMMENDATIONS:**

It is recommended that the City Council:  
Authorize the Interim City Manager to submit the following responses to the 2008-2009 San Mateo County Civil Grand Jury recommendations regarding actions that can be taken to reverse the upward trajectory of employee costs in the cities of San Mateo County.

**BACKGROUND:**

The 2008-2009 Grand Jury filed a report on June 4, 2009 which contains findings and recommendations resulting from its effort to take a broad look at recent trends related to rising personnel costs in the cities of San Mateo County. The reports' findings and discussion was structured to explore three lines of inquiry: 1) Salary and Compensation Packages, 2) Personnel Policies and, 3) The Role of Politics. Attached to this proposed response is a copy of the Grand Jury Report for the City Council's consideration, which details the Grand Jury's analysis and rationale underpinning its findings and recommendations. The remainder of this report itemizes the Grand Jury's recommended actions and provides a proposed city response in italics.

\*\*\*\*\*

**DISCUSSION:**

The 2008-2009 San Mateo County Civil Grand Jury recommends that the city or town council of: Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, Woodside, take the following actions:

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City- Staffing Action Plan.

**Response:** *The City partially agrees with this recommendation. In conjunction with preparation of the FY 2010-2011 budget, the City Council has agreed to devote one entire session in June, 2010 to soliciting community input regarding draft budget proposals and assumptions. The session would be responsive to the recommendation that the city convene a public session. However, as others have noted, including the San Mateo County City Managers Association (attached), in their responses to this recommendation, development of any specific action plan might be problematic in light of labor relations and*

*confidentiality requirements. For that reason, it would seem appropriate for the City Council to take any public input received at the public session into consideration as a guide to its deliberations relative to labor negotiations.*

2. Create a Citizen "Wage Benefit and City Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with:
  - a) Attending the session(s) convened per Recommendation One
  - b) Creating and reviewing the Wage, Benefit and City-Staffing Action Plan (Action Plan) that is produced by the Task Force from this session
  - c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election

The items in the Action Plan should address but not be limited to:

**1. Creating a two-tier system retirement and healthcare benefits system for new hires to:**

- a) Replace current post employment healthcare plans with health savings plans.
- b) Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60.
- c) Base pensions on the average of the last three to five years of salary.
- d) Make provisions for increasing employee contributions to current pension and post-retirement healthcare plans.

**Response:** *The City does not agree with this recommendation. The city concurs with the City Managers Association observation that the recommendation to create a citizen task force appears to challenge the wisdom of the representative form of government where voters elect representatives to invest the time and energy to understand the issues and once informed, vote to set public policy. The city aggressively pursued a range of cost control and reduction measures over the last several fiscal years, including elimination of positions, instituted furloughs as needed, commissioned organizational assessments, capped employer contribution for non-sworn employee dependent health coverage. The city worked cooperatively with non-sworn bargaining units and authorized increased employee contribution to enhance CalPERS retirement benefits from 2 percent at 60 to 2.5 percent at 55 years. The city annually reviews its position classification schedule to ensure that positions remain current and relevant to service delivery objectives. The City Council receives quarterly reports regarding its fiscal posture and, for the last calendar year, engaged with staff in defining strategic planning goals with review of progress in meeting objectives every six months.*

*The City does not agree with the recommendation to create a two-tier system. As indicated in the Grand Jury report, table 3, the city is one of the few cities in the county that currently has a retirement formula for safety employees of 3 percent at 55. Also, as previously indicated, non-sworn employees voluntarily increased their contribution to enhance their retirement formula from 2 percent at 60 to 2.5 percent at 55. For both*



*sworn and non-sworn, pension is based on the average of 3 years, which is consistent with the Grand Jury recommendation.*

**2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees to:**

- a) Eliminate the practice of converting accumulated sick leave to cash.
- b) Reduce vacation time.
- c) Reduce the number of personal days.
- d) Increase employee contributions to current health, vision, and dental insurance.
- e) Extend the length of time between automatic salary increases.

**Response:** *The City understands and generally concurs in the Grand Jury's recommendation to engage the city's labor collective bargaining units in identifying opportunities for reducing costs in order to insure that city services and planned infrastructure improvements are not neglected. The city has and will continue to bargain with such objectives in mind as it enters the next round of bargaining with some units scheduled during calendar year 2010.*

**3. Initiating competitive hiring practices to:**

- a) Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.
- b) Employ more market-oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.
- c) Consider the number of applicants for respective jobs, when negotiating salaries, noting, for example, that there are often 300 to 1000 applicants for firefighter jobs.
- d) Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police recruits.
- e) Join with other cities, and/or the County to create a central training center that promotes cross-training and succession planning for existing staff, and, additionally, introduces qualified applicants from the private sector to public sector service.

**Response:** *The city generally agrees with this recommendation and currently employs several of these practices. It also concurs in the San Mateo County City Managers Association's observation that some professions do not have comparable positions in the private sector, especially sworn safety positions. The city has, and will continue to pursue outreach programs in all of the areas identified in the Grand Jury recommendation. The city does not provide public safety services in the area of fire fighting but rather, depends upon the Menlo Park Fire Protection District to exercise such responsibilities within its borders. The city is mindful of the level of interest expressed in the pursuit of offered positions. However, compensation factors are typically as likely to be influenced by other factors such as experience, particular skill set relative to the needs of the organization, etc.*

*The city has and will continue to work with other cities and professional associations, as opportunities exist, to take advantage of training opportunities, particularly where they promote cross-training. The city has also provided internships as a means for identifying promising talent, although, because of limited staffing resources, it has not been able to develop this capacity to its full potential.*

#### **4. Reducing need for Staff by:**

- a) Expanding the use of technology to streamline services.
- b) Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.
- c) Creating partnerships with other cities and/or the county to include, for example: payroll, human resources, landscaping, fire fighting, police, recreation, and, custodial work. The County already provides centralized training and dispatch services.

**Response:** *The city disagrees with this recommendation as a staff reduction measure, although it agrees with it from the perspective of achieving cost reduction via improve efficiencies in service delivery. (See attached figure depicting full time equivalent employees and residents per employee). The city is presently in the process of installing a new automated development permit tracking and management system. Over the years, East Palo Alto has aggressively pursued partnerships with other cities, the county and other agencies in various areas including dispatch services, crime suppression, training, risk management, shuttle subsidies, parole reentry, vehicle fueling, recreation facility development, levee protection, etc. The city has had mixed experiences with staff augmentation arrangements in the past, both in terms of effectiveness of service delivery and cost savings.*

#### **5. Increasing Public Involvement by:**

- a) Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits.
- b) Making public the Memorandums of Understanding (MOUs) with the unions that result from these negotiations.
- c) Placing the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena.

**Response:** *The city does not agree with this recommendation in that it believes that the public hearing process as a mechanism for conducting labor negotiations would be*

*cumbersome at best, potentially problematic in some situations where legislative protections invoke confidentiality and, not particularly helpful to efforts to conclude timely and cost effective collective bargaining. It does agree with the recommendation in its objective to seek timely consultation before collective bargaining commitments are finalized. Consistent with that objective, the city will continue to look for ways in general to provide the public with increased opportunity to weigh in on the subject of controlling rising employee-related costs. It should be noted that the city currently affords opportunities for citizen input via pre-closed session agenda discussion and community forum. Also, as do other jurisdictions, negotiated agreements are publicly noticed as part of the scheduled meeting agenda and, made available at the public meeting where they are to be considered for approval.*

6. Involving Taxpayers:

- a) If a city council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the city council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them.

**Response:** *As previously discussed, the City does not agree with the recommendation to create a two-tier system nor that the recommendation should be submitted for voter consideration in the form of a ballot measure. As indicated in the Grand Jury report, table 3, the city is one of the few cities in the county that currently has a retirement formula for safety employees of 3 percent at 55. Most others are at 3 percent at 50 and, as indicated in the Grand Jury report, cities to date that have reduced their retirement formulas have returned to 3percent at 55, the same as East Palo Alto's formula for its sworn public safety employees. Also, as previously indicated, non-sworn employees voluntarily increased their contribution to enhance their retirement formula from 2 percent at 60 to 2.5 percent at 55. For both sworn and non-sworn, pension is based on the average of 3 years, which is consistent with the Grand Jury recommendation.*



# City of Foster City

## ESTERO MUNICIPAL IMPROVEMENT DISTRICT

610 FOSTER CITY BOULEVARD  
FOSTER CITY, CA 94404-2222  
(650) 286-3200  
FAX (650) 574-3483

August 4, 2009

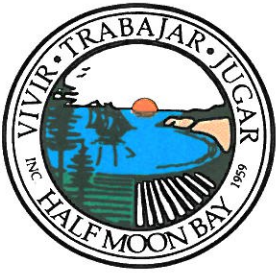
Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1555

Dear Judge Miram:

Thank you for the opportunity to review the 2008-2009 San Mateo County Civil Grand Jury's report regarding Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County, dated June 4, 2009. The City appreciates the Grand Jury's thoughtful report and understanding of the need to balance the public's interest in fiscally responsible government and recruitment and retention realities for local governments. The City of Foster City shares the Grand Jury's concerns and has already implemented several of its recommendations and continues to strive for high quality services but also approaching employee compensation and benefits with a responsible and conservative approach. The City responds to the Grand Jury's recommendations and conclusions as follows:

- Conclusion #1- Agree in part. Based on the information currently available, the City believes it can afford what it provides, however, agrees that the rate of acceleration that has been seen in the past ten years is not sustainable. The City has already indefinitely abandoned a formulaic survey methodology approach to setting compensation. To that end, in the most recent labor negotiations, the City afforded only flat increases to the Police and Fire employees and did not employ a survey methodology.
- Conclusion #2 – Agree in part. Because the City's fiscal situation is not as dire as surrounding communities or the State, solutions like temporary wage freezes and furlough have been avoided, but the City agrees long-term solutions should be explored to curtail the rate of acceleration of the escalation of employee costs.
- Conclusion #3 - Disagree in part and more analysis is needed. Foster City does not agree that a two tiered system for retiree medical is necessary for this entity. The City provides the legal minimum for post-employment health benefits, currently \$101 per month. The City's retirees primarily rely upon a retiree health account (operated as a VEBA) which is funded primarily through employee contributions. More analysis is





## CITY OF HALF MOON BAY

City Hall, 501 Main Street  
Half Moon Bay, CA 94019

November 17, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> Floor  
Redwood city, CA 94063

### **RE: Grand Jury Findings and City of Half Moon Bay Responses on Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County**

Dear Judge Miram:

The Half Moon Bay City Council at its November 17, 2009 meeting, reviewed and approved the following responses to the findings and recommendations of the Grand Jury's undated report titled "Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County."

#### **Background:**

The City of Half Moon Bay (HMB) was never directly contacted by the Grand Jury regarding the contents of this report or the HMB facts until forty-eight (48) hours before the final report was published. The City's response at that time identified inaccurate data in the report, specific to HMB. A letter was sent to the Grand Jury Foreperson (Attachment 1) identifying some cursory errors regarding HMB data, the fact that the report's pages were not numbered and noting that the report failed to include an analysis of San Mateo County costs.

Since receipt of the final report and a more thorough analysis, more Report errors have been found which are as follows:

1. The City of HMB has only 36 employees and not 50 as reported in Table 5.
2. HMB contracts only provide for 13 Holidays and 1 Floating Holiday and not 14 holidays and 1 Floating Holiday as reported in Table 7.

**Grand Jury Report: Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County**

Page 2 of 4

3. HMB has only 36 Full Time Employees and not 52 as reported in Table 8
4. Table 7 and/or the Paid Time Off Section:
  - a. A four year non-management HMB employee receives 12 days of vacation, 13 Holiday and 1 Floating Holiday per year or a total of 26 days and not 27 days off as reported by the Grand Jury
  - b. An eleven year non-management HMB employee receives 18 days of vacation, 13 Holidays and 1 Floating Holiday per year or a total of 32 days off and not 43 days off as reported by the Grand Jury
5. The remainder of the report discusses other cities specifically and makes generalized statements that may or may not apply to HMB
6. The City of HMB is a General Law city and cannot act as a Charter City such as San Francisco, City of San Diego, Orange County or other Charter cities and counties.

Considering the non-factual information discussed above HMB's responses to the Grand Jury's Report **findings** are as follows:

- ***Eighteen cities forecast that employee costs will increase by at least 4% per year over the next five years, even as revenues decline.***

HMB has two year contracts with non-safety groups and three year contracts with Police groups. In the first two years (FY 2009-10 and FY 2010-11) of all contracts, no salary increases are included. In the third year (FY 2011-12) of Police contracts a 2 to 3% salary adjustment is possible subject to cost-of-living changes and other factors.

The City's retirement costs for all groups will vary over the next five years. Projected cost changes are primarily caused by CalPERS investment losses. HMB, like other cities, is required to off-set losses with larger yearly payments. The reduced number of CalPERS eligible City employees has not been factored into the projected cost changes (increases or reductions). However, as years progress, if CalPers investment returns are higher than operating costs then the City's contribution rate will correspondingly be lowered. CalPERS cost reductions have historically occurred when the economy and investment returns are higher.

- ***Approximately 70% of general fund budget expenses in most full-service San Mateo County cities are spent on employee salary and compensation packages because cities are primarily providers of services.***

The City concurs with the Grand Jury's finding. HMB is a service provider city and the highest general fund costs are salary and benefits.

- ***The opportunity for significantly increasing revenues is limited to increasing taxes and fees.***

The City concurs with the Grand Jury's findings. Additionally, the most immediate opportunity to reduce costs while keeping revenues the same is through personnel reductions or service delivery changes such as contracting for services. On March 17, 2009, HMB made significant reductions in personnel and service delivery methods which resulted in General Fund revenues exceeding General Fund costs.

- ***Controlling employee costs, from a long and short-term perspective, is the only meaningful way chronic deficits can be overcome.***

The Grand Jury's finding is very broad and the City disagrees with the statement. There are a variety of ways to overcome fiscal deficits, including but not limited to economic development/redevelopment, increased revenue collection (fees, special assessments or taxes), and sound fiscal and organizational management. Deficits can also be overcome by reducing the number of employees while keeping the remaining employee compensation competitive. If compensation is not competitive then employee vacancies and recruitment costs increase and service levels are further reduced.

## **Responses to Recommendations**

1. ***Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues present below. The session should result in a Wage Benefit and City-Staffing Action Plan.***

On March 17, 2009 the HMB City Council conducted a comprehensive meeting to review and discuss City employee costs, City operational costs, and City liability costs. This comprehensive review resulted in a Staffing and Organizational Action Plan which included the permanent elimination of 19 positions and the reorganization of City operations. While a two-tier retirement system was not specifically discussed, the reductions and organization changes that were implemented did provide immediate and

**Grand Jury Report: Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County**

**Page 4 of 4**

sustainable on-going cost reductions of \$1.75 million per year. This permanent reduction provided far greater cost savings than would be provided by tiered retirement and benefit changes in both the near term and long term. Following the reductions and reorganization employee meet-and-confer sessions, as required by state law, were conducted resulting in multi-year contracts that provide no salary or benefit increases in either FY 2009-10 or FY 2010-11.

Future negotiations can include discussions of tiered benefits, however, the specific decisions will require direction of the then sitting City Council. As employers, the City Council continues to have an affirmative obligation to collectively bargain with specific employee groups. The process for soliciting greater public input in advance of collective bargaining sessions may be considered when future contracts are up for negotiations.

**2. Create a Citizen "Wage Benefit and City Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applicants.**

The City's focus should be on continuing to educate citizen stakeholders regarding this issue. The Grand Jury report is one form of this education process. Public meetings to solicit community input are an additional opportunity. However, as employers, the City has an affirmative obligation to collectively bargain with employee units which can include guidance received and discussed in a public forum. The City Council as the elected body is the decision maker in determining the specific actions to be taken in the meet-and-confer process. The Grand Jury Report information will be one of the information pieces considered in FY 2011-12 negotiations and beyond.

A copy of the Resolution approving this response to the Grand Jury Report is attached.

Sincerely,



Michael Dolder  
Interim City Manager  
City of Half Moon Bay

c: City Council  
City Clerk  
City Attorney  
PDF to [grandjury@sanmateocourt.org](mailto:grandjury@sanmateocourt.org)



needed to determine whether labor union contracts for newly hired municipal employees should be introduced to reduce the cost of pension costs.

- Conclusion #4 – Agree in part. The City agrees that employee costs need to be contained to maintain the long-term health of City’s finances, but the City is dedicated to its legal obligations to meet and confer with the bargaining units on reductions to any benefits. The City requires more time to evaluate the best long-term solutions for containing the escalation of employee costs.
- Conclusion #5 – Agree in part. The City agrees the practice of narrowly basing salaries and compensation packages entirely on those of nearby cities should be reconsidered. The City agrees it competes with the private sector for recruiting talent. The City does not necessarily agree that a formulaic survey methodology is in the best interest of the City, regardless of whether it includes private companies or purely public comparators. As stated above, the City has already indefinitely abandoned such an approach.
- Conclusion #6- Agree in part. The City agrees that cost efficiencies are an important determinant of whether to contract out services but also believes that other considerations should be considered, such as community interests, benefits of control, and service level standards. The City has already achieved cost efficiencies by contracting out a number of services, including janitorial services, street sweeping, street lights maintenance, sidewalk repairs, large tree trimming, street median maintenance, and large development plan checking. Additionally, the City often contracts for areas of expertise that are outside the scope of staff expertise. For example, 84 of our recreation programs are contracted out to secure subject matter experts.
- Conclusion #7 - Agree. The City agrees that overlapping functions between cities should be pursued. The City already has a number of partnerships with other entities to help achieve economies of scale and share resources. For example, Foster City operates Calopps.org which is a website dedicated to advertising government employment opportunities for 67 public agencies statewide and also allows agencies to electronically process recruitments for a fee of \$1500 per year per. The City reduced the staff time required by 60% by implementing this website and reduced the length of time to process a recruitment by approximately 67%. Foster City enjoys a revenue stream of approximately \$100,000 per year from this endeavor which lessens burdens on the City’s General Fund. Additionally, the City joins with other agencies for its Workers’ Compensation administration, Library Services, compensation and classification information gathering, Fire Radio System Maintenance, Fire Dispatch, Fire Training, Emergency Preparedness, Water Pollution Prevention, Mosquito Abatement, Recycling and Waste Management, Water Conservation and Supply, Fire Engine and Truck Fleet Maintenance, and Cable Franchising Negotiations. The City is also exploring a training consortium with San Mateo County cities for workforce development curriculum.
- Conclusion #8 – Disagree. The City does not believe that political barriers exist when negotiating employee contracts. The City affords compensation competitive with other agencies but its benefits, although generous, are not on the scale of other agencies. For example, according to Table 7, only three of the other nineteen cities afford less vacation leave than Foster City. Further, the City is only one of four in the County that affords a three-year average salary computation for its retirement benefit. The City affords the



legal minimum under PEMCHA for its retiree medical benefits. The City affords leave time that is in the bottom quartile compared to its peers. The City has consistently been conservative and fiscally prudent in evaluating benefits it affords. In fact, the City's active employees do not receive fully paid family coverage insurance (i.e., health, vision, and dental). Additionally, longevity pay has been eliminated for all but the safety employees in the City. Finally, although the City has not afforded the ability to convert sick leave to service credit at retirement, the safety employees were afforded this benefit when CalPERS forced all entities with fewer than 100 safety employees into a pooled risk plan and that benefit was automatically afforded to all members of the pooled plan. As a result, the conveyance of this benefit was beyond the City's control. Many of the benefits the Grand Jury voiced concerns about are comparatively significantly lower than surrounding cities. Based on the City's conservative approach, the City does not believe political barriers exist. The City Council of Foster City comes from diverse backgrounds and represents a reflective cross-section of the community. The City believes that the public is well represented through its representative government. The City does not believe ballot measures are needed to resolve any barriers because no barriers exist.

- Recommendation #1 – Some of the recommendation has been implemented in part, some will be implemented in the future, and some requires further analysis. The City believes it already has public input into its process. The City values the participation of the members of the public. The City places its proposed Memoranda of Understanding on the public agenda and that agenda is distributed to the public. The agenda packet includes a full disclosure of the bargained changes five days in advance of the public meeting where the benefits are voted on in open session. The draft MOU is attached to the staff report and any and all changes are reflected through “track changes.” Members of the public have not voiced any concerns about its public officials’ choices during these public meetings. Additionally, the City will place a discussion of this grand jury report on a public agenda as part of preparing a response to the Grand Jury. The City requires further analysis as to whether a Wage, Benefit, and City Staffing Action Plan would be the appropriate approach. The City already engages in extensive analysis in preparation for labor negotiations that includes analysis of evaluating all of the components of the proposed Action Plan, including two-tier retirement systems, retiree health benefits, and active employee benefits and leaves. Additionally, the City has already begun strategic planning, creating a five year plan for the City. As part of this process, each operating department is evaluating efficiencies, including sharing services with other government agencies, contracting out, reducing staff, and exploring partnerships with private and non-profit entities. As a result, the City believes it has already implemented an approach that captures the interests the Grand Jury is trying to address.
- Recommendation #2 – Disagree. The City does not agree with the creation of a “Wage, Benefit and City Staffing” Task Force. As stated above, the City believes citizens’ interests are well represented by the elected officials, who have historically been mindful of resisting affording overly generous benefits and represent a good cross-section of the community. Additionally, the City has a very participative government, which includes 11 citizen advisory and ad hoc committees and one commission, comprising of 109 citizens seats. There are currently eight vacancies, which is commonly for lack of



interested or qualified participants. Further, the City believes that a lottery system to choose task force members runs counter to the value of advisory committees because committee members are generally selected for subject matter expertise. Finally, by affording the Task Force the power to control 75%-80% of the General Fund's operating budget, by deciding the direction of the employer and employee driven costs, the proposed system could handcuff the Council's ability to effectively govern, which is not consistent with a representative form of government. Similarly, the City does not believe ballot initiatives are necessary to address the Grand Jury's concerns.

Foster City's public officials and staff are committed to ensuring the sound fiscal health of the City of Foster City and balancing that with affording a compensation and benefits package that is responsible and ensures the City can adequately attract and retain talent to provide high quality service levels. Thank you for reminding us of these important obligations to the public we serve.

Additionally, the City would like to bring to your attention the following factual inaccuracies contained in the Grand Jury's report:

- On Page Five, in Table One, the percentage for a regular employee retiring under a 2.7% @ 55 formula at age 52 would be a 2.280% @ 52 factor resulting in a 22.8% of last year salary, resulting in an annual retirement pension of \$14,470. The figures reflected for this example are not correct.<sup>1</sup>
- On Page 5, in the note, the Grand Jury states that employees carry with them their years of service. It should be clarified that the employee's retirement benefit is calculated for each agency, meaning the years of service for that agency are calculated according to the contracted benefit formula, but they do not "carry it with them."
- On Page 6, in Table Two, the Regular Employee's retirement benefit, under the 2.0% @ 55 formula, when retiring at age 52 would be 1.628% @ 52 factor resulting in a 16.28% percentage for a \$10,332.10 annual pension benefit.<sup>2</sup> The table states the employee could collect in three years and receive the full 2.0% @ 55 benefit, which is true, but this employee would forfeit any retiree medical benefits afforded from the agency because the employee would have to retire with CalPERS within 120 days of separation to receive the retiree medical benefit. The juxtaposition of represented hypothetical situations leads to an unbalanced comparison.
- On Page 8, Foster City retirees, like most San Mateo County entities, do not receive paid dental and vision post employment. The only vision and prescription drug components would be part of a group health insurance plan.
- On Page 18, the population for Foster City represents the 2000 census data. The most current population estimate is 30,429, which was as of January 1, 2009, as reported by State Department of Finance.<sup>3</sup> This represents approximately a 5.65% growth from 2000.

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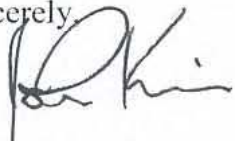
<sup>1</sup> See CalPERS benefit retirement charts. [http://www.calpers.ca.gov/eip-docs/member/retirement/service-  
retire/benefit-charts/pub-8-2.7percent-55.pdf](http://www.calpers.ca.gov/eip-docs/member/retirement/service-<br/>retire/benefit-charts/pub-8-2.7percent-55.pdf).

<sup>2</sup> See CalPERS benefit retirement charts. [http://www.calpers.ca.gov/eip-docs/member/retirement/service-  
retire/benefit-charts/pub-8-2percent-55.pdf](http://www.calpers.ca.gov/eip-docs/member/retirement/service-<br/>retire/benefit-charts/pub-8-2percent-55.pdf).

<sup>3</sup> See E-1 Report: City/County/State Population Estimates, Department of Finance, dated April 30, 2009. [http://www.dof.ca.gov/research/demographic/reports/estimates/e-1/2008-09/documents/E-  
1\\_2009%20Press%20Release.pdf](http://www.dof.ca.gov/research/demographic/reports/estimates/e-1/2008-09/documents/E-<br/>1_2009%20Press%20Release.pdf).

Please feel free to contact me if you seek additional information or have any questions regarding this response to the Grand Jury's report.

Sincerely,

A handwritten signature in black ink, appearing to read "John Kiramis". The signature is fluid and cursive, with the first name "John" and last name "Kiramis" clearly distinguishable.

John Kiramis  
Mayor

Cc: Members of the City Council  
James C. Hardy, City Manager  
Jean B. Savaree, City Attorney  
Doris L. Palmer, City Clerk  
Rebecca Burnside, Human Resources Director



# MINUTE ORDER

No. 1163

OFFICE OF THE CITY CLERK/  
DISTRICT SECRETARY  
FOSTER CITY, CALIFORNIA

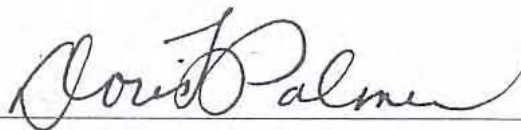
Date: August 4, 2009

Attention: City Council  
Rebecca Burnside, Director of Human Resources

City Council/EMID Board Meeting Date: August 3, 2009

Subject: Approve Response Letter to the Honorable George A. Miram, Judge of the  
Superior Court

Motion by Vice Mayor Wykoff and seconded by Councilmember Koelling, and carried unanimously, 5-0-0, IT WAS ORDERED approving a response letter to the Honorable George A. Miram, Judge of the Superior Court.



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CITY CLERK/DISTRICT SECRETARY

HEYWARD ROBINSON  
MAYOR

RICHARD CLINE  
VICE MAYOR

JOHN BOYLE  
COUNCIL MEMBER

ANDREW COHEN  
COUNCIL MEMBER

KELLY FERGUSSON  
COUNCIL MEMBER



701 LAUREL STREET, MENLO PARK, CA 94025-3483  
www.menlopark.org

August 25, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> floor  
Redwood City, CA 94063-1655

**Building**

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FAX 650.327.5403

**City Clerk**

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FAX 650.328.7935

**City Council**

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FAX 650.328.7935

**City Manager's Office**

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FAX 650.328.7935

**Community Services**

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FAX 650.324.1721

**Engineering**

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FAX 650.327.5497

**Environmental**

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**Finance**

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**Housing &  
Redevelopment**

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FAX 650.327.1759

**Library**

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FAX 650.327.7030

**Maintenance**

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FAX 650.327.1953

**Personnel**

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FAX 650.327.5382

**Planning**

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FAX 650.327.1653

**Police**

TEL 650.330.6300  
FAX 650.327.4314

**Transportation**

TEL 650.330.6770  
FAX 650.327.5497

Dear Judge Miram:

This letter serves as the City of Menlo Park formal response to the June 4, 2009 letter from the Superior Court transmitting the Civil Grand Jury Report "Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County." The Menlo Park City Council authorized this letter and the attached specific responses at their meeting of August 25, 2009.

Menlo Park appreciates the efforts of the Grand Jury and their desire to address this extremely complex issue. The Grand Jury's self-described "broad look" at personnel costs in the cities of San Mateo County, however, uses limited information from cursory sources and, we feel, does not adequately allow for the detailed problem analysis needed to generate creative, implementable and realistic solutions. For example, key contextual information regarding the scope of the problem is not included, such as data that indicates\*:

- Of the 476,252 public retirees in California, 1.07% receive the \$100,000 annual pensions cited in the report. No Menlo Park retirees receive this amount.\*
- The average public retiree in California receives \$27,600 annually
- On average, less than 17% of all retirement costs for city personnel come from city budgets (the remainder comes from investment returns of the retirement system and employee payroll deductions)

Other facts and clarifications of incorrect statements are addressed in the attached detailed response.

Although a number of the Grand Jury's recommendations have already been implemented in Menlo Park and plans are in place to implement others, the City of

\* <http://www.calpers.ca.gov/index.jsp?bc=/about/facts/home.xml>

Menlo Park does not feel some are appropriate for our jurisdiction and these will not be implemented at the present time. Detailed responses are attached.

Overall, Menlo Park feels that, due to market influences driving employee costs that are impacting local communities as well as county and state governments, public employers at all levels need to be working together to attract and retain a quality workforce while balancing the need to provide critical services. Additionally, issues such as rising health care costs are national in nature, as witnessed by the current national debate over health care reform. We feel that an extremely complex issue such as this, with the myriad of legal, political, ethical and practical constraints impacting potential changes to the current systems, is only fully addressed through a much more informed analysis and deliberation process than is possible through the response to the Grand Jury report. For example, the Cities of San Mateo County Municipal Employee Relations Committee (MERC) has been working since June of 2008 to address these issues and has only recently begun to formulate solutions.

We appreciate the Grand Jury's efforts to open the dialogue on this important topic and urge a much deeper analysis and discussion of possible system-wide changes benefitting all stakeholders. Menlo Park wholly supports efforts to control long term costs in order to continue delivery of high quality services within available resources. We are hopeful that through collaboration and cooperation among cities, counties, the state, public employees, unions, residents, private sector employers facing similar concerns and other stakeholders, effective solutions, including a number of those offered in the Grand Jury report, can be implemented.

Regards,

A handwritten signature in cursive script that reads "Heyward Robinson" with a small "pe" written below the name.

Heyward Robinson, Mayor  
City of Menlo Park

Attachment: City of Menlo Park comments – Civil Grand Jury report on employee costs

**City of Menlo Park comments on the  
2008-09 San Mateo County Civil Grand Jury Report on  
Reversing the Upward Trajectory of Employee Costs  
in the Cities of San Mateo County**

**Issue**

As both public and private employers across the country grapple with the effects of the worst economic crisis since the Great Depression, employee wages and benefits have become a target for cost cutting, generally representing the largest expense in service-related businesses. Adding to the pressure on local governments is the State's search for others sources of revenues to prevent program contraction during the economic downturn. As we have seen, the State has attempted to solve its deficit, in part, by proposing to raid revenues currently targeted to cities and redevelopment agencies. At this writing, the State has enacted a budget that borrows \$1.9 billion from local governments and seizes \$1.7 billion in funds earmarked for redevelopment areas. These actions by the State redirect money from local government, negatively impacting cities' ability to fund operations. This convergence of events has created serious pressure on local governments as employee costs increase and revenues are slashed, compelling the San Mateo County Civil Grand Jury to review this issue and develop a report recommending changes to the systems determining public employee salaries and benefits in the cities of San Mateo County.

Menlo Park City staff has reviewed the Grand Jury Report, completed additional research and analysis, evaluated responses from other bodies (including the San Mateo County Municipal Employee Relations Committee) and formulated these comments, approved by the Menlo Park City Council at their meeting of August 25, 2009. The comments are organized to include: (I) clarification of statements in the Grand Jury report related to both Menlo Park facts and facts about employee compensation in general; (II) an overview of the history of local government employee costs to provide important additional context; and (III) specific comments on each of the Grand Jury's recommendations, including a more detailed review of activities already underway.

**Potential for "bias"**

Menlo Park acknowledges the issues and criticisms that accompany any attempt to "objectively" respond to a report about employee salaries and benefits. In this response, we have endeavored to not only present factual information from outside sources but to also clearly indicate where information is based on staff or Council experience or opinion in order to support the Grand Jury in better determining the credibility of the information presented.

**(I) Clarification of statements made in the Grand Jury Report**

Several assertions made in the Grand Jury report require clarification:

1. Findings and Discussion section (page 3)

Menlo Park does not agree with the third Grand Jury finding that "the opportunity for significantly increasing revenues is limited to increasing taxes and fees." This statement implies that local government's only alternative to addressing employee costs is to impose additional taxes and fees on local residents and businesses by



increasing the existing tax rate. In Menlo Park, Council has set a priority goal for 2009-10 to develop “a vibrant and resilient economy supporting a sustainable budget,” which includes increases in tax volume not increasing tax rates or imposing new fees and/or taxes. The primary strategy for achieving this goal is the implementation of the City’s Business Development Plan, which is designed to, as Mayor Heyward Robinson has said, “grow the pie.” Menlo Park believes this is a viable alternative to increasing taxes and fees. Indeed, revenues for the City of Menlo Park are expected to increase in 2009-10 by approximately \$1,000,000 primarily due to new development that came on line in late 2008-09.

2. How Pensions and Other Post Employment Benefits are funded by cities (page 10) Pensions are funded differently from Other Post Employment Benefits (OPEBs) in every City in the County and, we feel, lumping them together as the Report does further compounds the misunderstandings about how the public employee retirement system works and what solutions, may be appropriate. We will separate our explanation into the two areas: Pension funding and OPEB funding.

#### *Pension funding*

The Grand Jury report indicates that city workers pay fixed rates into CalPERS while the rate for cities is adjusted “every three years.” CalPERS actually adjusts the rate for cities annually, based on state law and an actuarial assessment of the active and retired employee pool as well as return on investments, changes in employee compensation and the impact of disability retirements. Inclusion of these items effectively customizes the rates cities pay and makes generalizations about the costs impossible. Additionally, although staff contributions are fixed for longer periods of time reflecting the length of contract terms, CalPERS costs should also be considered over the long term. Within the last five years, for example, CalPERS was “over” funded when investments were generating a large return and many cities paid nothing into the CalPERS retirement program.

Menlo Park employees pay a fixed percentage into the CalPERS system from their salary. With the exception of one year, between 1988 and 2005, the employee contribution for miscellaneous employees of seven percent exceeded the employer contribution, which varied between zero and 6.617%. The opposite is true for safety employees. For safety, the employee contribution of nine percent has exceeded the City contribution in only seven of the last twenty five years. The employer rate is adjusted annually, based on demographics of the unit, estimated inflation, change in payroll base and return on investments. The return on investments is usually the largest factor in determining employer rates.

It’s also useful to note that public safety disability retirements across the CalPERS system account for a large portion of individual cities’ retirement costs, even if there are few disability retirements among that city’s retirees. Menlo Park supports major changes at the state level regarding the presumptions and determination for disability retirements that we feel would garner substantial savings.

### *OPEB funding*

OPEBs are funded differently by every community in the County, depending on what is offered in their respective retiree medical plan and whether or not the city has pre-funded these liabilities. Additionally, cities do not fund their OPEBs through the CalPERS system. Again, these complexities make generalizations about issues with the system impossible.

The Report's table 6 indicates Menlo Park has firefighters. This is not accurate. Additionally, it should be noted that the figures in Table 6 for Menlo Park represent a complete funding of our OPEB costs, meaning we have no unfunded liability for this category, which may not be the case for all cities listed here, making this table somewhat misleading.

3. Methods cities use to cover pension and OPEB liabilities (page 12)  
 Besides the issues with lumping together pension and OPEB debt in one category, as mentioned above, the Grand Jury report states "The City of Menlo Park diverted \$13 million from its general fund to cover its retiree health care liability." This statement greatly simplifies Menlo Park's approach and mis-states the amount of general fund reserves used to pre-fund the City's OPEB liability. In 2007-08 the City of Menlo Park implemented a Council-approved strategy to pre-fund the City's entire retiree medical benefit liability (OPEB). This strategy had been developed in response to the new governmental accounting standards regarding the valuation and disclosure of these benefits, first brought to Council's attention in early 2006.

An actuarial study provided a preliminary valuation of the City's retiree medical benefit obligation as of June 30, 2006, and over a period of nearly two years, the Council considered the most appropriate way to fund this commitment. Meanwhile, an internal service fund (ISF) for retiree medical benefits was established in fiscal year 2006-07 for the purpose of recording the on-going cost of the benefits as departmental operating costs.

The Council decided that full funding of the City's OPEB obligations to date, utilizing a qualified trust account, was most appropriate for Menlo Park. This strategy was consistent with the City's efforts to record and report the total cost of operations in the proper fiscal year, and enhanced its fiscal standing with credit rating agencies by eliminating unfunded liabilities from its financial statements.

The total amount contributed to the California Employer' Retiree Benefit Trust to fully pre-fund the City's OPEB obligations as of June 30, 2008 was \$10.4 million. This amount represented **\$9.2 million** from General Fund reserves for the obligation accrued as of June 30, 2006, and \$1.2 million available in the ISF (and charged to all City operations) for the two fiscal years ended June 30, 2007 and June 30, 2008. The City continues to use the ISF to account for OPEB obligations as they are incurred each fiscal year. As such, these costs are now part of the City's annual operating budget.

4. Salaries for current employees (page 15)

The Grand Jury report states that, following a series of step increases in their first 3.5 years, employees “may go on to Step II.” Menlo Park has no “Step II” system. Additionally, this section states “These scheduled increases do not include pay-for-performance adjustments.” Menlo Park does not provide pay for performance adjustments, although some management staff are eligible for performance-based bonuses. These bonuses may be awarded annually and do not accumulate as a part of an employee’s base salary and do not increase PERS benefits.

Additionally, it is very important to note that the Grand Jury report implies these “increases” in salary in an employee’s first 3.5 years of employment are over and above what would “normally” be paid for that position. In reality, the step system discounts salaries for new employees during the time period it generally takes to learn a new organization and its procedures, no matter how highly qualified they may be. This *lowers* the cost of the employee while this experience is gained.

5. Representative Increases in Salaries and Benefits (page 16)

It should be noted that the Grand Jury’s primary source of information on “representative” salaries and benefits for San Mateo County cities was the Almanac and the Post. Newspapers generally are not a responsible primary source of information about this type of complex and detailed subject. Several inaccuracies in the newspaper stories were clearly perpetuated with regard to employee costs in Menlo Park, and we are concerned that this inaccurate information was used by the Grand Jury to not only develop an understanding of the problem but also to develop recommended solutions.

Specifically, the first bullet on page 16 indicates that Menlo Park FTEs dropped 13% between 2001 and 2006 while staffing costs increased by 27%. The increase was not due to salary or retirement benefit increases as the statement and the Almanac article imply, but a result of Menlo Park paying 0\$ into PERS (investment earnings covered the entire cost) immediately prior to 2001, as well as nothing for OPEB or Workers Compensation.

The report also cites the Almanac in asserting that, in 2007, “Menlo Park employees received a 35% boost in pension benefits.” This comment refers to the negotiated increase in retirement benefit that changed the percent of salary at age 55 to 2.7% from 2%. This change increased benefits between 20% and 35%, depending upon an employee’s tenure with the City. These retirement enhancements are characterized by the Grand Jury report as increasing employee costs – however, they were offset by deferred salary increases (0% the first year, 1% the second year, and 2% the third year) as well as an increase in employees’ contributions to their retirement funds (from 7% to 8% for non-safety employees). Menlo Park was late in adopting this enhanced retirement benefit, compared to other California cities and was compelled to do so to remain competitive and retain experienced and talented employees.

This section of the Grand Jury report also contains information about the 2009 salary increase for Police sergeants in Menlo Park, which the report quotes from the Almanac as being “30%.” It is important to note that this increase came following three years of staffing losses, totaling 30 officers (of a department of 50), due to Menlo Parks’ extremely low pay rate compared to other Peninsula communities in a very competitive market. This persistent turnover not only impacted the quality of service, but incurred major costs to the city for training and overtime. The increases were extremely cost effective when compared with other potential costs for inexperienced police officers, such as liability, training and overtime. Currently, all sworn positions are filled, which can be credited to some degree to the more competitive salary level. These vacancies were filled prior to the current recession hitting the local economy.

Other information cited by the Grand Jury about increases in employee costs to the city require further explanation. Payroll costs for the City of Menlo Park vary from year-to-year due to the number of people employed during the year, employee vacancy rates, and the amount of overtime worked (which is largely dependent upon vacancy rates, the community’s demand for services, and emergencies and other situations).

Although there has been a 13% increase in the City’s total personnel expenses over the past three years, this increase was primarily due to the factors above. Base wages paid to individual employees rose approximately 4.35% organization-wide over the two year period from 2006-2008 or roughly **2.2% each year (less than the region’s increase in cost of living)**. The remainder of the growth in payroll is due to fewer vacancies, increased staffing as a result of taking on a contract (which provides offsetting revenues) with San Carlos to provide their dispatch services, the addition of new, Council-approved positions in other departments to meet community needs, and an increase in Police overtime (due to ongoing vacancies in the Police Department during that period).

6. The report references a 13.1% increase in the CPI between 2003-2008. Menlo Park staff were unable to verify the source or the calculation for this figure. Additionally, we are concerned that much longer time frames, overall, need to be considered when attempting to develop a complete and accurate picture of public employee compensation in the Bay area over time. Accordingly, we offer the following historical context and urge that it be included in any analysis of this subject.

## **(II) Historic factors contributing to public employee cost increases**

The CalPERS system was created in 1932 during the Great Depression. The system is a defined benefit plan and has provide retirement benefits to State employees, as well as cities and special districts who contract with the system, for over 77 years. It currently has assets of \$191.4 billion. Return on investment has, in the past, made up 75% of the fund



providing retirement benefits. A 2006 research report by California State University (Sacramento Applied Research Center) estimated that, because of employee contributions, investment earnings and the spin-offs of retiree spending, the California economy gained approximately \$8.55 for every one dollar invested in pensions by employers and taxpayers. The California public employee retirement system has functioned well, overall, in the service of taxpayers and government employees.

More recently, the California legislature has authorized retirement benefits exceeding those available in the private sector. When the legislature creates these higher benefits, it immediately creates market pressure for cities to also provide them in order to retain trained, qualified and experienced high-quality staff. When considering solutions to this issue it is important that we review how the State's actions contributed to this situation. As the Grand Jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table. Concurrently, cities were struggling to attract police and fire candidates in the very tight labor market in the Silicon Valley where the cost of living was among the highest in the nation. Most public employees do not participate in social security and did not have the stock option plans and 401(k) plans that were experiencing substantial investment returns during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that have proven to be unsustainable in today's economy.

As more and more cities began implementing the increased salaries and benefits first added by the state, other cities were required to provide the same for their employees or risk losing talented staff. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness and issues of within-agency equitability caused many agencies to enhance miscellaneous benefits as well.

This is clearly a state-wide system issue, best solved at the state level – not by individual cities. The legislature is really the first line of action. Menlo Park supports cities joining together to take a strong advocacy role for public pension/benefit reforms on a statewide basis, urging the League of Cities, CSAC and other groups to push the State legislature to initiate reforms, roll back retirement benefits for new employees, etc.— a much more effective approach than trying to implement changes in individual communities such as Menlo Park, or even on a county-wide level as Menlo Park competes with other cities in the region for qualified employees, including the Central Valley.

Menlo Park City Manager Glen Rojas has actively served on the committee to support the work of the San Mateo County Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken to better inform staff and elected officials about possible solutions. The group also hopes to secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for MERC has been to develop a better understanding of total employee cost trends in the County and to see how each jurisdiction fits into that broader picture.

### **(III) Response to Grand Jury recommendations**

#### *1. Create a two-tier retirement and healthcare benefit system for new hires.*

Menlo Park is willing to consider this recommendation as we enter negotiations with our miscellaneous bargaining units beginning in September of this year. We support exploring a two-tier system if implementation does not result in any one community being at a competitive disadvantage for hiring and retention, as we are concerned that cities implementing before a state-led, system-wide change would not attract the best candidates, particularly when applicants compare retirement offerings. Menlo Park would also consider a system that would increase the share of benefit costs paid by employees.

#### *a. Replace post employment healthcare plans with health savings plans*

The City of Menlo Park's post employment healthcare plans consist of retiree medical benefits earned annually by active employees and "banked" in the form of unused leave (hours). Because there is a maximum number of these accrued hours that can be applied to monthly health care coverage upon retirement, the plans never provide "lifetime" benefits to a retiree – the coverage is limited to the amount of hours converted to monthly premiums. Because of these built-in "ceilings", the actuarially determined accrued liability for these benefits was manageable, allowing the City to fully fund these plans. Although capping these benefits places us at a competitive disadvantage compared to neighboring cities, Menlo Park has already taken steps to better manage these post employment health care costs.

#### *b. Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to 60.*

The City of Menlo Park is willing to consider this option as we enter negotiations this fall. If a state-wide effort were to be undertaken to explore this item, Menlo Park would consider an approach similar to the recent California League of California Cities' recommendation of 2.0% at 55 (3-year highest average) for miscellaneous employees or 3.0% at 55 (3-year highest average) for public safety employees. Again, like the recommended change to a two-tier system, implementation should not result in any one community being placed in a competitive disadvantage by implementing this recommendation before a state-led, system-wide change. It is also necessary to consider the ongoing presumptive conditions the legislature presses for in various bills that will continue to drive up the cost of safety retirement should these bills pass.

Disability retirements in safety units have an enormous impact on the employer rate, much more than the plan type, for example.

- c. *Base pension on the average of the last three to five years of salary.*  
See above – Menlo Park would consider the 3 year highest average.
- d. *Make provisions for increasing employee contributions to current pension and post-retirement healthcare plans.*  
See above – Menlo Park would consider this recommendation should a system-wide change be legislated. Otherwise, post retirement health care plans vary widely among local government agencies; the establishment of employee contributions for retiree medical benefits is best approached by each agency. As noted previously, Menlo Park retirees currently “pay” for medical coverage with unused leave balances to the extent available.

- 2. *Renegotiate contracts with unions to modify current benefits for existing employees to (a-e) eliminate the conversion of accumulated sick leave to cash; reduce vacation time; reduce personal days; increase contributions to health plans and other benefits; increase time between salary increases:*

Due to pending negotiations with two of Menlo Park’s bargaining units, it is not appropriate for the City to take an affirmative stand on any of the suggested benefits except to indicate that at this time all possible proposals will be considered. Menlo Park has operated under the requirements of the Meyers-Milias-Brown Act (MMBA)<sup>1</sup> since its inception and is required to continue operating in accordance with the act. MMBA was enacted to define uniform and orderly methods in which labor relations are conducted in the public sector. The act specifies the makeup of employee organization, scope of representation, noticing, and meeting requirements. Section 3505 contains a requirement that the governing body or designated representative personally meet and confer in good faith regarding wages, hours, and other terms and conditions of employment with representatives of the recognized employee organization and shall consider fully such presentations as are made by the employee organization on behalf of its members prior to arriving at a determination of policy or course of action.

During future negotiations, Menlo Park would consider these changes, among others recommended, if doing so did not adversely impact our ability to hire and retain talented staff.

More research and discussion about these items would also need to occur before further consideration in order to determine if moving forward with a policy change in this area would constitute an unfair labor practice or constitute a violation of MMBA.

- 3. *Initiate competitive hiring practices*

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<sup>1</sup> Government Code Sections 3500-3510; Governor Reagan, 1968

- a. *Broaden the compensation horizon by considering comparable jobs in both the private and public sectors*

Menlo Park currently utilizes hiring practices common to all sectors, such as those suggested by the Grand Jury and including using comparables for setting salaries where comparable public jobs exist and salary information is available as there are no comparable private sector jobs for many public positions. In addition, private industry has no requirement to make salary and benefit information public and usually considers such information proprietary. Public sector salaries are fixed by a published salary schedule, whereas private industry has more latitude, making it difficult to compare value where salary information is available. Available industry comparisons generally use a broad national or regional scale, not reflective of the cost of living in the Bay area. A search for private industry comparisons yields limited results, however, an annual survey sponsored by the American Federation of Teachers shows that public employee salaries generally lag behind the private sector by an average of 30%. The survey also shows that in states permitting collective bargaining, public employees average 16% better pay. Additionally, private companies are in a better position to reward individual effort through bonuses, profit sharing, stock options, stock purchase plans, and employer contributions to 401K plans.

Base wage rates in Menlo Park are established by surveying similar classified positions in surrounding communities in San Mateo and Santa Clara County. Cities of similar size are used because their positions typically contain the skill sets and span of responsibility comparable to Menlo Park. Staff also prefers to hire applicants with prior experience in municipal government. Fourteen nearby cities are used to determine average base wage paid for the job responsibilities and provide enough of a sampling to properly value specialty or unique positions where there are few comparisons. These cities include: Belmont, Burlingame, Campbell, Cupertino, Foster City, Los Altos, Los Gatos, Millbrae, Pacifica, Palo Alto, Redwood City, San Bruno, San Carlos and Saratoga.

Since the early 1980's, Menlo Park policy has been to pay the average salary established for each classified position. Some cities within the survey group commit to paying above average, or use a formula to maintain a certain ranking in the group (including recently settled contracts that include provisions to maintain a certain rank).

- b. *Employ more market-oriented compensation practices to adjust salaries in times of high and low competition for labor*

Menlo Park already uses market-oriented compensation practices.

- c. *Consider the number of applicants for respective jobs*

See b, above. There are professions where a shortage of qualified individuals exists and industry experts warn that, due to rapidly approaching retirement of baby boomers and lack of interest in public service by those starting their



careers, this problem will grow. As with any supply and demand situation, shortages place upward pressure on wages and public entities must compete for a limited pool of qualified applicants. Exacerbating this shortage is the high cost of living in the Bay area which often limits area cities' ability to attract talent from outside the area or retain employees who wish to buy a traditional home. The increase in housing prices in Menlo Park over the past few years, despite the downturn elsewhere, has increased the competition for some qualified staff, particularly at the executive level unless top salaries are paid or housing assistance is provided.

*d. Develop more applicants*

Menlo Park supports this suggestion and is currently implementing programming in this area where candidate pools are low, for example, Police.

*e. Join with other cities to create central training*

Menlo Park supports this idea and is currently collaborating with San Mateo County, Palo Alto and other jurisdictions to pursue strategies in this area. We participate with the Liebert and Cassidy consortium, the Menlo Park Fire District on emergency preparedness training and the South Bay Cities Insurance JPA on safety and other training topics.

*4. Reduce the need for staff*

*a. Expand use of technology*

Menlo Park supports this suggestion and currently engages in expanding efficiencies whenever possible. A fine example of where efficiencies have benefited the City is in public safety with the use of in-vehicle computers allowing officers to write their own reports and reducing the need for Police Records Officers and clerical staff. The implementation of on-line registration for recreation programs is another example. We have found that efficiencies resulting in increased automation are often offset by a thirst for more detailed statistical information and analysis by staff, residents and Council, requiring the replacement of staff who previously recorded information with staff who can analyze and interpret information (generally a more highly skilled activity).

*b. Explore contracting out*

The City of Menlo Park continues to explore a wide variety of service approaches. We currently contract for janitorial, plan check, inspection, water meter reading and billing services, aquatics and pool management, tree trimming, legal services, some recreation services, street sweeping and more. We continue to investigate other opportunities for contracting services at all levels where it is considered appropriate, cost effective and service focused.

*c. Create partnerships*

The City of Menlo Park currently has a contract with San Carlos to provide dispatch services; we participate in a solid waste collection and recycling cooperative contract, a cable franchise JPA, a fire service district, membership

in an insurance JPA and an authority to manage issues related to San Francisquito Creek, the Ravenswood School District, the local Boys and Girls Club and more. Menlo Park continues to look for opportunities to achieve saving through other partnerships.

5. *Increase public involvement*

a. *Convene a public session in 2009 devoted to this issue – the session should result in a Wage, benefit and City-staffing action plan*

Menlo Park has a long history of community outreach, engagement and information sharing related to staffing levels, service mix, budget development and contract amendments (which must be adopted by ordinance and presented at two separate Council meetings – with detailed financial impacts disclosed). The city's Finance and Audit Committee, which includes both elected and citizen members, is devoted to supporting community information exchange on all financial matters, and community members continue to have regular opportunities for input on financial decisions. Menlo Park plans to continue this proactive approach as we begin negotiations with our two miscellaneous bargaining units in the next month.

b. *Create a citizen “Wage, benefit and city staffing task force” with members drawn by lottery*

Menlo Park does not intend to implement this recommendation. In Menlo Park, the City Council is the ultimate citizen's committee and considers the task of responsibly managing the City's costs and service mix to be one of their primary responsibilities. Council members are elected every four years. They, more than any other body, must weigh the priorities and make the hard decisions about compensation questions that electors can then hold them directly accountable for. Ultimately, duly elected Council members would be responsible for these decisions no matter how much is delegated to a non-elected and not directly accountable citizen group. Additionally, current economic conditions and staff cuts do not provide for adequate staff capacity to support the information and analysis needs a citizen committee of this type would require, especially given the depth of community engagement currently underway in the community dealing with issues of a great interest to many residents, such as new development, long term community planning and neighborhood traffic concerns.

c. *Hold public hearings before initiating negotiations.*

Menlo Park would consider conducting a public meetings prior to upcoming negotiations where general community input would be encouraged, although there currently exist multiple opportunities for public comment on any topic of interest to community members. More information regarding the impact of formalizing public review and input on the City's ability to meet legal constraints requiring good faith bargaining before any changes would be made.

California law requires two public hearings prior to adoption of any change in existing compensation plans or contracts and Menlo Park has, and always will, abide by these existing requirements.

6. Involving Taxpayers

*a. Ballot measure to place a two-tier system before voters.*

Menlo Park does not support this recommendation. Ideally, public questions help people understand that policy dilemmas involve tensions between values, or how to do one good thing without jeopardizing another good thing, for example: *How do we control public employee costs while maintaining a quality workforce and quality services?* These questions do not lend themselves to all-or-nothing / yes-no responses. There are usually more ways to satisfy interests and to bridge conflicting positions than the all or nothing polarities of a ballot measure, and this is why we elect Council members to represent us in doing the difficult public work required in these more complex choices. Menlo Park Council members, although responsible for a myriad of complex, intricate and difficult public decisions, place this one among the most important. We are committed to studying all available information, to analyzing the data that creates a complete understanding of the problem from the perspectives of all interested stakeholders and only then to weighing the costs and benefits of a variety of diverse solutions before choosing that which best meets the needs of the Menlo Park community.

**Ideal solutions would consider the people choosing public work**

Menlo Park feels that the Grand Jury report does not differentiate public sector employees from unions. The vast majority of public sector employees are honest, hard working, and committed. They have chosen public service because they want to do a good job for the community. Ideal solutions to the extremely complex issues reviewed in the Grand Jury report would honor the tenets of public service and recognize the challenges inherent in continuing to attract a highly qualified, dedicated municipal workforce to the Bay area, with its high cost of living. Menlo Park has traditionally provided public services at the highest levels and the employees of this city are a key component to the excellent services provided day in and day out to this highly regarded community.



TOWN OF COLMA

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City Council

August 20, 2009

Joanne F. del Rosario  
Mayor

Joseph Silva  
Vice Mayor

Diana Colvin  
Council Member

Helen Fisicaro  
Council Member

Rae P. Gonzalez  
Council Member

Hon. George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Dear Judge Miram:

Please accept this as the Town of Colma's formal response to the June 4, 2009 letter from the Superior Court transmitting a report from the Civil Grand Jury entitled Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County.

City Officials

Laura Allen  
City Manager

Robert L. Lotti  
Chief of Police

Roger Peters  
City Attorney

Richard Mao  
City Engineer

Andrea Ouse  
City Planner

Brian Dossay  
Director of Recreation  
Services

Lori Burns  
Human Resources Manager

The Town has reviewed the Grand Jury comments and I offer these responses on behalf of the City Council and the Town of Colma as the Mayor:

**Recommendation #1:** Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to:

- Creating a two-tiered system for retirement and healthcare benefits for new hires
- Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tiered system for new employees
- Initiating competitive hiring practices
- Reducing need for Staff
- Increasing Public Involvement
- Involving Taxpayers

The session should result in a Wage, Benefit and City-Staffing Action Plan.

Response:

This recommendation has been partially implemented. The Council held two Study Sessions in 2008 to discuss retirement health benefits, and a Study Session in March of 2009 to initiate a Long Range Financial Planning process. The Town's Memorandum of Understanding with the Peace Officers Association (the Town's largest bargaining unit) contains a second medical benefit tier and eliminated retiree dental for Police Officers and Sergeants hired after June 1, 2008. At the end of each labor negotiations, the draft MOU is submitted to the Council for consideration at a public meeting. The draft agreement is attached to the staff report and distributed to members of the public who have requested copies of the Town's agenda packets. Multiple copies of the full agenda packet are also available at each Council meeting.



The Town has a long history of contracting with private firms for the provision of services. The Town's Planning and Public Works Departments are primarily staffed with contract employees. The Town contracts for landscaping, janitorial, and records management services. The Town has had a contract City Attorney for over 10 years. As a result, employee salaries and benefits represent 53% of the Town's General Fund operating budget (FY 2009-10 Adopted Budget) rather than the 70% cited on page 1 of the Grand Jury's report.

The Town also works with neighboring jurisdictions to jointly provide services. The Town contracts with the City of South San Francisco for street light maintenance, and a portion of our dispatch services.

The Council supports, and staff actively engages in continuous process improvement. Staff has been actively streamlining business processes with an emphasis on using technology to reduce costs for over a year now. One aspect of this effort is a redesign of the Town's website, which is expected to be launched in the next month or so.

Some of the Grand Jury's recommendations cannot be implemented because they are inconsistent with state law; other recommendations are challenging because they pose significant legal risk to the Town. Also, the Grand Jury's recommendations do not take into consideration the vast differences among the cities in the County. Staff disagrees with the Grand Jury's "one size fits all" approach because it ignores Colma's uniqueness.

**Recommendation #2:** Create a Citizen "Wage, Benefit and City Staffing" Task Force consisting of five to seven members drawn by lottery from resident applicants, charged with:

- A. Attending the session(s) convened per Recommendation One.
- B. Creating and reviewing the Wage, Benefit and City –Staffing Action Plan (Action Plan) that is produced by the Task Force from this session.
- C. If not satisfied with the Action Plan, recommending ballot measures, in consultation with the City Attorney, for the City Council to sponsor at the next regularly scheduled election

Response:

This recommendation will not be implemented because it is unwarranted at this time. The recommendation creates a hardship for a small community of 1,600 residents. The Town has no boards or commissions, preferring to vest that responsibility in its elected City Council. The Grand Jury may not have considered the additional cost associated with convening, and providing staff support to a Task Force. The City Council cannot agree to expend funds toward a separate Task Force given the Town's current financial constraints.

Also, this recommendation appears to be predicated on the assumption that the Council is unable to make informed decisions with regard to employee compensation. We


respectfully disagree with this assessment. In fact, our Council held two Study Sessions in 2008 to discuss retirement health benefits, and a Study Session in March of 2009 to initiate a Long Range Financial Planning process. Clearly we are well aware of the issue and have been taking steps to address it for some time.

In addition, the Grand Jury recommendation is contrary to the current democratic form of government where the citizens elect representatives who are entrusted to make policy decisions that guide the Town. The City Council, therefore, cannot support such a recommendation at this time.

Finally, I wanted to mention the Grand Jury report contains some inaccurate data regarding the Town. The report indicates there are 1,197 residents when the number is approximately 1,600. Also, Table 8 shows the Town having 45 employees, not including part-time positions. The 45 employee number includes part-time positions.

Thank you for the opportunity to respond to the report on this important topic. If you have any questions or need additional information please contact City Manager Laura Allen at 650-997-8318 or [laura.allen@colma.ca.gov](mailto:laura.allen@colma.ca.gov).

Sincerely,

  
Joanne F. del Rosario  
Mayor

Cc: City Council  
City Attorney  
City Manager

Approved at August 19, 2009 Board meeting.





# TOWN OF HILLSBOROUGH

1600 FLORIBUNDA AVENUE  
HILLSBOROUGH  
CALIFORNIA  
94010-6418

August 27, 2009

Hon. George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Dear Judge Miram,

Enclosed you will find the Town of Hillsborough's response to the recommendations made in the San Mateo County Grand Jury Report on the Upward Trajectory of Employee Costs in Cities of San Mateo County. The response was approved at the City Council meeting on August 10, 2009.

Additionally, we would like to correct some of the factual errors that are in the Report.

1. In Table 3, our Police and Fire units have different retirement formulas; the two groups were listed together under the heading "Safety" as both having 3%@50. That is the correct formula for Police; however, Fire has 3%@55.
2. After Table 5, under the heading "Modified Healthcare Plans", it states that "Hillsborough contributes \$75 a month to a tax-free Health Savings Account..." That is correct for Unrepresented and Public Works/Clerical unit eligible employees. For eligible employees in the Police unit, the amount is \$50 per month.
3. In Table 7, the Total Possible Days Off column should read "5 weeks, 3 days" instead of "6 weeks".
4. In Table 8, the column titled "Includes Firefighters" should be "yes" instead of "no", as the Full Time Equivalent Employees column listed at 115 does include Firefighters in the total.

Regards,

Christine M. Krolik  
Mayor  
Town of Hillsborough

Town of Hillsborough

Response to recommendations by the 2008-2009 San Mateo County Civil Grand Jury Report  
*Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County*

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City-Staffing Action Plan.

**Response:** The Town agrees this could be useful under certain circumstances when dealing with labor negotiations and unions. Steps to implement many of the findings in this report have already begun, and are continuing with the cooperation of employee and labor groups.

2. Create a Citizen "Wage, Benefit and City-Staffing" Task force consisting of five to seven members, drawn by lottery from resident applicants, charged with:

- Attending the session(s) convened per Recommendation One
- Creating and reviewing the Wage, Benefit and City-Staffing Action Plan (Action Plan) that is produced by the Task Force from this session
- If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election

**Response:** The Town agrees conceptually and performs this function with the existing Financial Advisory Committee that routinely advises Council on financial matters.

The Action Plan should address but not be limited to:

1. Creating a two-tier system retirement and healthcare benefits system for new hires to:

- Replace current post employment healthcare plans with health savings plans.

**Response:** The Town agrees with the issue. This was implemented in 2002 with 3 out of 5 labor groups for employees hired starting in 2002. Discussion with the 2 remaining labor groups regarding this change is occurring now.

- Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60.

**Response:** The Town agrees in concept; however, under state law, we are prohibited from reducing retirement benefits for current employees. The Town agrees that future retirement structures should be decreased for new hires and will be discussing this with all labor groups. Currently, there are no retirement plans that allow public safety members to start receiving retirement benefits at age 60, only 50 or 55.

- Base pensions on the average of the last three to five years of salary.



**Response:** The Town agrees in concept with the finding. This could be part of discussions with labor groups in the future.

- d) Make provisions for increasing employee contributions to current pension and post-retirement healthcare plans.

**Response:** The Town agrees with the finding. Employees of the Town currently contribute 8% (9% for safety employees) of salary to their pension, and increases to the amount could be part of discussions with labor groups in the future. With respect to post retirement healthcare, 3 of 5 employee groups in the Town do not have post-retirement healthcare plans. Discussion with the remaining 2 groups will be commencing in the near future.

2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees to:

**Response:** The Town agrees with the finding. Request for discussion with labor groups on this issue to begin soon.

- a) Eliminate the practice of converting accumulated sick leave to cash.

**Response:** The Town agrees with the finding. While all current labor agreements cap the conversion of converting accumulated sick leave to cash, there is room to lower the cap. This could be part of discussions with labor groups in the future.

- b) Reduce vacation time.

**Response:** The Town agrees with the finding. The Town has already installed vacation accrual caps for all of its labor groups to minimize the conversion to cash at termination or retirement. This could be part of discussion for some labor groups in the future.

- c) Reduce the number of personal days.

**Response:** The Town does not provide personal days in any of its labor agreements.

- d) Increase employee contributions to current health, vision and dental insurance.

**Response:** The Town agrees with the issue. This is an item that we have identified to discuss with labor groups in upcoming negotiations.

- e) Extend the length of time between automatic salary increases.

**Response:** The Town agrees with the finding, with respect to the length of time between pre-determined step increases of a salary range.

3. Initiating competitive hiring practices to:

a) Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.

**Response:** The Town agrees with the finding; however, it recognizes that many of the public sector job descriptions don't exist in the private sector, and the available salary and benefit data from the private sector is not typically relevant.

b) Employ more market-oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.

**Response:** The Town agrees with the finding. This is an item that we have identified to discuss with labor groups in upcoming negotiations.

c) Consider the number of applicants for respective jobs, when negotiating salaries noting, for example, that there are often 300-1000 applicants for firefighter jobs.

**Response:** The Town agrees with the finding. This is an item that we have identified to discuss with labor groups in upcoming negotiations.

d) Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police recruits.

**Response:** The Town agrees with the finding, and is already complying with this; the Town is part of several consortiums that are focusing on outreach in non-traditional avenues.

e) Join with other cities, and/or the County to create a central training center that promotes cross-training and succession planning for existing staff, and additionally, introduces qualified applicants from the private sector to public sector service.

**Response:** The Town agrees with the finding and is already complying with this; the County offers many competitively priced classes which Town employees are eligible to take. Additionally, the Town is a member of the Human Resource Association, which is currently working on developing a centralized training consortium to address needed training areas that are not covered by the County classes.

#### 4. Reducing need for Staff by:

a) Expanding the use of technology to streamline services.

**Response:** The Town agrees in concept with the finding. The Town is a current user of technology to enhance and streamline services, although we do not necessarily agree that streamlining services always reduces the need for staff.

b) Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.



**Response:** The Town agrees with the finding. We have explored this option in the past, and will continue to look for ways to cost-effectively use services.

c) Creating partnerships with other cities and/or the county to include, for example: payroll, human resources, landscaping, fire fighting, police, recreation and custodial work. The County already provides centralized training and dispatch services.

**Response:** The Town agrees with the finding. We have already merged Fire departments with the City of Burlingame resulting in significant budgetary savings, and are investigating other options at this time.

5. Increasing Public Involvement by:

a) Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits.

**Response:** The City Council does not believe that these facts and circumstances are applicable to it.

b) Making public the memorandums of Understanding (MOUs) with the unions that result from these negotiations.

**Response:** The Town agrees with the finding and has already complied with this – all MOUs are posted on the Town's website, available to the public.

c) Placing the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena.

**Response:** The Town agrees that this could be useful under certain circumstances. The Town would consider exploring this option subject to legal counsel recommendations.

6. Involving Taxpayers:

a) If a city council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the city council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them.

**Response:** The City Council is not reluctant to create two tier wage and compensation system.

# TOWN of PORTOLA VALLEY

Town Hall: 765 Portola Road, Portola Valley, CA 94028 Tel: (650) 851-1700 Fax: (650) 851-4677

August 24, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

**Re: Response to 2008–2009 Grand Jury Report**

Dear Honorable Judge Miram:

The Town Council (“Respondent”) for the Town of Portola Valley (“Town”) has reviewed the recommendations in the 2008–2009 Grand Jury report that affect the Town and approved the following responses at the public meeting on September 9, 2009:

**REVERSING THE UPWARD TRAJECTORY OF EMPLOYEE COSTS IN THE CITIES OF SAN MATEO COUNTY**

**Recommendation 1:**

Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in the 2008—2009 Grand Jury report, including (1) creating a two-tier system retirement and healthcare benefits system for new hires; (2) renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees; (3) initiating competitive hiring practices; (4) reducing need for staff; (5) increasing public involvement and (6) involving taxpayers. The session should result in a Wage, Benefit and Town-Staffing Action Plan (“Action Plan”).

**Response 1:**

Respondent agrees in part with the finding. The Town will hold a Finance Committee public meeting on the topic of controlling employee costs within the next three months to solicit input and continue to educate the public on this complex issue. As the Town either already implements a number of the items recommended for inclusion in the Action Plan or does not offer the benefits



recommended for reduction, as described in more detail in Response 2, the session may not result in an Action Plan.

**Recommendation 2:**

Create a citizen "Wage Benefit and Town Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applications, charged with: (a) attending the session(s) convened per Recommendation 1; (b) creating and reviewing the Action Plan; and (c) if it is not satisfied with the Action Plan, recommending ballot measures, in consultation with the Town attorney, for the Town Council to sponsor at the next regularly scheduled election.

**Response 2:**

Respondent agrees in part with the finding. The Town does not believe a Wage Benefit and Town Staffing Task Force is necessary. The Town either already implements a number of the items recommended in the Action Plan or does not offer the benefits recommended for reduction. For example, the Town does not provide health benefits to employees upon retirement; employees are not eligible to receive retirement benefits until age 55; and retirement is based upon the last three years of employment. In addition, because the Town is very small it is in a unique position and needs to maintain competitive mainstream compensation packages to attract and retain a qualified workforce. As a result, the Town does not believe that a resident task force regarding this complicated issue is necessary.

The Town thanks the Grand Jury for bringing this complex issue to our attention in an informative and thorough manner. Please let me know if you require additional information.

Sincerely,



Ann Wengert  
Mayor

cc: Town Council  
Town Manager  
Town Attorney



# City of Millbrae

621 Magnolia Avenue, Millbrae, CA 94030

August 26, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice, 400 County Center; 2nd floor  
Redwood City, CA 94063-1655

ROBERT G. GOTTSCHALK  
Mayor  
PAUL SETO  
Vice Mayor  
DANIEL F. QUIGG  
Councilman  
MARGE COLAPIETRO  
Councilwoman  
GINA PAPAN  
Councilwoman  
MARY VELLA TRESELER  
Treasurer

Dear Judge Miram:

I am writing to you on behalf of the Millbrae City Council. This will serve as the City of Millbrae’s formal response to the June 4, 2009, letter from the Superior Court communicating comments made by the Civil Grand Jury about “Employee Costs in the Cities of San Mateo County.” The City Council reviewed this letter and has authorized at their regularly scheduled public meeting and authorized this response.

In the report from the Civil Grand Jury on Employee Costs, they note that costs are increasing in cities throughout the County. At the same time, revenues have been slowing since 2000 when the dot-com crash occurred. The City of Millbrae experienced a “perfect storm” in 2002-2003, when the effects of not only the dot-com bust, but the impact of 9/11 and the SARS epidemic lead to a decline in business travel which resulted in a 50% loss of Millbrae’s largest General Fund revenue source, the Hotel Tax. The City experienced a severe deficit in the General Fund budget which funds Police, Fire, Parks and Recreation and most of our day-to-day services. In addressing this issue for the past eight years, the City of Millbrae reduced its General Fund Staffing levels by 28% (29 employees), contracted out services, shared services with neighboring agencies, and employed other efficiencies and revenue measures.

We would like to point out three specific areas that are in error in your report. First, on Table 3, Retirement Formulas for San Mateo County Cities, it reflects that Millbrae’s Safety Retirement Formula is 3% at 50. The City of Millbrae has the less expensive 3% at 55 Safety Retirement Formula. Second, on the same Table 3, it reflects that Millbrae’s regular employees are in the 2.7% at 55 formula. Although this is technically correct, it is misleading to the reader since the employer costs (5.5% of payroll) for this improved retirement plan are fully paid for by the employees. Third, there is a calculation error in Table 7 under the “Total Possible Days Off” column for the City of Millbrae. Instead of 5 weeks and 5 days, the table should indicate 5 weeks which is reached only after 17 years of service. Further clarification regarding these items will be provided below.

## General Observations and Comments

The City of Millbrae reviewed the San Mateo County’s Civil Grand Jury’s report on “Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo

|   |                                 |  |                                     |                                     |
|---|---------------------------------|--|-------------------------------------|-------------------------------------|
| City Council/City Manager<br>(650) 259-2334 | City Clerk<br>(650) 259-2334    | Public Works/Engineering<br>(650) 259-2339 | Recreation<br>(650) 259-2360        | Police Department<br>(650) 259-2300 |
| Personnel<br>(650) 259-2334                 | Finance/Water<br>(650) 259-2350 | Community Development<br>(650) 259-2341    | Building Division<br>(650) 259-2330 | Fire Department<br>(650) 259-2400   |

County”. Before responding to the specific recommendations in this report, the City of Millbrae provides the following general comments:

- As mentioned above, the City of Millbrae’s public safety retirement plan is the 3% at 55 PERS Public Safety Plan, not the 3% at 50 PERS Public Safety Plan reflected in the Grand Jury Report. Although the City felt significant pressure to increase this retirement formula/plan to what the majority of cities offer in San Mateo County and to what is found normally state-wide (3% at 50 PERS Public Safety Plan), the City of Millbrae chose a less expensive and more stable plan that encourages Police Officers and Fire Fighters to remain employed until the age of 55.
- While other cities in the State and specifically San Mateo County are striving to achieve a two-tiered retirement program for their new employees, all of the City of Millbrae’s public safety employees are already at the lower benefit and less expensive level (PERS 3% at 55 plan).
- Unlike other cities, for non-public safety employees, all employer costs for increasing this benefit from the 2% at 55 PERS Retirement Plan are paid by Millbrae employees, not the City of Millbrae. Although the PERS Retirement Plan formula for miscellaneous employees (non-public safety) is correct, 2.7% at 55, the employer cost of this retirement enhancement (5.5% of payroll) is deducted out of the employees’ paycheck. Non-public safety employees pay a total of 13.5% of their salaries (an 8% employee share and the 5.5% employer share) towards their retirement benefit.
- The net cost of Millbrae’s non-public safety employees retirement is equivalent to the 2% at 55 Plan for all of its employees – the same cost for which many other cities are striving to achieve only for their new employees, sometimes referred to as a two tier system.
- All Millbrae employees, public safety and non-public safety, pay the employee contribution share of the retirement costs. Many other cities pay, in addition to the employer share, the employee share as well.
- Although the employer contributions reflected in the Civil Grand Jury report are current, they do not reflect this history of these rates or the longer-term average of these rates. The City of Millbrae experienced a number of years when its employer rates were very low, even zero for years for the non-public safety employer rate. The historical average of this rate would be a much more accurate indicator of employer costs compared to the employer rate for 2008-2009.
- The City of Millbrae does not pay for, nor do the employees receive, Social Security benefits. This is a savings of 6.2% of payroll costs for the employer.

- It is difficult at best to compare Police Officer and Fire Fighter salaries to the private sector. These public safety positions are for practical reasons not found in the private sector. For the City of Millbrae, police and fire department salaries comprise 70% of General Fund salaries. This group makes up 75% of General Fund City employees.
- The City of Millbrae is in the lower third when comparing employer retirement costs to the retirement costs paid by other cities in the County of San Mateo.
- The Civil Grand Jury's report Table 7 has an error under the column "Total Possible Days Off" for the City of Millbrae. Instead of 5 weeks and 5 days, it should read 5 weeks, and it should note that 17 years of service is required in order to reach this level.
- Millbrae's merit increases (not step increases) are not "automatic." Employees that are not performing satisfactorily do not receive this increase.
- The City of Millbrae implemented a "pay-for-performance" compensation plan for Department Heads, management and supervisory employees. This plan requires the achievement of various goals individually established for employees before any salary increases are considered. This is an added indicator that salary increases are not "automatic."
- The City of Millbrae competes with other agencies, including the County of San Mateo, for recruitment and retention of its employees. Due to higher pay and benefits offered, the City has lost 10 police officers to neighboring agencies during the past 8 years. Four of these were to the San Mateo County Sheriff's Department, which offers significantly higher benefits and salary. It would be important to include San Mateo County salaries and benefits in this comparison as they compete for qualified employees.
- Unfortunately, the County of San Mateo is not mentioned or included in the Civil Grand Jury report. 10 police officers represents 70% of the police officer staffing (14 police officers – this excludes police sergeants and police upper management) within the Millbrae Police Department. The costs of recruiting and training new police officers to replace more experienced officers who have left the City to obtain better compensation, cannot be and should not be excluded from consideration as part of the Civil Grand Jury's evaluation, both in terms of cost and public safety concerns.
- Some of the comparisons used in this report are overly-broad to be of any meaningful assistance when reviewing such a complex issue and results in an "apples and oranges" comparison. For example, in the Civil Grand Jury Report Table 8, "Comparison of Population Size with City Staff Size", reflects whether the individual cities have a police or fire department, but does not indicate whether a library or waste water treatment plant, as well as other services such as



sewer or water operations, are part of the services administered by the individual cities. The addition or deletion of these services can have a dramatic effect on the number of employees needed to deliver these services. These considerations and costs or obligations are essential to have a proper understanding and comparison between cities.

### Responses to the Civil Grand Jury's Recommendations

1. **Create a two-tier retirement pension system for newly hired employees.** Distinguishing itself from other cities with two-tier systems, the City of Millbrae currently offers the lower retirement packages to all employees, not just to newly hired employees. Notwithstanding this, the City of Millbrae will continue to consider this among other alternatives to address the costs of employee benefits.
2. **Create a two-tier retirement health care system for newly hired employees.** Millbrae's Police and Fire employees are participants in Healthcare Savings Accounts, which were recently established to move toward a more self-funded retiree health program. The City's non-management non-public safety employees are almost all participants in the Teamsters Local 856 Retiree Medical Trust Program, which is fully independent of the City of Millbrae's liabilities. Alternatives such as these will continue to be evaluated and considered when addressing the long-term costs and liabilities of retiree health insurance benefits.
3. **Renegotiate contracts with the unions to modify benefits for existing employees and create a two-tier system for new employees.** The City of Millbrae eliminated sick leave for management employees when converting to a "general leave" program that encompasses the previous vacation and sick leave programs for these employees. The general leave program offers a lower rate of accrual of leave and caps the amount of leave that can be accrued. This option is currently under consideration for other non-safety employees. The City of Millbrae is currently employing measures to freeze the employer costs for escalating health insurance premiums.
4. **Revise hiring practices, broaden salary comparisons with comparable jobs, consider the number of applicants for jobs, develop outreach programs to schools, and create multi-agency training programs with other cities and the County.** Millbrae is active in the San Mateo County Cities' Human Resources Directors group. This group meets monthly and established a number of cooperative training programs for all levels of employees and supervisors over the years. This program continues to this day as does our participation in it.

Similarly, the City of Millbrae is one of many cities and agencies in San Mateo, Santa Clara, Alameda, and Contra Costa counties that is a member of

the Employee Relations Service (ERS – sometimes referred to as the Bay Area Employee Relations Service or BAERS) Joint Powers Authority (JPA). BAERS provides the City comprehensive salary and benefit data for use in labor negotiations, eliminating the need for creating this information in house at a significant expense to the City of Millbrae.

In the past, BAERS analyzed comparable jobs in the public and private sectors for some of its client agencies. These reviews have shown some job classifications/groups have higher salaries in the private sector, some have higher salaries in the public sector and others (such as police and fire fighter positions) do not have comparable positions in the private sector.

As required under California law, all salary and benefit discussions and agreements to change salaries and benefits would be subject to the “meet and confer” process. Changing the basis for analyzing and setting salaries would also have the potential to significantly increase some salaries and decrease other salaries. This is something that could be considered in the future when employee agreements are open for renewal.

5. **Reduce the need for staff by expanding the use of technology, streamlining services, contracting out functions, and creating partnerships with other agencies.** The City of Millbrae explored these and other similar approaches and implemented the following:
  - a. Contract for Services - Police communications – a contract with San Mateo County reduced staffing and provided a reduction of \$300,000 annually;
  - b. Shared services – the following are examples of how the City of Millbrae created partnerships with other cities to help reduce costs during the past six years;
    - i. Shared Fire Chief – Millbrae and San Bruno share the costs of the Fire Chief.
    - ii. Shared Battalion Chiefs – Millbrae and San Bruno now share one battalion chief for each shift (previously each city had a battalion chief on shift for each city).
    - iii. Joint Fire Paramedic training programs exist with four agencies.
    - iv. Joint Fire Agency Fire Fighter training programs conducted with four agencies.
    - v. Shared code enforcement is provided with the City of Burlingame.

- vi. Previously shared a Police Chief with the City of Brisbane.
  - vii. Eliminated the Department Head position of Parks and Recreation Director and assigned supervision of these services to the City Manager and other Department Heads.
  - viii. Previously shared a Parks and Recreation Director with the City of Burlingame.
  - ix. The cities of Millbrae and South San Francisco work together to reduced waste water treatment costs by sharing a chlorine removal process prior to release of the effluent to the Bay.
  - x. The City of Millbrae contracts with the City of San Mateo for maintenance of the City's traffic signals.
  - xi. Millbrae shares off-site recreation activities and programs with the cities of San Carlos, Burlingame and San Bruno.
  - xii. Millbrae reduced staffing from 164 to 135 employees between 2001 and 2003. Today, these staffing levels remained constant.
- c. Technology – Millbrae has enhanced service delivery without increasing staffing levels through the employment of new technology. Some examples include:
- i. Cal Opps – the City participates in this web-based job openings system with other cities, helping to increase and improve the applicant pool for employment opportunities within the City.
  - ii. Recreation Programs – online registrations – the City implemented software programs that allow residents to enroll and pay for recreation programs. Public convenience improved significantly with the same or slightly reduced staffing resources.
  - iii. Millbrae joined with the cities of Daly City, San Bruno and San Mateo Highlands recreation districts to jointly bid for the publications of each city's Recreation Activity Guides in order to achieve significant cost savings throughout the year.
  - iv. Budgeting program – new software improvements allow immediate access to Departments to retrieve financial information, prepare for their annual budgeting process, and to prepare custom financial reports to assist in managing their respective departmental budgets.

- v. Enhanced website offers easy-to-use and more comprehensive information to residents, including complete details of public meetings and special event calendars.
- vi. Shares the marketing and promotional advertising of special community activities and programs with the City of Burlingame.
- vii. The Millbrae Chamber of Commerce's website maintains a link to the City's website.

The above items are primarily related to human resource issues, but the City of Millbrae also employs many other new technologies in the areas of electrical co-generation, parking enforcement, law enforcement (in-car video systems), meter reading, and many more.

6. **Increase public involvement and make labor contracts public** – Memorandums of Understanding (MOUs) with employee unions and salary schedules have been and are public within the City of Millbrae. Copies of the MOUs and salary schedules are available on-line at the City of Millbrae's website, [www.ci.millbrae.ca.us](http://www.ci.millbrae.ca.us). Approval of these documents are placed on the City Council agenda and are available to the public to discuss these matters should any member of the public wish to do so.
7. **If the City Council does not create two-tier retirement pension and health system for new hires, the Council should place ballot measures for two-tier systems on the ballot for voters to consider.** As noted earlier, the City of Millbrae already has lower benefit levels for all of its employees. These are the same benefit levels for which other cities would aspire to when creating a second tier level.
8. **Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report.** The City addressed this matter in its July 28, 2009 meeting under the new business section of the City Council agenda. All issues in the Civil Grand Jury's report were reviewed. Should the City Council determine that more public meetings are needed, they will be scheduled. The Millbrae City Council held a series of public meetings called "Millbrae NOW" meetings on January 7, February 5 and February 7, 2009. The well-advertised meetings gave a report of the financial condition of the City and sought input and responded to questions and issues in all areas of City operations, including elected official and employee compensation practices. The answers were comprehensive and factual. The City of Millbrae documented each question and provided its responses in writing on the City's website. This information is still available on-line at the City of Millbrae's website, [www.ci.millbrae.ca.us](http://www.ci.millbrae.ca.us).



9. **Create a “Citizen Wage, Benefit and City Staffing Task Force” consisting of five to seven members, drawn by lottery from resident applicants.**

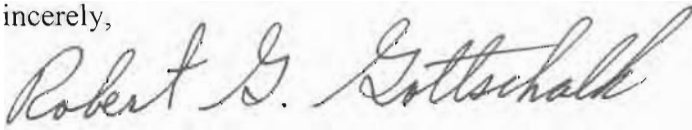
Instead of creating a task force, the City of Millbrae agrees with the San Mateo City Managers’ Association response to this recommendation as stated in their letter to the Civil Grand Jury on this matter: “the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.”

A copy of the San Mateo City Managers’ Association response is attached to this letter and is incorporated as part of the City of Millbrae’s response to the Civil Grand Jury on this matter.

Although there are some recommendations made by the Civil Grand Jury which the City of Millbrae is in full or partial agreement, most of the best solutions to address these issues should be sought at the State level. At the State level, public employee retirement costs and health programs can be resolved uniformly.

The City of Millbrae is pleased to comment in detail on the recommendations of the report and share with you what Millbrae has done. I trust you will find our comments helpful and enlightening.

Sincerely,



Robert Gottschalk  
Mayor

cc: City Council  
City Manager

Attachment: San Mateo County City Managers’ Association Response to the Civil Grand Jury Report

**San Mateo County  
City Managers Association**

**Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

The Cities of San Mateo County have received and reviewed the “San Mateo County Grand Jury report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County.” We appreciate the efforts of the Grand Jury to elevate this very complex issue for cities and one that has recently been under much public scrutiny. This response is being sent on behalf of a San Mateo County task force that began cooperatively looking at the issue of public employee wages and benefits in the County in June 2008, prior to the release of the Grand Jury report. In this response, which has also been sanctioned by the San Mateo County City Manager’s Association and Human Resources Association, we provide the following information:

I) Background information – in addition to what is provided in the grand jury report, this response will provide additional background information related to this issue.

II) Common and shared interests – the response will also highlight the stakeholders’ common and shared interests. Stakeholders include the tax-payers, City Councils, City personnel, labor groups, and the grand jury.

III) General responses to the grand jury’s recommendation – These responses will be provided from a regional perspective and elaborate on initiatives that have already been developed and/or implemented throughout San Mateo County.

I) Background Information:

As the grand jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table and they were empowered then to bargain significant wage and benefit enhancements for their members. At this same time, cities were having much difficulty in attracting police and fire candidates in what was a very tight, “dot-com” labor market. As the grand jury recommends, cities did consider the number of applicants for these occupations when negotiating salaries in the 1990’s. In that era, candidates were hard to come by and wages were not competitive with the overall Silicon Valley labor market. Many public employees do not participate in social security and do not have the stock option plans and 401(k) plans that were experiencing substantial investment return growth during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that are beyond affordability in today’s economy.

Another factor that contributed to pension enhancements was the proposed costs supplied by the California Public Employee’s Retirement System (CalPERS). When initially adopted, pension enhancements were calculated by Cal PERS and reported in actuarial

## **San Mateo County City Managers Association**

evaluations to cost close to zero for many agencies. This was due to the unprecedented investment returns earned by the retirement system in the latter part of the 1990's. Although many agencies were skeptical of these "free benefits", the convergence of the tight labor market, binding arbitration and ostensibly inexpensive enhancements created a fertile environment for wage and benefit expansions for labor units. As more and more cities began implementing these benefits, others felt the pressure to provide the same for their employees. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness, issues of within-agency equitability, and inexpensive enhancements caused many agencies to enhance miscellaneous benefits as well. Clearly over the last few years cities have realized that their worst fears were being realized and the costs associated with these salary and benefit changes were no longer sustainable.

In an effort to address the issues subsequently discussed in the Grand Jury's report, in the spring of 2008 San Mateo County cities created the Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken that would better inform the staff and elected officials, as well as, possibly secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for the committee has been to develop confidential labor relations information that will allow the staff and elected leaders a better understanding of total employee cost trends in the county and how their jurisdiction fits into that broader picture. As evidenced by the testimony provided to the Grand Jury by different City Managers we believe the MERC has been able to elevate this important issue.

### II) Stakeholder Interests Regarding Escalating Costs of Wages and Benefits

In order to fully understand this issue from a policy perspective, MERC, the City Managers Association and the Human Resources Association felt it was imperative to identify key interests that should guide policy development and implementation for the elected officials within the County. Though not explicitly stated, these interests are embedded throughout the Grand Jury's report:

- a) Attract and retain a highly qualified municipal workforce.  
By and large, positions in the municipal workforce require specialized skills, knowledge and education. Cities employ a plethora of occupations from Engineers to Attorneys to Firefighters and Police Officers. Municipal governments must maintain a competitive compensation package that is adaptable to the needs of our diverse workforce as well as the fluctuations in the overall economy.

**San Mateo County  
City Managers Association**

b) Maintain City services and infrastructure.

Clearly the costs of maintaining the workforce cannot come at the expense of failing sewer systems, water plants, library services and recreation programs. The taxpayer who funds City services and programs should have those services and programs available to him/her now and in generations to come.

c) Honor the tenets of public service.

Many who join municipal organizations do so for the challenging and rewarding work, the ability to make a difference in their communities and the relative security in their positions in a stable organization. Cities don't offer the "glitz" associated with many private sector organizations, but we do offer a sense of purpose and meaning in serving the community. As such, we must examine our current compensation programs that reward performance and insure that these programs are not so costly that we are forced to continually reduce our workforces because of the exorbitant costs associated with each full-time equivalent employee.

III) General responses to the recommendations

MERC surveyed City Managers, Human Resources Directors and Finance Directors in San Mateo County regarding the Grand Jury's recently released report and has confirmed support for consideration of the options that follow. Many respondents pointed out that they currently employ the stated recommendations:

- a. Creating a two tier retirement and health-care benefits system for new hires.
- b. Replacing current post-employment health care plans with health saving plans funded during active employment with the agency.
- c. Lobbying Cal PERS to increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60 for non safety employees
- d. Basing pensions on the average of the last three to five years of salary.
- e. Making provisions for increasing employee contributions to current pensions and post-retirement health care plans. In addition we believe that cities should be looking to active employees to pay for some portion of their health care, vision, and dental cost.
- f. Review the practice of converting accumulated sick leave to cash and consider placing caps on accumulation of sick leave.
- g. Broadening the compensation discussions by considering comparable jobs in both the private and public sectors. It is important to point out that some professions will not have comparable positions, especially sworn safety positions. A better comparison may be to look at the ratio of salary to benefit costs of private employers and also the average salary increases given in mid-size, private organizations in the region.
- h. Consider the number of applicants for respective jobs when negotiating salaries.



## **San Mateo County City Managers Association**

- i. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police positions.
- j. Join with other cities, and/or the County to create central training center that promotes cross-training and succession planning for existing staff.
- k. Using technology to streamline services.
- l. Explore contracting out some functions currently performed by city employees, but give those employees an opportunity to cost effectively retain those functions within the organization.
- m. Create partnerships with other cities and/or the county including payroll, human resources, landscape maintenance, firefighting, police, recreation, and custodial work.
- n. Making public the memoranda of understanding with labor units that come out of the labor negotiations. The majority of agencies clarified that the contracts are available at the public meeting where they're approved as well as posted on an on-going basis on the agency's website.

As the jury members know from their research, there are a number of examples in San Mateo County where cities have implemented two tier retirement benefits in both the areas of retiree health and retiree compensation. The same is true in the area of shared services. Additionally, in just the last few months the Human Resources Directors have rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. For many years cities in San Mateo County have been involved in recruitment consortiums and outreaching employment opportunities to universities, community colleges, and local high schools, and just this year implemented a regional internship program for college students. These activities, coupled with a regional job applicant website and employee relations joint powers authority a few examples of shared or regionalized services that are effective and efficient models for government operations.

There was no support for the recommendation to "create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants". Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.

**San Mateo County  
City Managers Association**

Although there is general support for conducting a public meeting(s) to solicit community input regarding potential actions or changes that would be appropriate relative to rising cost for public employees, there is concern that using that public forum to develop a specific action would be problematic from a labor relations and confidentiality standpoint. As employers, we have an affirmative obligation to collectively bargain with our units. However, there is agreement that the public input received at such a meeting should be taken into consideration in the development of an action plan to guide the city's future actions relative to labor negotiations.

There was no support for the recommendation to develop local ballot initiatives should the elected Council members be reluctant to support two tier retirement systems relative to pensions and health benefits. That recommendation appears to challenge the wisdom of the republic form of government where voters elect representatives to invest the time and energy to understand the issues and once so informed they vote to set public policy. Although we generally share and appreciate the members of the grand jury's passion for their conclusion that a two tier system is in order, we cannot support the notion that if duly elected representatives do not share their conclusion that an elected body should be denied its ability to make such a decision.

On behalf of the City Managers Association and Human Resources Association of San Mateo County I thank you for your attention to this very complex issue. As we examine the area of wages and benefits to public employees we will all need to work together and think creatively to attract and retain our workforce while still providing critical services to our community. The grand jury's report elevates the discussion and brings the issue center stage in San Mateo County. Clearly the situation that exists today did not occur over night nor will efforts to make desired changes be achieved over night. Although not addressed in the Grand Jury Report the legal constraints and labor laws relative to good faith bargaining will clearly constrain elected and appointed officials in their efforts to make suggested changes. We are hopeful that through collaboration and cooperation with elected officials and labor leaders we will implement many of the recommendations in the report.

Sincerely,



Connie Jackson  
Chair San Mateo County City Managers Association

Cc: MERC Members  
City Manager's Association of San Mateo County  
Human Resources Association of San Mateo County



Scenic Pacifica

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CITY HALL

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MAYOR  
Julie Lancelle

MAYOR PRO TEM  
Sue Digre

COUNCIL  
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August 10, 2009

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Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Dear Judge Miram:

Thank you for the opportunity to review the 2008-2009 San Mateo County Civil Grand Jury's report regarding Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County, dated June 4, 2009. The City appreciates the Grand Jury's report and understanding of the need to balance the public's interest in fiscally responsible government and recruitment and retention realities for local governments. The City of Pacifica continues to wrestle with the challenges of providing quality city services in a cost effective and efficient manner while providing affordable and responsible employee compensation and benefits.

The City of Pacifica is facing a \$3 million structural deficit and is working with our employees and a citizen task force to develop a five-year financial plan that will address the issue. The City has never had a surplus of resources, so many of the recommendations in the report have been part of Pacifica's operating model.

The City would like to bring to your attention the following factual inaccuracies contained in the Grand Jury's report:

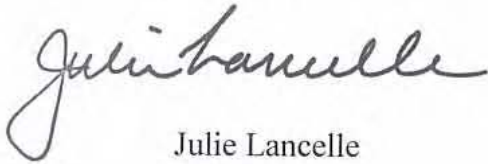
In Table 3: Retirement Formulas for San Mateo Cities, Pacifica's Safety is divided into Police 3%@50 (enhanced) and Fire 3%@55 (standard safety).

In Table 8: Comparison of Population with City Size, Pacifica has 188 employees (FTE). It should be noted that when comparing cities, that the table should also include an additional column for wastewater plants. Fourteen (14) of the city's employees work in the Waste Water Treatment Plant.

The City of Pacifica is pleased to respond in detail to the action plan items and recommendations of the Grand Jury's report. I hope our comments and those of other San Mateo cities will be helpful to all as we negotiate the financially turbulent years to come.

Please feel free to contact me if you have additional questions or need information regarding this response to the Grand Jury's report.

Sincerely,



Julie Lancelle  
Mayor

Attachments:

City of Pacifica Detailed Response to Action Plan and Recommendations  
San Mateo City Managers Association Response

Cc: Members of the City Council  
Stephen A. Rhodes, City Manager  
Cecilia Quick, City Attorney  
Kathy O'Connell, City Clerk  
Ann Ritzma, Administrative Services Director

Approved at the August 10, 2009 Board meeting.



Response to the Civil Grand Jury Action Plan:

1. **Create a two-tier retirement pension system for newly hired employees.**

The recommendation is partially implemented, as the City of Pacifica does not offer the most enhanced retirement pension system to all employees.

The City of Pacifica currently offers two of the lower retirement packages to fire and miscellaneous employees (3% @ 55 for Fire Safety and 2.5% @ 55 for Miscellaneous). The Police Safety retirement plan is 3% at 50 as stated in the report.

Although there was, at one time, some discussion about a retirement formula change for the Fire unit to 3% @ 50, the Fire unit and the City have remained with the less expensive plan that encourages firefighters to remain employed with the City until age 55.

It should be noted that PERS Retirement Plan formula for miscellaneous employees (non-public safety) is correctly reported at 2.5% at 55. The Management and Directors units also have an additional supplemental retirement plan of .5% at 55 through PARS. In order to qualify for the benefit, employees must be a manager for at least five years to vest in the plan and then must retire from the City. The benefit is forfeited if conditions are not met.

All Pacifica employees, public safety and non-public safety, pay the employee contribution share of the retirement costs. The employees pay the 8% (all non-safety employees) or 9% (safety) of the employee PERS contribution. The City of Pacifica pays the remainder – which fluctuates based on PERS actuarial calculations. Many cities pay, in addition to the employer share, the employees' share as well. The City of Pacifica does pay both the employee and employer share of the City Attorney's pension.

Although the employer contributions reflected in the Civil Grand Jury report are current, they do not reflect this history of these rates or the longer-term average of these rates. The City of Pacifica experienced a number of years when its employer rates were very low, even zero for a few years for the non-public safety employer rate.

The City of Pacifica does not pay for, nor do the employees receive, Social Security benefits. This is a savings of 6.2% of payroll costs for the employer.

Although the City has not implemented a two-tier system, the City of Pacifica will continue to consider the report's two tier provisions among other alternatives to address the costs of employee retirement benefits.



**1(b). Create a two-tier retirement health care system for newly hired employees.**

The recommendation is partially implemented, as the City of Pacifica does not offer fully paid health for employees.

The City has capped contributions to health care premiums through a cafeteria plan. If the City's contribution does not cover the premium, employees must cover the premium. The City's contribution has remained flat or changes (up or down) depending on the CPI (which as been negative in the past months).

The City of Pacifica participates in the CalPERS health program at the lowest employer contribution level for both active and retired employees (legal minimum of \$101 per month). This has reduced the City's post retirement liability.

For retirees, Pacifica's Police Supervisors, Police Management, Department Directors, Battalion Chiefs and Firefighters all participate in a Retirement Healthcare Savings Account program, which allow employees to save for post retirement healthcare expenses. The majority of the City's miscellaneous, non-management, non-public safety, employees participate in the Teamsters Local 856 Retiree Medical Trust Program, which is fully independent of the City of Pacifica's liabilities.

The City, for most units, offers a cost effective City self-insured dental plan and optional (employee pays) vision plan. These plans are not available post retirement.

Alternatives such as these will continue to be evaluated and considered when addressing the long-term costs and liabilities of active and retiree health insurance benefits.

**2. Renegotiate contracts with the unions to modify benefits for existing employees and create a two-tier system for new employees.**

The recommendation has not been implemented as the City of Pacifica has long-term contracts in place and will not be negotiating until early 2010.

The City has been meeting with all units to discuss the budget constraints and options for cost containment including salary freezes, merit freezes and vacation sell back freezes. Several of the City's contracts will expire in 2010 and the City will begin negotiating in early 2010.



The City just concluded negotiations with the Battalion Chief unit and the contract was extended one-year with no increases and a freeze on vacation sell-back.

The City currently:

*Health care premiums:* Caps contributions to the cafeteria plan (monthly contribution that allows employees to purchase health and other benefits)

*Vacation accrual:* Caps vacation accrual and allows for vacation sell-back at current pay rate rather than being allowed to accumulate and be paid out at a future date at a higher cost.

*No Automatic Salary Increases (merit):* Salary increases are subject to successful completion of probation and there after a positive performance evaluation (within a capped salary range).

*Other leave time:* Administrative time has a no-cash value (use it or lose it).

*Conversion of sick leave:* Sick leave can only be only for retirement service credit upon retirement from the City (limiting cost and use of this provision) or a portion of sick leave can be cashed for a contribution to a retirement health savings program.

As with other benefits and terms of employment, changes will be considered during negotiations between employee groups and the City Council when agreements are open in the future.

- 3. Revise hiring practices, broaden salary comparisons with comparable jobs, consider the number of applicants for jobs, develop outreach programs to schools, and create multi-agency training programs with other cities and the County.**

The recommendation has been partially implemented.

The City of Pacifica competes with other agencies for recruitment and retention of its employees, including the County of San Mateo. Due to higher pay and benefits offered, the City has lost 15 police officers to neighboring agencies during the past 5 years. The costs of recruiting and training new police officers to replace its more experienced officers who have left the City to obtain better compensation, cannot be excluded from consideration as part of this evaluation, both in terms of cost and public safety concerns.

It should be noted that it is difficult at best to compare Police Officer and Fire Fighter salaries to the private sector. These public safety positions are for practical reasons not found in the private sector. For the City of Pacifica, police and fire department salaries/benefits comprise 65% of salaries/benefits paid by the City of Pacifica.



Pacifica has been very active with the San Mateo Human Resources Association. The group meets monthly and supports several cooperative training programs for all levels of employees and supervisors. The group has also done recruiting and presentations on local college and high schools campuses.

Pacifica also is a member of Calopps.org – an online website for recruitment. As a collaborative effort, Calopps provides agencies with cost effective recruiting strategies, an applicant friendly process and streamlined processing.

Similarly, the City of Pacifica is one of many cities and agencies in San Mateo, Santa Clara, Alameda, and Contra Costa counties that is a member of the Employee Relations Service (ERS – sometimes referred to as the Bay Area Employee Relations Service or BAERS) Joint Powers Authority (JPA). BAERS provides the City comprehensive salary and benefit data for use in labor negotiations, eliminating the need for creating this information in house.

In the past, BAERS analyzed comparable jobs in the public and private sectors for some of its client agencies. These reviews have shown some job classifications/groups have higher salaries in the private sector, some have higher salaries in the public sector and others (like police and fire fighter positions) do not have comparable positions in the private sector.

As required by State of California law, all salary and benefit discussions and agreements to change the salaries and benefits would be subject to the “meet and confer” process. Changing the basis for analyzing and setting salaries would also have the potential to significantly increase some salaries and decrease other salaries. This is something that could be considered in the future when employee agreements are open for renewal. At this time, only the Firefighters Unit MOU covering salaries and benefits is open and under negotiation in Pacifica.

4. **Reduce the need for staff by expanding the use of technology, streamlining services, contracting out functions, and creating partnerships with other agencies.**

The City of Pacifica has explored these and other similar approaches and has implemented the following:

- a. Shared services –  
*Fire services:* Member of North County Fire Authority (Brisbane, Daly City and Pacifica) jointly share administrative, training and operational fire services.



*Human Resources:* Member of Calopps.org – a multi agency website designed for human resources recruiting that reduces advertising costs, staff time and improves customer service  
*Human Resources:* Member of NorCAL – a multi agency program that provides employee training and development  
*Insurance:* Member of two insurance pools – general liability and workers compensation that administers claims, provides training and programs and manages risks/costs for agency members.  
*Other:* Library services with the County, Compensation and Classification information with a joint agency, participation in County/Regional programs for Fire Dispatch, Water Pollution Prevention and Mosquito Abatement.

- b. Technology – Pacifica has enhanced service delivery without increasing staffing levels through the employment of new technology. Some examples include:
- Cal Opps* – the City participates in this web-based job openings system with other cities, helping to increase and improve the applicant pool for employment opportunities within the City.
  - Recreation Programs* – online registrations – the City implemented software programs that allow residents to enroll and pay for recreation programs. Public convenience improved significantly with the same or slightly reduced staffing resources
  - Financial software* – new software improvements will allow immediate access by Departments to financial information and will allow staff to prepare custom financial reports, enter data directly into the system for approval (time sheets, purchase orders, work orders)
  - Enhanced website* - offers easy-to-use and more comprehensive information to its residents and provides access to public meeting notices, staff reports and City documents.

5. **Increase public involvement and make labor contracts public –**

The City of Pacifica has explored these and other similar approaches and has implemented the following:

Memorandums of Understanding (MOUs) with employee unions and salary schedules have been and are public within the City of Pacifica. Copies of the MOUs and salary schedules are available on-line at the City of Pacifica's website, [www.cityofpacifica.org](http://www.cityofpacifica.org) . Approval of these documents are placed on the City Council agenda and they are available in advance of the meetings. The agreements include a staff report, summary of the negotiated



items, a draft memorandum of understanding and salary appendix. During the meeting the Council may choose to discuss these matters should any member of the public wish to do so.

- 6. If the City Council does not create two-tier retirement pension and health system for new hires, the Council should place ballot measures for two-tier systems on the ballot for voters to consider.**

The City of Pacifica does not believe that the ballot initiative process is necessary to address the Grand Jury's concerns. Utilizing citizen and staff advisory groups and a historically active citizenry, the City of Pacifica believes that citizen's interests are well expressed and that a representative form of decision making is effective in addressing compensation and benefit decisions.

#### Responses to the Civil Grand Jury's Recommendations

- 1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report.**

The City has placed this matter on its August 10, 2009 under consideration section of the City Council agenda. All issues in the Civil Grand Jury's report will be reviewed. Should the City Council determine that more public meetings are needed, they will be scheduled.

- 2. Create a "Citizen Wage, Benefit and City Staffing Task Force" consisting of five to seven members, drawn by lottery from resident applicants.**

The recommendation is not being implemented as the City is currently working with a citizen taskforce on a five-year financial plan for the City that encompasses services, expenditures and revenues.

The City of Pacifica agrees with the San Mateo City Managers Association response to this recommendation to oppose the creation of a citizen taskforce. As stated in their letter to the Civil Grand Jury on this matter: "the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned

that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.”



**San Mateo County  
City Managers Association**

**Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

The Cities of San Mateo County have received and reviewed the "San Mateo County Grand Jury report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County." We appreciate the efforts of the Grand Jury to elevate this very complex issue for cities and one that has recently been under much public scrutiny. This response is being sent on behalf of a San Mateo County task force that began cooperatively looking at the issue of public employee wages and benefits in the County in June 2008, prior to the release of the Grand Jury report. In this response, which has also been sanctioned by the San Mateo County City Manager's Association and Human Resources Association, we provide the following information:

- I) Background information – in addition to what is provided in the grand jury report, this response will provide additional background information related to this issue.
- II) Common and shared interests – the response will also highlight the stakeholders' common and shared interests. Stakeholders include the tax-payers, City Councils, City personnel, labor groups, and the grand jury.
- III) General responses to the grand jury's recommendation – These responses will be provided from a regional perspective and elaborate on initiatives that have already been developed and/or implemented throughout San Mateo County.

I) Background Information:

As the grand jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table and they were empowered then to bargain significant wage and benefit enhancements for their members. At this same time, cities were having much difficulty in attracting police and fire candidates in what was a very tight, "dot-com" labor market. As the grand jury recommends, cities did consider the number of applicants for these occupations when negotiating salaries in the 1990's. In that era, candidates were hard to come by and wages were not competitive with the overall Silicon Valley labor market. Many public employees do not participate in social security and do not have the stock option plans and 401(k) plans that were experiencing substantial investment return growth during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that are beyond affordability in today's economy.

Another factor that contributed to pension enhancements was the proposed costs supplied by the California Public Employee's Retirement System (CalPERS). When initially adopted, pension enhancements were calculated by Cal PERS and reported in actuarial



## **San Mateo County City Managers Association**

evaluations to cost close to zero for many agencies. This was due to the unprecedented investment returns earned by the retirement system in the latter part of the 1990's. Although many agencies were skeptical of these "free benefits", the convergence of the tight labor market, binding arbitration and ostensibly inexpensive enhancements created a fertile environment for wage and benefit expansions for labor units. As more and more cities began implementing these benefits, others felt the pressure to provide the same for their employees. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness, issues of within-agency equitability, and inexpensive enhancements caused many agencies to enhance miscellaneous benefits as well. Clearly over the last few years cities have realized that their worst fears were being realized and the costs associated with these salary and benefit changes were no longer sustainable.

In an effort to address the issues subsequently discussed in the Grand Jury's report, in the spring of 2008 San Mateo County cities created the Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken that would better inform the staff and elected officials, as well as, possibly secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for the committee has been to develop confidential labor relations information that will allow the staff and elected leaders a better understanding of total employee cost trends in the county and how their jurisdiction fits into that broader picture. As evidenced by the testimony provided to the Grand Jury by different City Managers we believe the MERC has been able to elevate this important issue.

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In order to fully understand this issue from a policy perspective, MERC, the City Managers Association and the Human Resources Association felt it was imperative to identify key interests that should guide policy development and implementation for the elected officials within the County. Though not explicitly stated, these interests are embedded throughout the Grand Jury's report:

- a) Attract and retain a highly qualified municipal workforce.  
By and large, positions in the municipal workforce require specialized skills, knowledge and education. Cities employ a plethora of occupations from Engineers to Attorneys to Firefighters and Police Officers. Municipal governments must maintain a competitive compensation package that is adaptable to the needs of our diverse workforce as well as the fluctuations in the overall economy.



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City Managers Association**

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Clearly the costs of maintaining the workforce cannot come at the expense of failing sewer systems, water plants, library services and recreation programs. The taxpayer who funds City services and programs should have those services and programs available to him/her now and in generations to come.

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MERC surveyed City Managers, Human Resources Directors and Finance Directors in San Mateo County regarding the Grand Jury's recently released report and has confirmed support for consideration of the options that follow. Many respondents pointed out that they currently employ the stated recommendations:

- a. Creating a two tier retirement and health-care benefits system for new hires.
- b. Replacing current post-employment health care plans with health saving plans funded during active employment with the agency.
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- d. Basing pensions on the average of the last three to five years of salary.
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- f. Review the practice of converting accumulated sick leave to cash and consider placing caps on accumulation of sick leave.
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- i. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police positions.
- j. Join with other cities, and/or the County to create central training center that promotes cross-training and succession planning for existing staff.
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- l. Explore contracting out some functions currently performed by city employees, but give those employees an opportunity to cost effectively retain those functions within the organization.
- m. Create partnerships with other cities and/or the county including payroll, human resources, landscape maintenance, firefighting, police, recreation, and custodial work.
- n. Making public the memoranda of understanding with labor units that come out of the labor negotiations. The majority of agencies clarified that the contracts are available at the public meeting where they're approved as well as posted on an on-going basis on the agency's website.

As the jury members know from their research, there are a number of examples in San Mateo County where cities have implemented two tier retirement benefits in both the areas of retiree health and retiree compensation. The same is true in the area of shared services. Additionally, in just the last few months the Human Resources Directors have rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. For many years cities in San Mateo County have been involved in recruitment consortiums and outreaching employment opportunities to universities, community colleges, and local high schools, and just this year implemented a regional internship program for college students. These activities, coupled with a regional job applicant website and employee relations joint powers authority a few examples of shared or regionalized services that are effective and efficient models for government operations.

There was no support for the recommendation to "create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants". Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.



**San Mateo County  
City Managers Association**

Although there is general support for conducting a public meeting(s) to solicit community input regarding potential actions or changes that would be appropriate relative to rising cost for public employees, there is concern that using that public forum to develop a specific action would be problematic from a labor relations and confidentiality standpoint. As employers, we have an affirmative obligation to collectively bargain with our units. However, there is agreement that the public input received at such a meeting should be taken into consideration in the development of an action plan to guide the city's future actions relative to labor negotiations.

There was no support for the recommendation to develop local ballot initiatives should the elected Council members be reluctant to support two tier retirement systems relative to pensions and health benefits. That recommendation appears to challenge the wisdom of the republic form of government where voters elect representatives to invest the time and energy to understand the issues and once so informed they vote to set public policy. Although we generally share and appreciate the members of the grand jury's passion for their conclusion that a two tier system is in order, we cannot support the notion that if duly elected representatives do not share their conclusion that an elected body should be denied its ability to make such a decision.

On behalf of the City Managers Association and Human Resources Association of San Mateo County I thank you for your attention to this very complex issue. As we examine the area of wages and benefits to public employees we will all need to work together and think creatively to attract and retain our workforce while still providing critical services to our community. The grand jury's report elevates the discussion and brings the issue center stage in San Mateo County. Clearly the situation that exists today did not occur over night nor will efforts to make desired changes be achieved over night. Although not addressed in the Grand Jury Report the legal constraints and labor laws relative to good faith bargaining will clearly constrain elected and appointed officials in their efforts to make suggested changes. We are hopeful that through collaboration and cooperation with elected officials and labor leaders we will implement many of the recommendations in the report.

Sincerely,



Connie Jackson  
Chair San Mateo County City Managers Association

Cc: MERC Members  
City Manager's Association of San Mateo County  
Human Resources Association of San Mateo County



Mayor Rosanne S. Foust  
Vice Mayor Diane Howard

Council Members  
Alicia C. Aguirre  
Ian Bain  
Jim Hartnett  
Jeff Ira  
Barbara Pierce



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August 24, 2009

Hon. George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Honorable George A. Miram:

On behalf of the City Council of Redwood City I am pleased to submit Redwood City's response to the Grand Jury's report "Reversing the upward trajectory of employee costs in the Cities of San Mateo County."

First, on behalf of the entire City Council I applaud the grand jury for examining what has become a very significant issue for Cities in the County. The grand jury's analysis of the situation and recommendations included in the report are outstanding and we appreciate the quality of the overall report. *The recommendations also supports our City's goal of having our structural budget deficit balanced within two years.*

I would also like to take this opportunity to highlight various initiatives that have been underway here in Redwood City that are consistent with some of the recommendations in the report. First, employees in the City's five bargaining units and the executive team agreed to a salary freeze in the current fiscal year. Although some of the units had fixed increases scheduled in their labor contracts, they waived those increases in the current fiscal year due to the City's financial situation. Additionally, the City has been managing vacancies by redistributing work or examining new ways to deliver services to save money. This includes contracting out the City's electrical shop to automating some of our internal processes such as personnel changes and applicant tracking. The City has been forced to eliminate fourteen vacant positions and eleven filled positions this fiscal year so process re-engineering will continue.

In addition to these advancements, the City Council has led a pioneering effort by developing and adopting a strategic plan. Similar to what is developed by corporate America, the strategic plan is designed to align financial and human resources around Council's strategic initiatives. Those initiatives have clear objectives to be carried out by staff. One of those initiatives includes long-term planning which includes the objective of creating wage and benefit plans that attract and retain a competent workforce while being fiscally responsible to the taxpayer. Council has begun to discuss our long-term philosophy as it relates to compensation and we have directed staff to continue to work

with our labor groups to explore various programs and options as they relate to pay and benefits. Currently, staff is holding quarterly meetings with labor to update them on these issues and explore cost saving options.

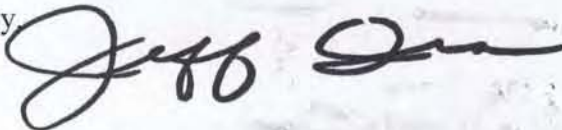
The City Council would also like to highlight the fact that the City is very entrepreneurial as it relates to contracting out or sharing services. Currently, our information technology division provides their services and expertise to fifteen other agencies in the region. We also provide fleet maintenance services to other organizations. In partnership with the County, the City has been leading the development of a county-wide training consortium to reduce costs as it relates to employee training. There is also a committee of executives evaluating the organizational structure and business processes used in the City. They will be making recommendations on these topics to the City Manager.

All of the above items are currently underway. We plan to institute any program or organizational changes as soon as practical, and in a manner that will ensure long-term sustainability of our economic and fiscal base. As previously stated, we have a goal of balancing our structural budget deficit within two years, so time is obviously critical.

The City Council also fully concurs with the regional response to the grand jury report that was developed by the City Manager's association within the County. To show this support, that response accompanies Redwood City's reply to the report. The City Council and City Manager are committed to approaching this issue from a regional perspective and will continue to work with other San Mateo County agencies to develop long-term solutions as they relate to personnel costs.

Again, the City Council thanks the grand jury for their time and attention they gave to such a significant issue. We are pleased this conversation has been elevated and we have the opportunity to respond to your report.

Sincerely,



Jeff Ira  
Council Member & Chair, Personnel Committee

Copy:           City Council  
                  City Manager  
                  City Attorney  
                  City Clerk



**San Mateo County  
City Managers Association**

**Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

The Cities of San Mateo County have received and reviewed the “San Mateo County Grand Jury report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County.” We appreciate the efforts of the Grand Jury to elevate this very complex issue for cities and one that has recently been under much public scrutiny. This response is being sent on behalf of a San Mateo County task force that began cooperatively looking at the issue of public employee wages and benefits in the County in June 2008, prior to the release of the Grand Jury report. In this response, which has also been sanctioned by the San Mateo County City Manager’s Association and Human Resources Association, we provide the following information:

I) Background information – in addition to what is provided in the grand jury report, this response will provide additional background information related to this issue.

II) Common and shared interests – the response will also highlight the stakeholders’ common and shared interests. Stakeholders include the tax-payers, City Councils, City personnel, labor groups, and the grand jury.

III) General responses to the grand jury’s recommendation – These responses will be provided from a regional perspective and elaborate on initiatives that have already been developed and/or implemented throughout San Mateo County.

I) Background Information:

As the grand jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table and they were empowered then to bargain significant wage and benefit enhancements for their members. At this same time, cities were having much difficulty in attracting police and fire candidates in what was a very tight, “dot-com” labor market. As the grand jury recommends, cities did consider the number of applicants for these occupations when negotiating salaries in the 1990’s. In that era, candidates were hard to come by and wages were not competitive with the overall Silicon Valley labor market. Many public employees do not participate in social security and do not have the stock option plans and 401(k) plans that were experiencing substantial investment return growth during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that are beyond affordability in today’s economy.

Another factor that contributed to pension enhancements was the proposed costs supplied by the California Public Employee’s Retirement System (CalPERS). When initially adopted, pension enhancements were calculated by Cal PERS and reported in actuarial

## **San Mateo County City Managers Association**

evaluations to cost close to zero for many agencies. This was due to the unprecedented investment returns earned by the retirement system in the latter part of the 1990's. Although many agencies were skeptical of these "free benefits", the convergence of the tight labor market, binding arbitration and ostensibly inexpensive enhancements created a fertile environment for wage and benefit expansions for labor units. As more and more cities began implementing these benefits, others felt the pressure to provide the same for their employees. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness, issues of within-agency equitability, and inexpensive enhancements caused many agencies to enhance miscellaneous benefits as well. Clearly over the last few years cities have realized that their worst fears were being realized and the costs associated with these salary and benefit changes were no longer sustainable.

In an effort to address the issues subsequently discussed in the Grand Jury's report, in the spring of 2008 San Mateo County cities created the Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken that would better inform the staff and elected officials, as well as, possibly secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for the committee has been to develop confidential labor relations information that will allow the staff and elected leaders a better understanding of total employee cost trends in the county and how their jurisdiction fits into that broader picture. As evidenced by the testimony provided to the Grand Jury by different City Managers we believe the MERC has been able to elevate this important issue.

### II) Stakeholder Interests Regarding Escalating Costs of Wages and Benefits

In order to fully understand this issue from a policy perspective, MERC, the City Managers Association and the Human Resources Association felt it was imperative to identify key interests that should guide policy development and implementation for the elected officials within the County. Though not explicitly stated, these interests are embedded throughout the Grand Jury's report:

- a) Attract and retain a highly qualified municipal workforce.  
By and large, positions in the municipal workforce require specialized skills, knowledge and education. Cities employ a plethora of occupations from Engineers to Attorneys to Firefighters and Police Officers. Municipal governments must maintain a competitive compensation package that is adaptable to the needs of our diverse workforce as well as the fluctuations in the overall economy.



## **San Mateo County City Managers Association**

### b) Maintain City services and infrastructure.

Clearly the costs of maintaining the workforce cannot come at the expense of failing sewer systems, water plants, library services and recreation programs. The taxpayer who funds City services and programs should have those services and programs available to him/her now and in generations to come.

### c) Honor the tenets of public service.

Many who join municipal organizations do so for the challenging and rewarding work, the ability to make a difference in their communities and the relative security in their positions in a stable organization. Cities don't offer the "glitz" associated with many private sector organizations, but we do offer a sense of purpose and meaning in serving the community. As such, we must examine our current compensation programs that reward performance and insure that these programs are not so costly that we are forced to continually reduce our workforces because of the exorbitant costs associated with each full-time equivalent employee.

## III) General responses to the recommendations

MERC surveyed City Managers, Human Resources Directors and Finance Directors in San Mateo County regarding the Grand Jury's recently released report and has confirmed support for consideration of the options that follow. Many respondents pointed out that they currently employ the stated recommendations:

- a. Creating a two tier retirement and health-care benefits system for new hires.
- b. Replacing current post-employment health care plans with health saving plans funded during active employment with the agency.
- c. Lobbying Cal PERS to increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60 for non safety employees
- d. Basing pensions on the average of the last three to five years of salary.
- e. Making provisions for increasing employee contributions to current pensions and post-retirement health care plans. In addition we believe that cities should be looking to active employees to pay for some portion of their health care, vision, and dental cost.
- f. Review the practice of converting accumulated sick leave to cash and consider placing caps on accumulation of sick leave.
- g. Broadening the compensation discussions by considering comparable jobs in both the private and public sectors. It is important to point out that some professions will not have comparable positions, especially sworn safety positions. A better comparison may be to look at the ratio of salary to benefit costs of private employers and also the average salary increases given in mid-size, private organizations in the region.
- h. Consider the number of applicants for respective jobs when negotiating salaries.

**San Mateo County  
City Managers Association**

- i. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police positions.
- j. Join with other cities, and/or the County to create central training center that promotes cross-training and succession planning for existing staff.
- k. Using technology to streamline services.
- l. Explore contracting out some functions currently performed by city employees, but give those employees an opportunity to cost effectively retain those functions within the organization.
- m. Create partnerships with other cities and/or the county including payroll, human resources, landscape maintenance, firefighting, police, recreation, and custodial work.
- n. Making public the memoranda of understanding with labor units that come out of the labor negotiations. The majority of agencies clarified that the contracts are available at the public meeting where they're approved as well as posted on an on-going basis on the agency's website.

As the jury members know from their research, there are a number of examples in San Mateo County where cities have implemented two tier retirement benefits in both the areas of retiree health and retiree compensation. The same is true in the area of shared services. Additionally, in just the last few months the Human Resources Directors have rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. For many years cities in San Mateo County have been involved in recruitment consortiums and outreaching employment opportunities to universities, community colleges, and local high schools, and just this year implemented a regional internship program for college students. These activities, coupled with a regional job applicant website and employee relations joint powers authority a few examples of shared or regionalized services that are effective and efficient models for government operations.

There was no support for the recommendation to "create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants". Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.

**San Mateo County  
City Managers Association**

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On behalf of the City Managers Association and Human Resources Association of San Mateo County I thank you for your attention to this very complex issue. As we examine the area of wages and benefits to public employees we will all need to work together and think creatively to attract and retain our workforce while still providing critical services to our community. The grand jury's report elevates the discussion and brings the issue center stage in San Mateo County. Clearly the situation that exists today did not occur over night nor will efforts to make desired changes be achieved over night. Although not addressed in the Grand Jury Report the legal constraints and labor laws relative to good faith bargaining will clearly constrain elected and appointed officials in their efforts to make suggested changes. We are hopeful that through collaboration and cooperation with elected officials and labor leaders we will implement many of the recommendations in the report.

Sincerely,



Connie Jackson  
Chair San Mateo County City Managers Association

Cc: MERC Members  
City Manager's Association of San Mateo County  
Human Resources Association of San Mateo County



September 9, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 95063-1655

Dear Judge Miram:

This letter serves as the City of San Bruno's formal response to the June 4, 2009 letter from the Superior Court transmitting the Civil Grand Jury Report "Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County." The San Bruno City Council authorized this letter and the attached responses at the meeting of September 8, 2009.

I would like to take this opportunity to commend the report prepared by the San Mateo County Grand Jury. The report analyzes examples of wages, post retirement health care and pension benefits, as well as current benefits, and city-hiring practices that increase public employee costs. Costs, including the cost of maintaining the workforce charged with providing the municipal services, are increasing throughout the county. At the same time, revenues have been generally slowing since 2000 when the dot-com crash occurred. The San Bruno City Council has overseen a General Fund—paying for Police, Fire, Library, Park and Recreation, and Street maintenance services—in which the balance between revenues and expenditures has been exceedingly narrow.

City employers need to be working together to attract and retain a quality workforce and balance this cost with the need to provide critical municipal services. Issues such as rising health care costs are national concerns, as witnessed by the current debate over health care reform. Who should pay for services, how much the public is willing to pay and for what services has been ongoing dialogue with little measurable agreement. The issues raised by the Grand Jury, with the many legal, political, ethical, and practical constraints impacting changes to the current system, is only fully addressed through a more informed analysis and deliberation than is possible through this response to the Grand Jury report.



The Grand Jury's effort to open the dialogue on this important topic is appreciated. It should be viewed as the beginning of a deeper analysis and discussion of possible changes, hopefully benefiting all interests. However, the report uses limited information from cursory sources and does not adequately allow for the detailed problem analysis needed to generate creative, able to be implemented, and realistic solutions.

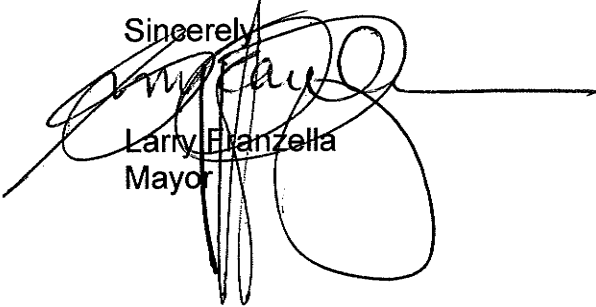
The following are samples of the type of information absent from the report that would benefit the analysis and, by not including, limits the opportunity for more meaningful discussion that could lead to real, constructive action.

- Fair compensation, attuned to the recruitment and retention issues of the City, and the City's ability to pay have long been the San Bruno City Council's principles in labor negotiations. Strong expenditure control has been a key effort in avoiding deficits in San Bruno. During the period that the CalPERS employer rates were zero, the City set aside funds that established the General Fund reserve in place today. Revenues and expenditures have been balanced throughout the period under discussion and General Fund reserves have actually increased.
- The average CalPERS retiree in California receives an annual retirement allowance of \$25,200. This average is based on a total of 476,300 persons receiving benefits. As recently as 2006-07, employers contributed only 13% of the total annual cost of the retirement program. Clearly, costs are rising but the correct problem needs to be addressed.
- Nationally, health care costs have increased at double the rate CPI increases over the past ten years. This is not the result of something that city employers or employees are doing and it is not a situation that exclusively impacts public sector employers and employees. Rather, it is the health care system that needs to be brought under financial control.
- No new municipal taxes have impacted San Bruno residents for over ten years. The balance of revenues and expenditures has been achieved throughout this period primarily by expenditure control. The Grand Jury report is correct in citing a lack of funding for capital improvements and infrastructure—this is a problem that is impacting San Bruno. However, it cannot reasonably be concluded that the problem of general government capital funding, which has existed for the past 25-30 years, is directly or solely the result of growth in employee costs.

Collaboration and cooperation among the cities, the county, the state, employee unions, residents, and other interests will be required to resolve the issues outlined in the Grand Jury's report. The City Council in San Bruno is committed to the leadership role required of them.

Thank you for the opportunity to comment on this report. If any additional information or response would be helpful, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Larry Franzella', with a long horizontal line extending to the right. The signature is written over the printed name and title.

Larry Franzella  
Mayor

**City of San Bruno Response  
to  
2008-09 San Mateo County Civil Grand Jury Report on  
Reversing the Upward Trajectory of Employee Costs  
in the Cities of San Mateo County**

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- 1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City-Staffing Action Plan.**

The City supports the general concept of holding a public meeting to discuss employee compensation. The City held such a session on January 12, 2009 at the beginning of the 2009-10 budget development process to review the several issues and challenges that the City faced, with a focus on the increasing need to contain and control employee costs as a key strategy toward the development of a balanced budget. This public session was an important information-sharing and education opportunity for the public and City employees. It was also the starting point for an on-going series of work sessions with a committee of employees from throughout the organization that provided valuable input and recommendations for the development of difficult budget-balancing strategies that were implemented this year.

The City believes that this type of public discussion of the issues surrounding public employee compensation and benefits and the effect on the City's budget and the ability of the City to provide necessary public services is important and beneficial. The further recommendation for the creation of a wage and benefit action plan as envisioned by the Grand Jury is more problematic. As a general statement of the City's wage and benefit issues and policy, such a plan could be easily developed on the direction of the City Council. As it relates to the formal process of collective bargaining, the City is required to bargain in good faith with each individual bargaining unit. A specific action plan prepared and discussed at a public meeting would not be consistent with the legal and procedural requirements for negotiations to be confidential and for the City to bargain in good faith.

- 2. Create a Citizen "Wage Benefit and City Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applicants charged with:
  - a. Attending the session(s) convened per Recommendation One**
  - b. Creating and reviewing the "Wage Benefit and City-Staffing" Action Plan (Action Plan) that is produced by the Task Force from this session**
  - c. If not satisfied with the Action Plan, recommending ballot measures, in consultation with the City Attorney, for the City Council to sponsor at the next regularly scheduled election****

The City of San Bruno encourages input and participation by citizens in all aspects of the City's operation and the City has historically maintained 10-12 citizen advisory committees as opportunities for residents to participate in development of City policy in a variety of topic areas. One such citizen advisory committee, the Personnel Board, reviews employee job descriptions, recruitment and selection procedures and the City's hiring results reports and provides recommendations on these topics to the City Council. As identified above in this response, the

City of San Bruno supports the opportunity for citizens to participate in public meetings covering issues related to employee compensation and benefits.

This said, the City of San Bruno respectfully disagrees with the Grand Jury recommendation that a citizen Task Force be established for the purposes outlined above. Labor negotiations, establishment of salary and compensation policy and evaluation of the service and staffing needs of the municipal organization are areas requiring highly technical and specialized knowledge and expertise. While randomly selected citizens from the community might provide useful input in a public meeting, it is unlikely that such a group would have the level of expertise or be well prepared to address the issues at the level of detail that the Grand Jury envisions for preparation of an Action Plan.

The San Bruno City Council consults with legal and technical experts in the various specialties as needed to assist the Council's adequate understanding, policy analysis and decision-making in these important areas. As the community's elected policy body, the San Bruno City Council is vested with the responsibility to complete the required analysis and make decisions related to employment and compensation policy. Given this City's historic practice and policy to maintain a compensation and budget policy consistent with its ability to afford, the San Bruno City Council has well demonstrated its preparation and ability to carry out this important function in the community's interest, and should it decide to undertake the development of an Action Plan as recommended by the Grand Jury, to complete the preparation of the plan.

**1. *Create a two-tier retirement and healthcare benefit system for new hires***

The City Managers in San Mateo County, in coordination with those in Santa Clara County, have developed a position paper on retirement benefits that advocates the establishment of a two-tier retirement system. This change is intended to contain and/or reduce the City's cost for retirement benefits over the long term. As current Chair of the San Mateo City Managers' Association, San Bruno's City Manager has been integrally involved in advocating and completing this initiative.

The City established the enhanced CalPERS retirement plans for Public Safety and Miscellaneous employees in the early 2000's when the costs projected by CalPERS were not significant and were expected to remain that way for many years. The enhanced retirement has been a key incentive for mid-career and executive level professionals to join the City. Current investment losses through CalPERS and resulting escalating rates in recent years, which are expected to continue, make this an area of necessary attention for the City.

**a. *Replace post employment healthcare plans with health savings plans***

The City pays no direct premium cost for retiree medical coverage. The Teamsters Health & Welfare Trust provides the retiree medical benefit. The Trust dedicates a portion of the premium charged for active employees toward the retiree benefit. In coordination with its employees, the City has conducted initial review toward the establishment of an employee health savings plan and will continue to investigate the available plans for one that meets all legal, IRS tax code, and other requirements.



- b. Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to 60*

The City agrees that the development of a two-tier retirement system which increases the age at which new hires are eligible to begin receiving retirement benefits should be evaluated to identify the potential for City cost savings over the long term. This will be considered in the upcoming negotiations with all employee bargaining units.

- c. Base pension on the average of the last three to five years of salary*

The City of San Bruno currently uses the single highest year retirement formula for both Miscellaneous and Public Safety employees. The City agrees that changing to a retirement formula which uses the average of the last three years compensation for calculation of retirement benefits should be evaluated for potential cost savings and considered as part of the strategy for negotiations with all bargaining units over the next year. The City notes that the proposed change does not have a near-term impact on employee compensation costs.

- d. Make provision for increasing employee contributions to current pension and post-retirement healthcare plans*

The City notes that CalPERS sets the current contribution rates for pensions for both Public Safety and Miscellaneous employees. As indicated above, the City of San Bruno does not directly contribute to the cost of post-retirement healthcare benefits. Under the Teamsters Trust retiree medical program, retirees pay a portion of their medical costs.

## **2. Renegotiate contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees**

The City of San Bruno continually monitors the costs of employee benefits and works with employees and the Teamsters Union through negotiations to modify benefit programs where cost containment considerations demonstrate that this is necessary. The City will consider these recommendations in conjunction with negotiations in the coming year.

- a. Eliminate the practice of converting accumulated sick leave to cash*

The City of San Bruno currently provides buy-out of a limited amount of unused sick leave occurs only at the time of an employee's retirement. Therefore, any opportunity for an employee to cash out unused sick leave time is only available to those who retire from the City of San Bruno. Implementing this change would only reduce overall employee compensation by about 0.1%.

- b. Reduce vacation time*
- c. Reduce the number of personal days*

According to the Grand Jury report, the City of San Bruno's current policy for leave time is consistent with others in the county. Reducing either vacation time or the number of personal days off does not provide a direct financial benefit or reduction of costs to the City. Each employee bargaining unit agreement contains a cap on the amount of vacation and other time that can be accumulated, or accrued. For vacation time, this accrual limit is 288 hours. Several employees have experienced the loss of time due to this limit which caps the City's exposure to cost at the time an employee separates from the organization.

*d. Increase employee contributions to current health, vision, and dental insurance*

The City cost of employee health care benefits has been a major factor during negotiations of San Bruno's employee bargaining unit agreements since 2006-07. At that time, City employees were paying \$450 per month for their health benefit—an amount that was not affordable for most employees. This situation was also creating serious difficulty for the City to attract new employees to open positions. After completing a comprehensive evaluation of alternative health care programs and working closely with the Teamsters Union and employees, the City and the bargaining units agreed to change health care plans to reduce costs both for employees and for the City. This major change in health care coverage decreased premiums by 6%. The new coverage required higher deductibles and co-payment by employees. Sharp limits on the City's additional contribution to premium costs have been negotiated in all bargaining unit agreements since that time.

*e. Extend the length of time between automatic salary increases*

No City employee receives automatic salary increases. The City's step system allows for merit increases over the first several years of employment based on performance evaluations as an employee gains experience and increases their productivity and value to the organization over this time. Merit increases are only provided to employees with satisfactory performance.

**3. Initiate competitive hiring practices**

*a. Broaden the compensation horizon by considering comparable jobs in both the private and public sectors*

The City utilizes employment practices common to all sectors, including the use of comparable salary surveys for setting salaries where comparable jobs exist and salary information is available. While there are no reasonable comparable positions in the private sector for some of the positions necessary in the City's workforce such as Police Officers and Firefighters, this recommendation could be considered for implementation for some positions after careful analysis of the specific job requirements, responsibilities and qualifications and where compensation data from the private sector is available to the City. What data is used for compensation comparisons is a topic subject to the negotiations process.

*b. Employ more market-oriented compensation practices to adjust salaries in times of high and low competition for labor*

*c. Consider the number of applicants for respective jobs when negotiating salaries noting for example that there are often 300 to 1,000 applicants for firefighter jobs*

The City of San Bruno has typically evaluated salaries both in comparison to the market, and also on the basis of what the City can reasonably afford. During the recent periods of economic uncertainty the City has utilized shorter-term agreements with bargaining units thereby avoiding longer-term salary and benefit commitments. The Grand Jury suggestion that salaries could be set at higher or lower amounts depending on the availability of applicants could result in persons within the organization being compensated at very different amounts for the same or comparable jobs simply depending on conditions existing at the time of their hire. In recent years, even as resources have been limited, the City of San Bruno has experienced several situations where recruitments for vacant positions, particularly management positions, have required multiple recruitments to locate satisfactory candidates.

The salary schedules for City positions typically include 5 steps. While employees are usually hired at Step 1 in the range, the City has the ability to start an employee at a higher step if conditions warrant. This strategy can be employed in situations where the labor market is tight.

- d. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans and local high schools*

The City of San Bruno actively participates in job fairs at local community colleges, universities and high schools to provide formal outreach regarding career opportunities with the City. Providing outreach to students and others about job opportunities in public service is also a regular aspect of the City's involvement in the community and in the schools. The City participates in regional occupation training programs that offer temporary employment to low income and disadvantaged persons seeking to enter the workforce and the City hires interns in several departments for seasonal and temporary assignments. These are all regular programs of the City that are directed at developing interest in public employment.

- e. Join with other cities and/or the County to create a central training center that promotes cross training and succession planning for existing staff and additionally introduces qualified applicants from the private sector to public service*

The City supports this recommendation as a regular and continuing practice. The City has collaborated with the neighboring cities of Millbrae and South San Francisco, as well as with other jurisdictions to develop and provide training opportunities. Recent examples include a joint training with the City of Millbrae for elected officials on emergency operations and a joint employee Leadership Academy with the City of South San Francisco. The City of San Bruno collaborates with the Cities of Millbrae, Burlingame, Hillsborough and San Mateo in a joint Fire training program that avoids the need for each for each individual agency to employ a Fire Training Officer. As a member of the Liebert Cassidy Training Consortium, the San Mateo County Human Resources Association and the Association of Bay Area Governments Risk Management Plan Corporation, City staff regularly participates in trainings offered on a wide variety of important topics through these organizations. With these collaborative training options available, the City has very limited need to produce its own staff training.

#### **4. Reduce the need for staff**

The City's current full time General Fund staffing level of 168 positions is less than the number of positions that was authorized in 2003-04 and prior. As reported to the City Council last year, review of City budgets from the 1970's, thirty and more years ago, demonstrates that the number of staff in nearly all City departments was equal to or more than the numbers of staff currently employed by the City. Consistent with the City Council's budget philosophy and policy that the City will maintain staffing levels, an organizational structure and compensation only at levels that are affordable, the City maintains a leanly staff organization considering the scope of services provided. The City actively monitors and evaluates the use of alternative strategies in all areas to contain costs and maximize the efficiency and the effectiveness of the City's service delivery.

- a. Expand the use of technology to streamline services*

The City supports this suggestion and has a regular practice of actively utilizing alternative forms of service delivery—including the widespread use of technology. The City recently

completed a comprehensive update of the City website to improve user access to a wide variety of information and services and as a result is increasingly seeing that citizens and customers are using the site as an effective and efficient way to get information and to complete business transactions with the City.

On-line registration for the City's Parks and Recreation programs is now available through the City website, to enhance customer convenience in completing transactions and minimize the need for after hours and weekend staffing in the Community Services Department front office. The City's water, wastewater, and garbage customers are also able to make on-line payment

In the Community Development Department, all building and development plans are scanned and stored in digital format. Permit applicants are able to track the status of their projects and access comments on their submittals on-line. With historic building and permit records converted from microfiche to digital format, any interested person is able to independently search the City's records on-line without making a trip to City Hall.

- b. Explore the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house*

The City regularly uses contracted services and alternative service delivery options in a variety of areas. In Engineering, the City maintains a regular staff of certified engineers whose primary responsibility is to manage the delivery of a variety of projects. Engineering project design, specialized geotechnical, traffic and other engineering functions are contracted out as needed. The City contracts the majority of its building plan check activity to an outside provider as a cost effective option to address the fluctuation in the level of building activity related to the season and to the economy. In addition, other examples of functions contracted out by the City include crossing guard services, animal control services, newsletter and other publication design services, Peninsula Library Services (PLS) library collection and circulation support services, utility bill preparation, and audit services. The City of San Bruno will continue to evaluate opportunities to enhance the cost effectiveness and efficiency of service delivery through contracting out and other alternative service delivery options.

- c. Create partnerships with other cities and/or the County to include for example payroll, human resources, landscaping, fire fighting, police, recreation and custodial work. The County already provides centralized training and dispatch services.*

The City of San Bruno, along with others in San Mateo County has implemented highly successful shared services arrangements. For the past three years, the cities of San Bruno and Millbrae have shared Fire Battalion Chiefs and for two years have shared a Fire Chief, effectively establishing a shared Fire service administration. Further Fire services collaboration between the two cities and additionally the cities of Burlingame and Hillsborough is currently under study and evaluation. Beginning this year, the City of San Bruno has initiated an agreement with the City of South San Francisco for contracted regular maintenance of the City's streetlights. This contract expands a long-standing coordination between the two cities in the operation and maintenance of the San Bruno/South San Francisco Wastewater Treatment Facility. San Bruno, along with other cities in the County will continue to actively explore and evaluate opportunities to collaborate in the delivery of services.



## **5. Increase public involvement**

- a. *Hold public hearings before initiating closed session negotiations to counter balance strong union pressure in City Council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits*

The City supports the general concept of holding a public meeting to discuss employee compensation. Such a meeting would provide the public an opportunity to comment and provide suggestions for the collective bargaining process. As previously discussed in this response, the development of specific strategies or positions in this type of forum runs counter to the requirements for confidentiality in the collective bargaining process and for the City to engage in good faith bargaining.

- b. *Make public the Memorandums of Understanding (MOUs) with the unions that result from these negotiations*

Copies of bargaining unit agreements are available for public review in the City Council's public agenda packet that is published and available to the public prior to the meeting at which approval of the agreements will be considered. The City Council approves bargaining unit agreements at properly noticed meetings that are open to the public. Following approval, bargaining unit agreements and the City's current Salary Schedule for all positions are posted on the City's web page and can be readily accessed by any member of the public at any time.

- c. *Place the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena*

The City of San Bruno makes bargaining unit agreements available to the public and schedules their review at a public meeting of the City Council when they are being considered for approval. The Grand Jury recommendation for agreements to be scheduled for public discussion two weeks following their approval would not appear to be of significant benefit either to the public or to the negotiations process. The Grand Jury's recommendation for a public meeting to be held during the period prior to negotiations would provide greater value and will be considered.

- d. *Convene a public session in 2009 devoted to this issue – the session should result in a wage, benefit and City-staffing action plan*

The City supports the general concept of holding a public meeting to discuss employee compensation. The City held such a session on January 12, 2009 at the beginning of the 2009-10 budget development process to review the several issues and challenges that the City faced, with a focus on the increasing need to contain and control employee costs. The City will consider a similar meeting when developing strategies for the bargaining units' negotiations and the budget process early next year.

- e. *Create a citizen "Wage, benefit and city staffing task force" with members drawn by lottery*

The City does not intend to implement this recommendation. The City Council considers the task of responsibly managing the City's costs, budget, and service levels to be their primary responsibility.

## **6. Involving Taxpayers**

- a. *If a City Council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the City Council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them*

The City of San Bruno is willing to consider implementation of a two-tier system for retirement benefits. On an annual basis, the City Council evaluates employee compensation and benefits costs as part of the budget development process. Additionally, the City of San Bruno has consistently demonstrated a strong commitment to maintaining employee costs at an amount that is affordable and that reasonably assures the delivery of necessary city services. These are fundamental and critical responsibilities of the City Council. The San Bruno City Council cannot assign, and will not abdicate the fundamental responsibilities that it was elected to perform, even when the issues are challenging and complex and the necessary decisions are difficult.



CITY COUNCIL

ROBERT GRASSILLI, MAYOR  
RANDY ROYCE, VICE MAYOR  
OMAR AHMAD  
MATT GROCOTT  
BRAD LEWIS

CITY COUNCIL

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July 14, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> floor  
Redwood City, CA 94063-1655

Dear Judge Miram:

I am writing to you on behalf of the San Carlos City Council. This will serve as the City of San Carlos' formal response to the June 4, 2009 letter from the Superior Court communicating comments made by the Civil Grand Jury about "Employee Costs in the Cities of San Mateo County." The City Council has reviewed this letter and has authorized that it be sent at their meeting on July 13, 2009.

In the report from the Civil Grand Jury on Employee Costs, they note that costs are increasing in cities throughout the County. At the same time, revenues have been slowing since 2000 when the dot-com crash occurred. This mirrors the situation in San Carlos where the City has experienced a structural deficit in the General Fund budget which funds Police, Fire, Parks and Recreation and most of our day to day services. The result of this fiscal challenge has been 10 years in a row of service and budget cuts in San Carlos.

As the Civil Grand Jury report notes, San Carlos is a leader in the area of reducing employee costs and has implemented many of the items that appear in the Civil Grand Jury's report. San Carlos has gone even further and implemented some items that are not listed in this report. The City Council is also committed to continuing to review ways to reduce employee costs in the future as we work to ensure that the public gets the maximum value for their tax dollar.

Honorable George A. Miram

July 14, 2009

Page 2

In light of today's economy, we believe that many other cities will soon be faced with implementing these steps as well. With that in mind, I am happy to comment in detail on the recommendations of the report and share with you what San Carlos has done. I trust you will find our comments helpful and enlightening.

Sincerely,

/S/ ROBERT GRASSILLI

Robert Grassilli

Mayor

c: City Council  
City Manager

**Attachment:** City of San Carlos Comments – Civil Grand Jury Report on Employee Costs





# CITY OF SAN CARLOS

|                   |       |
|-------------------|-------|
| AGENDA CATEGORY:  |       |
| BUSINESS SESSION: | _____ |
| CONSENT CALENDAR: | _____ |
| PUBLIC HEARING:   | _____ |
| STUDY SESSION:    | _____ |
| _____:            | _____ |

**COUNCIL/RDA MEETING DATE:** July 13, 2009

**ITEM TITLE:** Authorize Mayor Grassilli to Send Letter On Behalf of City Council Providing Comments on the Civil Grand Jury Report on Employee Costs in the Cities of San Mateo County

### ***Recommendation***

It is recommended that the City Council review and authorize Mayor Grassilli to send a letter to the Presiding Judge of the Superior Court regarding the recent Civil Grand Jury Report on Employee Costs in the Cities of San Mateo County.

### ***Fiscal Impact***

There is no fiscal impact to authorize the Mayor to send the attached letter. The City is and will continue to experience significant budget savings due to the 11 items cited in the attached report that have been implemented in employee agreements at the City of San Carlos.

### ***Background***

On June 4th, the Presiding Judge of the Superior Court sent a letter to the City of San Carlos that requested a formal response to the Civil Grand Jury’s report on Employee Costs in the Cities of San Mateo County. Under state law, the City has 90 days to provide a written response to reports forwarded to the City by the Presiding Judge. In this case, the City’s comments are due by September 3, 2009.

In the report from the Civil Grand Jury on Employee Costs, they note that costs are increasing in cities throughout the County. At the same time, revenues have been slowing since 2000 when the dot com crash occurred. This mirrors the situation in San Carlos where the City has experienced a structural deficit in the General Fund budget which funds Police, Fire, Parks and Recreation and most of our day to day services. The result of this fiscal challenge has been 10 years in a row of service and budget cuts in San Carlos.

As the Civil Grand Jury report notes, San Carlos is a leader in the area of reducing employee costs and has implemented many of the items that appear in the Civil Grand Jury’s report. San Carlos has gone even further and implemented some items that are not listed in this report.

Attached you will find a draft letter to the Presiding Judge from Mayor Grassilli. The second attachment is a detailed response to the suggestions contained in the Civil Grand Jury report on Employee Costs. It also includes a table developed by the Grand Jury on employee staffing by City (San Carlos ranks # 15 of the 20 cities), a grid that shows 11 highlighted salary and benefit areas and which employee units in San Carlos they apply to (all 11 apply to the Management, Police Management and Confidential employees) and information on the City’s award-winning automated receptionist named Carly.

Staff recommends that Council review the Mayor’s draft letter and the detailed response to the Civil Grand Jury report, discuss and adopt any changes to these documents and then authorize the Mayor to sign and send this material to the Presiding Judge of the Superior Court.

**Alternatives**

1. It is recommended that the City Council review and authorize Mayor Grassilli to send a letter to the Presiding Judge of the Superior Court regarding the recent Civil Grand Jury Report on Employee Costs in the Cities of San Mateo County.
2. Provide the Staff with alternative direction.

Respectfully submitted,

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Brian Moura, Assistant City Manager

Approved for submission by:

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Mark Weiss, City Manager

**Attachments**

1. Draft – Letter from Mayor Grassilli to Presiding Judge of the Superior Court regarding the recent Civil Grand Jury Report on Employee Costs in the Cities of San Mateo County
2. Draft – City of San Carlos Comments – Civil Grand Jury Report on Employee Costs
3. Civil Grand Jury Report on Employee Costs (June 4, 2009)

DRAFT

July 14, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> floor  
Redwood City, CA 94063-1655

Dear Judge Miram,

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In the report from the Civil Grand Jury on Employee Costs, they note that costs are increasing in cities throughout the County. At the same time, revenues have been slowing since 2000 when the dot com crash occurred. This mirrors the situation in San Carlos where the City has experienced a structural deficit in the General Fund budget which funds Police, Fire, Parks and Recreation and most of our day to day services. The result of this fiscal challenge has been 10 years in a row of service and budget cuts in San Carlos.

As the Civil Grand Jury report notes, San Carlos is a leader in the area of reducing employee costs and has implemented many of the items that appear in the Civil Grand Jury's report. San Carlos has gone even further and implemented some items that are not listed in this report. In light of today's economy, we believe that many other cities will soon be faced with implementing these steps as well. With that in mind, I am happy to comment in detail on the recommendations of the report and share with you what San Carlos has done. I trust you will find our comments helpful and enlightening.

Sincerely Yours,

Bob Grassilli  
Mayor

cc: City Council  
City Manager

**Attachment**

- City of San Carlos Comments – Civil Grand Jury Report on Employee Costs

**City of San Carlos Comments  
Civil Grand Jury Report on Employee Costs  
July 13, 2009**

**1. Create a two-tier retirement pension system for newly hired employees**

A two-tier retirement system has been implemented at the City of San Carlos for all newly hired employees. This includes employees in the Management, Confidential, Police Management, Police, Mid Management, Maintenance and Clerical Units.

It is also worth noting that even though San Carlos has Fire Department services through a separate Joint Powers Authority (Belmont-San Carlos Fire Department or BSCFD), the retirement benefits at that agency have also been moved to a two-tier retirement system.

The results of this change are usually experienced over time as employees leave the agency for new job opportunities or retirement and newly hired employees take their place and enter the agency at a lower retirement benefit level and a lower retirement cost to the agency. As the Civil Grand Jury report notes, the difference in such rates is most profound among Police and Fire employees where the CalPERS contribution level for the agency is 17.63% for newly hired staff vs. 38.19% for legacy Police employees and 52.24% for legacy Fire employees. In San Carlos, despite the downturn in the economy, we already have 25% of our sworn Police employees on the new, lower tier of retirement benefits – resulting in a significant per employee savings.

**2. Create a two-tier retirement health care system for newly hired employees**

A two-tier retiree health care system has been implemented at the City of San Carlos for newly hired in the Mid Management, Maintenance and Clerical Units. As noted in the Civil Grand Jury's report, San Carlos employees hired in these 3 units on or after January 1, 2009 will now receive a contribution of \$350 per month towards their retiree medical insurance. Employees in these 3 units hired before that date will receive a contribution of \$610 per month towards their retiree medical insurance. Both amounts are reductions from the City's prior retiree medical insurance program.

A more significant cut has been implemented in the Management and Confidential units. In these 2 groups, employees hired on or after January 1, 2009 will not get any contribution towards their retiree medical insurance. Employees in these units hired before that date will receive a contribution of \$610 per month towards their retiree medical insurance. Again, both changes are reductions from the City's prior retiree medical insurance program for these employees.

The two-tier retiree health plan has not been implemented in the Police Officers Association agreement. This labor agreement is still under negotiation. This reduction in benefits for newly hired employees is also not part of the Firefighters Association agreement with the BSCFD which still has a couple of years before its renewal. This change in benefits is something that these groups and the City Council (Police Officers Association) or the BSCFD Fire Board (Firefighters Association) could discuss in the future.

**3. Renegotiate contracts with the unions to modify benefits for existing employees and create a two-tier system for new employees.**

**Frozen salaries** - Employees in the Management, Confidential, Police Management, Mid Management, Maintenance and Clerical Units have experienced 2 years of frozen salaries (no annual cost of living increase). Employees at the BSCFD have experienced 3 years of frozen salaries (no annual cost of living increase).



**No Equity adjustments** - Recent agreements with employees in the Management, Confidential, Police Management, Mid Management, Maintenance and Clerical Units do not include “equity adjustments” which are designed to keep San Carlos employees at a competitive pay level with neighboring cities. While this saves money in the short term, the lack of these adjustments has placed San Carlos salaries in these employee groups at a level that is 5% to 10% below the level in comparable cities.

**Furloughs** - One week of mandatory furloughs apply to all City of San Carlos employees each holiday season. This program has been in effect for the past 5 years in San Carlos.

**No Automatic Salary Increases** - The Civil Grand Jury report suggests extending “the length of time between automatic salary increases”. San Carlos does not offer “automatic salary increases” to any employee group. Instead, employee salary increases are only granted after successful completion of the employee’s probation period and a positive performance evaluation.

**No Conversion of Sick Leave to Cash** - The Civil Grand Jury report talks about eliminating the practice of converting accumulated sick leave to cash. San Carlos has never offered that benefit to its employees. Instead, the City has opted to offer a conversion of unused sick leave to retirement service credit upon retirement from the City. This is a more limited benefit that is only available to employees who work at the City of San Carlos at their time of retirement. It also costs the City considerably less than the conversion of accumulated sick leave to cash that is described in this report.

**Vacation Accrual Cap** - The report also notes that the City of San Carlos restricts the maximum amount of vacation days to two years. Any amount of unused vacation time above that ceiling is cashed out at today’s dollars rather than being allowed to accumulate and being paid out at a future date at a much higher cost.

**Health Insurance Cost Sharing** - In the area of increasing employee contributions to current health insurance plans, that has been negotiated in the most recent employee agreements that affect the Management, Confidential, Police Management, Mid Management, Maintenance and Clerical Units. It is not a “two-tier” system as the Civil Grand Jury describes. Instead, it affects all employees in these units – current and newly hired.

**Pay for Performance Plan Eliminated** - These new agreements have also eliminated the City’s Pay for Performance bonus plan in the Management, Confidential and Police Officers units. This plan provided for a one-time payment of 1% to 2% in the Confidential and Police Officers units and 2% to 4% in the Management unit for employees receiving high scores on their annual performance reviews and represents a cut in pay for high performing employees in these units. (The program remains in effect for the other represented employee groups).

**Vacation Time & Personal Days** - The report also suggests reducing “vacation time” and the number of “personal days”. A review of Table 7 in the Civil Grand Jury report shows that San Carlos is towards the lower end of the spectrum in terms of vacation days (12) compared to other cities (up to 15 and 16 days in 5 agencies). As to floating or personal days, San Carlos has granted fewer holidays off (10) than most agencies in exchange for more flexibility in when the employee can take this time off. This approach also benefits the public since San Carlos City Hall is open more days during the year than agencies with more set holidays.

As with other benefits and terms of employment, a change that would provide more set holidays and fewer floating days could be negotiated between the employee groups and the City Council when these salary and benefit agreements open in the future.

**4. Revise hiring practices, broaden salary comparisons with comparable jobs, consider the number of applicants for jobs, develop outreach programs to schools, create multi-agency training programs with other cities & the County**

San Carlos has been very active with the City Human Resources Directors group in San Mateo County. That group meets monthly and has put on a number of cooperative training programs for all levels of employees and supervisors over the years. That program continues to this day as does our participation in it.

Similarly, San Carlos is one of many cities and agencies in San Mateo County and the Employee Relations Service (ERS) Joint Powers Authority (JPA). That JPA provides comprehensive salary and benefit data to cities like San Carlos for use in labor negotiations, eliminating the need for creating this information in house.

In the past, ERS has analyzed comparable jobs in the public and private sectors for some of its client agencies. These reviews have shown some job classifications/groups have higher salaries in the private sector, some have higher salaries in the public sector and others (like Police and Fire positions) do not have comparable positions in the private sector.

Like all salary and benefit discussions, agreeing to a change in this area would be subject to the “meet and confer” process and laws. Changing the basis for analyzing and setting salaries would also have the potential to significantly increase some salaries and decrease other salaries. This is something that could be considered in the future when employee agreements are open for renewal. (At this time, only the Police Officers Unit MOU covering salaries and benefits is open and under negotiation in San Carlos.)

**5. Reduce the need for staff by expanding the use of technology, streamlining services, contracting out functions, creating partnerships with other agencies**

San Carlos has explored and implemented all of the suggestions in this item. It helps explain how the City of San Carlos can provide the full range of City services while reducing the number of full time employees from 125 in 2001 to 111 this year. This is one of the lowest staffing levels among cities in the County according to the study of full time staffing among cities in San Mateo County that was prepared by the Civil Grand Jury (see Attachment 2).

In the area of technology, the City has a highly automated Council and Commission agenda system and web site (including the popular ePackets.net web site) rather than a more traditional system. The City has also replaced the City Hall receptionist with an automated receptionist named “Carly” (see Attachment 3). Both of these technology efforts have won local and national awards for their creativity and budget saving results. San Carlos also participates in the “Cal Opps” web based Job Openings system with other cities, was the first City in the County to web enable the permit process and offers recreation registration via the web (over 65% of recreation sign-ups now occur on the City’s RecConnect.net web site).

San Carlos uses a mix of services “contracted out” to the private sector and other agencies as well as “contracting in” other services when they prove to be more cost effective in house. Examples of services contracted out that were once done in house include Street Sweeping, GIS mapping, Custodial and City Attorney services.

On the other hand, some positions in the Planning and Public Works departments are now filled with City Staff vs. the private sector to take advantage of cost savings and service improvements. Along the same lines, partnerships with other agencies help San Carlos save money on Police Dispatch while providing revenue for the service to Menlo Park – a true win/win outcome.

**6. Increase public involvement and make MOUs with employee unions public**

Memorandums of Understanding (MOUs) with employee unions and Salary and Benefit Resolutions with unrepresented employees are always made public in San Carlos. The full MOU or Salary and Benefit Resolution for each group is included in the City Council Packet at the meeting that the agreement is approved. There is a full Council Staff Report that is also included with each of these documents. All of this information is available to the public via the City's ePackets.Net web site. In addition, the City's practice is to publicly announce and discuss the details of newly negotiated MOUs and agreed upon Salary and Benefit Resolutions at a public City Council meeting.

**7. If City Council does not create two-tier retirement pension and health system for new hires, the Council should place ballot measures for two-tier systems on the ballot for voters to consider**

As noted earlier, the San Carlos City Council has already implemented two-tier retirement pension and health systems for new hires in all of its employee units as well as in the employee units of the Belmont-San Carlos Fire Department so this proposal does not apply in San Carlos.

**8. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report.**

The practice in San Carlos is to bring the contents of a Civil Grand Jury report to the City Council. This includes a review of the Mayor's proposed response to the report so that it can be reviewed and adopted by the City Council as the City's response. In light of the Council interest in this matter, it will be placed on the new business calendar of the City Council's July 13, 2009 meeting for discussion, meeting the recommendation for a public session on the topic in 2009.

**9. Create a "Citizen Wage, Benefit and City Staffing Task Force" consisting of five to seven members, drawn by lottery from resident applicants**

The City Council has historically viewed the Council's role in the process to review and approve the Annual City Budget and the negotiation and setting of Employee Salary and Benefits as among the most important duties that they are elected to perform. In the past year, the City Council, working with the City employees and their representatives, have taken bold steps to significantly reduce the City's current and future salary and benefit costs as demonstrated in both the recently issued Civil Grand Jury Report and in the steps outlined in this detailed response to that document. While further actions in this area are always possible, and can be discussed at the Council's upcoming Strategic Plan Workshop in August, the material presented in this report clearly demonstrates that creation of a task force to perform the duties of the elected City Council is not warranted.

**10. Methods Cities Use to Cover Pension and OPEB Debt**

The Civil Grand Jury report indicates that San Carlos has issued Retirement Obligation Bonds to meet its pension and Other Post Employment Benefit (OPEB) costs. This is incorrect. San Carlos has set aside funds in its General Fund budget to address future OPEB costs for its employees and the fire department employees at the BSCFD. At this time, these funds fully cover the OPEB costs at the BSCFD and partially cover the OPEB costs of employees that work for the City.

**Attachment 1**

**Comparison of Highlighted Salary & Benefits  
by Employee Unit in San Carlos**

| <b><u>Num</u></b> | <b><u>Benefit</u></b>  | <b><u>Mgmt</u></b> | <b><u>Confid</u></b> | <b><u>Police<br/>Mgmt</u></b> | <b><u>Police</u></b> | <b><u>Mid<br/>Mgmt</u></b> | <b><u>Maint</u></b> | <b><u>Clerical</u></b> |
|-------------------|--|--------------------|----------------------|-------------------------------|----------------------|----------------------------|---------------------|------------------------|
| 1                 | <b>Retirement Pension – Two Tier – New Hires</b>                   | Yes                | Yes                  | Yes                           | Yes                  | Yes                        | Yes                 | Yes                    |
| 2                 | <b>Retiree Health Ins Reduction – New Hires</b>                    | Yes                | Yes                  | Yes                           | No                   | Yes                        | Yes                 | Yes                    |
| 3                 | <b>Retiree Health Ins Elimination – New Hires</b>                  | Yes                | Yes                  | Yes                           | No                   | No                         | No                  | No                     |
| 4                 | <b>Wage Freeze – no increase for 2 years</b>                       | Yes                | Yes                  | Yes                           | No                   | Yes                        | Yes                 | Yes                    |
| 5                 | <b>Equity Adjustments – not awarded</b>                            | Yes                | Yes                  | Yes                           | No                   | Yes                        | Yes                 | Yes                    |
| 6                 | <b>Furlough - 1 week at years end – 5 years</b>                    | Yes                | Yes                  | Yes                           | Yes                  | Yes                        | Yes                 | Yes                    |
| 7                 | <b>Vacation Cap – at 2 yrs amount, paid out in today’s dollars</b> | Yes                | Yes                  | Yes                           | Yes                  | Yes                        | Yes                 | Yes                    |
| 8                 | <b>Sick Leave Convert vs. Cash Out</b>                             | Yes                | Yes                  | Yes                           | Yes                  | Yes                        | Yes                 | Yes                    |
| 9                 | <b>Increased contrib for health insurance</b>                      | Yes                | Yes                  | Yes                           | No                   | Yes                        | Yes                 | Yes                    |
| 10                | <b>Eliminate Pay for Performance Plan for Excellent Employees</b>  | Yes                | Yes                  | Yes                           | Yes                  | No                         | No                  | No                     |
| 11                | <b>No automatic salary increases</b>                               | Yes                | Yes                  | Yes                           | Yes                  | Yes                        | Yes                 | Yes                    |



**Attachment 2**

**Civil Grand Jury Study of Full Time Staffing  
in San Mateo County Cities**

| <u>Rank</u> | <u>City</u>         | <u>Population</u> | <u>Full Time<br/>Equivalent<br/>Employees</u> | <u>Includes<br/>Police</u> | <u>Includes<br/>Fire</u> |
|-------------|---------------------|-------------------|---|----------------------------|--------------------------|
| 1           | San Mateo           | 92,482            | 580   | yes                        | yes                      |
| 2           | Daly City           | 106,361           | 562   | yes                        | yes                      |
| 3           | Redwood City        | 75,400            | 546   | yes                        | yes                      |
| 4           | South San Francisco | 60,552            | 495   | yes                        | yes                      |
| 5           | Burlingame          | 28,185            | 258   | yes                        | yes                      |
| 6           | San Bruno           | 41,750            | 253   | yes                        | yes                      |
| 7           | Menlo Park          | 30,785            | 244   | yes                        | no                       |
| 8           | Foster City         | 28,803            | 213   | yes                        | yes                      |
| 9           | Pacifica            | 39,616            | 199   | yes                        | yes                      |
| 10          | Millbrae            | 21,387            | 136   | yes                        | yes                      |
| 11          | Belmont             | 26,078            | 135   | yes                        | no                       |
| 12          | Brisbane            | 3,694             | 117   | yes                        | yes                      |
| 13          | East Palo Alto      | 31,500            | 117   | yes                        | no                       |
| 14          | Hillsborough        | 10,825            | 115   | yes                        | no                       |
| <b>15</b>   | <b>San Carlos</b>   | <b>27,718</b>     | <b>111</b>                                    | <b>yes</b>                 | <b>no</b>                |
| 16          | Half Moon Bay       | 13,046            | 52  | yes                        | no                       |
| 17          | Atherton            | 7,194             | 51  | yes                        | no                       |
| 18          | Colma               | 1,197             | 45  | yes                        | no                       |
| 19          | Woodside            | 5,352             | 21  | no                         | no                       |
| 20          | Portola Valley      | 4,500             | 14  | no                         | no                       |

Attachment 3



# City Manager News Release

City of San Carlos  
City Manager's Office

City Hall  
600 Elm Street  
Phone: (650) 802-4210  
Fax: (650) 595-6729

5/22/2009

FOR IMMEDIATE RELEASE

PRESS RELEASE #05222009

**Subject :** San Carlos Wins National Technology Award for Carly: The Virtual Receptionist  
Public Technology Institute Gives Award to City for Innovative Budget Cutting Idea

**Contact :** Brian Moura, Assistant City Manager, City Manager Department (650) 802-4210  
bmoura@cityofsancarlos.org  
Alan Shark, Executive Director, Public Technology Institute (PTI) (202) 626-2445  
shark@pti.org



The City of San Carlos announced today that it has received the National 2009 Technology Achievement Award in the Web Services – Small Jurisdiction category (under 100,000 population) from the Public Technology Institute (PTI) based in Washington, D.C. for the City's Innovative City Hall Virtual Receptionist named "Carly". The award was given after a panel of independent judges reviewed award nominations submitted by cities and counties throughout the United States.

The City of San Carlos has been facing a chronic budget shortfall in its General Fund budget. This has led to the City Council cutting City programs and services and closing City facilities for each of the past 10 years. Last year, these budget cuts required the City to eliminate the Receptionist at City Hall.

To address the elimination of this position, the City's Senior Systems Analyst Jasmine Frost was asked to develop a kiosk at the reception area to provide information to the public. Jasmine ran with the project and developed a centralized information station for the public.

Using a touch screen monitor and a low cost software avatar (\$20 per month), Jasmine created an interactive Virtual Receptionist to guide residents through the information. The Virtual Receptionist was named "Carly" by City Manager Mark Weiss.

Carly appears in the center of a monopoly-board screen that offers a menu of city departments and services. The Virtual Receptionist is designed to greet visitors and provide much of the assistance a human used to offer.

Residents can access the kiosk via the touch screen monitor, by tapping on the icons that surround her, gaining access to valuable information including department phone numbers and directions to the many city hall offices. In addition, when you click on Carly she begins talking and explaining what services are on the first floor and the second floor, and what services the city provides.

The virtual receptionist is poised to save San Carlos \$90,000 per year. Carly's deployment comes at a time when the city continues to trim costs from its budget each year. The city isn't suggesting an avatar can replace a real live receptionist, and city officials hope to have the funds to return to a live receptionist to the front desk some day. But in the meantime, Carly is filling in.

San Carlos has always been committed to excellent customer service, and we are using technology help us maintain that goal. Our visitors have had a positive reaction to our speaking avatar, and many have told us they've found the information to be quite helpful. They have grown to appreciate engaging with Carly to obtain the valuable information necessary to reach the city's various departments and representatives.

San Carlos has always been a leader when it comes to implementing new innovative technology practices, and many cities look to us as an example of how they, too, can use technology to effectively achieve their goals. Our visitors appear to really enjoy interacting with Carly, and we plan to continue adding additional features to make Carly the best she can be.

San Carlos has received inquiries from cities and counties around the country on how the Virtual Receptionist works and how it might be a way for them to reduce costs as well.

Public Technology Institute (PTI) Executive Director Alan Shark said "Our members continue to push the boundaries of innovation despite the economic environment. The Annual Technology Solution Awards competition rewards those PTI member local governments that can demonstrate how they apply technology to improve service delivery, reduce operating costs or create new revenue opportunities. The awardees and entrants will receive recognition from PTI, but the real beneficiaries are our city and county citizens."

### **About Public Technology Institute (PTI)**

Public Technology Institute (PTI) is a national member supported organization based in Washington, DC. As the only technology organization created by and for cities and counties, PTI works with a core network of leading local government officials.

PTI and its member agencies identify opportunities for technology research, share best practices, offer consultancies and pilot demonstrations, promote technology development initiatives, and develop enhanced educational programming. Officials from PTI member governments participate in councils and forums that address specific technology areas.

Through its corporate partner program with leading technology companies, and partnerships with federal agencies and other governmental organizations, PTI shares the results of these activities and the expertise of its members with the broader audience of the thousands of cities and counties across the U.S. More information on PTI is available on their web site at <http://www.pti.org>

###



KARYL MATSUMOTO, MAYOR  
MARK N. ADDIEGO, VICE MAYOR  
RICHARD A. GARBARINO, COUNCILMEMBER  
PEDRO GONZALEZ, COUNCILMEMBER  
KEVIN MULLIN, COUNCILMEMBER

BARRY M. NAGEL, CITY MANAGER

August 27, 2009

OFFICE OF THE MAYOR

Honorable George A. Miram  
Judge, Superior Court  
County of San Mateo  
400 County Center  
Redwood City, CA 94063-1655

Dear Judge Miram:

**Response to June 4, 2009 Grand Jury Report "Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County"**

The following is the City of South San Francisco's response to the above-referenced Grand Jury's Report. This response was approved by the City Council at its regular meeting on August 26, 2009.

**Recommendation No. 1** Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including, but not limited to, the issues presented below. The session should result in a Wage, Benefit and City-Staffing Action Plan.

**Response:** The City agrees that public participation in issues related to employee costs is a positive goal, and has already convened two public meetings of the City's Personnel Board to review, discuss and provide feedback regarding the recommendations contained in this report. The City does not believe that an additional staffing action plan is necessary or helpful at this point, as it has already developed a strategic approach to many of the recommendations contained in this report.

**Recommendation No. 2** Create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with:

- a. Attending the session(s) convened by Recommendation One.
- b. Creating and reviewing the Wage, Benefit and City-Staffing Action Plan that is produced by the Task Force from this session.
- c. If not satisfied with the Action Plan, recommending ballot measures, in consultation with the City Attorney, for the City Council to sponsor at the next regularly scheduled election.



**Response:** The City does not agree that creation of a Task Force in this manner is likely to result in a useful product for the reasons described more fully in the attached Response by the San Mateo County City Managers' Association. The City has used its Personnel Board, a group of city residents selected for their interest and experience in personnel matters, to provide both a forum and informed input into these issues. The City does not fully agree that an Action Plan as described in the recommendation would be most useful, as it has obtained input through the Personnel Board and has formulated a plan for implementing many of the recommendations through city staff. The ballot measure recommendation is addressed in our response to Recommendation No. 8, below.

**Recommendation No. 3** Creating a two-tier system retirement and healthcare benefits system for new hires to:

- a. Replace current employment healthcare plans with health savings plans.
- b. Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to 60.
- c. Base pensions on the average of the last three to five years of salary.
- d. Make provisions for increasing employee contributions to current pension and post-retirement health care plans.

**Response:** The City generally agrees with this recommendation and has already begun to implement portions of it. In labor negotiations with its bargaining units the City has proposed a health savings plan for retiree health care for all new hires. As the plan is adopted by all units, it will be implemented. The City will open discussion with bargaining units about a two-tiered retirement system for the fiscal year 2010/2011. As is described more fully in the attached City Managers' response, there are labor relations challenges to quicker implementation of these proposals, not the least of which is the need to negotiate with all bargaining units in good faith.

**Recommendation No. 4** Renegotiating contracts with unions to modify current benefits for existing employees and to create a two-tier system for new employees to:

- a. Eliminate the practice of converting accumulated sick leave to cash.
- b. Reduce vacation time.
- c. Reduce the number of personal days.
- d. Increase employee contributions to current health, vision, and dental insurance.
- e. Extend the length of time between automatic salary increases.

**Response:** The City generally agrees with these recommendations, and has implemented some already. Currently the City is negotiating with all its labor organizations and has proposed a modified health and welfare package that increases employees' financial contribution to those plans. Upon acceptance by all groups, the modified benefit plan can be put in place.

**Recommendation No. 5** Initiating competitive hiring practices by:

- a. Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.
- b. Employ more market-oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.
- c. Consider the number of applicants for respective jobs when negotiating salaries, noting for example that there are often 300 to 1000 applicants for firefighter jobs.
- d. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police recruits.
- e. Join with other cities, and/or the County to create a central training center that promotes cross-training and succession planning for existing staff, and additionally introduces qualified applicants from the private sector to public sector service.

**Response:** The City agrees generally with the recommendation, but notes that some public sector jobs do not have direct private sector counterparts. The City currently participates in training programs run by the County as well as other consortiums of public agencies. The attached City Managers' response provides more detail about the county-wide response to these recommendations, which South San Francisco supports.

**Recommendation No. 6** Reducing need for Staff by:

- a. Expanding the use of technology to streamline services.
- b. Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.
- c. Creating partnerships with other cities and/or the County to include, for example: payroll, human resources, landscaping, firefighting, police, recreation, and custodial work. The County already provides centralized training and dispatch services.

**Response:** The City generally agrees with this recommendation, except for section (b) related to subcontracting, which the City believes is often not cost-effective or results in services not adequately responsive to citizens' needs. Contracting out bargaining unit work is also a matter which implicates the City's labor relations and may require modification of labor contracts after meeting and conferring with the affected employee organizations. The City already uses technology in a variety of ways to streamline services in the areas of recruitment and testing, and throughout other city departments in an effort to provide superior service and reduce staffing needs. The City participates in county-wide training in a number of areas, and is exploring other options for consolidation of services with surrounding communities.

**Recommendation No. 7** Increasing Public Involvement by:

- a. Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits.
- b. Making public the Memorandums of Understanding (MOUs) with the unions that result from these negotiations.
- c. Placing the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena.

**Response:** The City agrees generally with the recommendation. The City has already held two public sessions on the Grand Jury recommendations before its Personnel Board, which solicited input and provided comments and suggestions to the City Manager. The City already makes all MOUs available on the City's website, and has done so for a number of years. As proposed MOUs are negotiated with the bargaining units, they are summarized in staff reports, and the Agreements are attached to the resolutions adopting the MOUs. All this information is provided in the agenda packet, which is produced in advance of the public hearing where the MOUs are adopted, and is available on the City's website well in advance of the hearing.

**Recommendation No. 8** Involving Taxpayers:

If a City Council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the City Council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them.

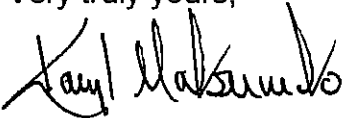
**Response:** The City does not agree with this recommendation for the reasons stated in the attached San Mateo County City Managers' Association response.

August 27, 2009  
City of South San Francisco  
Response to Grand Jury Report of June 4, 2009

The City appreciates the time and effort the Grand Jury has taken with this complex and topical issue. At a time when local government revenue sources remain volatile and unpredictable, we understand the urgency of controlling employee costs. We further understand and agree that employee costs are on an unsustainable trajectory, and that managing those costs is integral for achieving financial stability in the future.

Please convey our thanks to the Grand Jury for their thorough work; it is very much appreciated. Should you need further information we will be pleased to provide it.

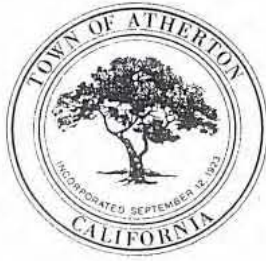
Very truly yours,

A handwritten signature in black ink, appearing to read "Karyl Matsumoto". The signature is fluid and cursive, with the first name "Karyl" being more prominent than the last name "Matsumoto".

Karyl Matsumoto, Mayor  
City of South San Francisco

cc City Council  
Barry Nagel, City Manager  
Steve Mattas, City Attorney





Office of the City Manager  
Town of Atherton

91 Ashfield Road  
Atherton, California 94027  
Phone: (650) 752-0500  
Fax: (650) 614-1212

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August 20, 2009

Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

RE: San Mateo County Grand Jury Report On The Upward Trajectory of Employee Costs in Cities

Dear Judge Miram:

The Town of Atherton (the "Town") has received and reviewed the "San Mateo County Grand Jury Report On The Upward Trajectory of Employee Costs in Cities." The Atherton City Council reviewed the report and approved this response at its regular City Council meeting on August 19, 2009. Pursuant to California Penal Code sections 933 et seq., the Town responds to the findings and recommendations as follows:

The Town agrees with the 9 findings set out in the report with the following additional comments or exceptions:

Finding 1(a): The Town has the lowest retirement formula combination of all San Mateo County Cities at 3% @ 50 and Single Highest Year (Safety) and 2% @ 55 and Highest 36 Month Average (Miscellaneous).

Finding 1(b): The Town only offers retiree and dependent medical benefits as post employment benefits.

Finding 1(d): The Town does not cover unused sick days to cash at termination or retirement.

Finding 1(e): The Town does not automatically increase step categories annually to reflect cost of living increases (COLA).

Finding 2(a): The Town does not assume that people in the private sector are not qualified for public sector jobs. The Town actively recruits in the private sector.

Finding 2(b): The Town contracts out fire services, planning, information technology, vehicle maintenance, and code enforcement. Table 8 shows Atherton staff as 51, the correct figure is 48.35 as of July 1, 2009.

Finding 3(a): There is no conflict of interest when Council Members set employee compensation and benefits. Town Council Members serve without compensation or benefits. Furthermore, negotiations of the City Manager contract do not track union agreements. The Town does not agree with the Grand Jury's conclusion that having the City Council set compensation and benefits is a conflict of interest. City Council members are elected by residents of the Town to represent the residents and are charged by law to carry out this responsibility. Unions are only one of many sources of political contributions. The City Council is keenly aware of the importance the Town residents place on their funds.

Finding 3(b): The Town holds a public discussion prior to City Council approval of all Memorandums of Understanding (MOU). A Staff Report is provided that describes the fiscal impacts of decisions and includes a copy of the proposed MOU and resolution.

The Town's response to the Grand Jury's recommendations is as follows:

The Grand Jury report will be a helpful document moving forward; however, the Town will not implement recommendations 1 or 2 because the recommendations are not warranted or reasonable.

In a small town the size of Atherton citizens are in close touch with their elected officials. The Town holds extensive hearings on its budget each year. The City Council and Town management are mindful of the need to reduce costs and have a mechanism in place that works towards cost reduction. The Council believes that elected representatives should make compensation and benefit decisions.

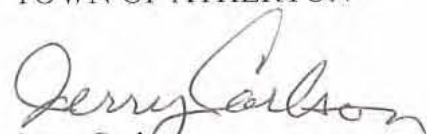
The Town shares the Grand Jury's concerns about the cost of public services and appreciates the information provided in the Grand Jury report. The Town is working with other San Mateo County cities to address these issues. In 2008, the Town joined the Municipal Employee Relations Committee (MERC) to work with other San Mateo County cities to identify and develop information that will assist the Town in its understanding of the changes that are occurring relative to employee costs and recruitment. A more detailed discussion of that program has been forwarded to the Grand Jury by the San Mateo County City Managers Association and Human Resources Association.

If you have any questions please feel free to contact the Town of Atherton.

Thank you.

Sincerely,

TOWN OF ATHERTON



Jerry Carlson  
Mayor





TOWN OF COLMA

1198 El Camino Real • Colma, California • 94014-3212  
Tel 650-997-8300 • Fax 650-997-8308

City Council

August 20, 2009

Joanne F. del Rosario  
Mayor

Joseph Silva  
Vice Mayor

Diana Colvin  
Council Member

Helen Fisicaro  
Council Member

Rae P. Gonzalez  
Council Member

Hon. George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center; 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

Dear Judge Miram:

Please accept this as the Town of Colma's formal response to the June 4, 2009 letter from the Superior Court transmitting a report from the Civil Grand Jury entitled Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County.

City Officials

Laura Allen  
City Manager

Robert L. Lotti  
Chief of Police

Roger Peters  
City Attorney

Richard Mao  
City Engineer

Andrea Ouse  
City Planner

Brian Dossay  
Director of Recreation  
Services

Lori Burns  
Human Resources Manager

The Town has reviewed the Grand Jury comments and I offer these responses on behalf of the City Council and the Town of Colma as the Mayor:

**Recommendation #1:** Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to:

- Creating a two-tiered system for retirement and healthcare benefits for new hires
- Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tiered system for new employees
- Initiating competitive hiring practices
- Reducing need for Staff
- Increasing Public Involvement
- Involving Taxpayers

The session should result in a Wage, Benefit and City-Staffing Action Plan.

Response:

This recommendation has been partially implemented. The Council held two Study Sessions in 2008 to discuss retirement health benefits, and a Study Session in March of 2009 to initiate a Long Range Financial Planning process. The Town's Memorandum of Understanding with the Peace Officers Association (the Town's largest bargaining unit) contains a second medical benefit tier and eliminated retiree dental for Police Officers and Sergeants hired after June 1, 2008. At the end of each labor negotiations, the draft MOU is submitted to the Council for consideration at a public meeting. The draft agreement is attached to the staff report and distributed to members of the public who have requested copies of the Town's agenda packets. Multiple copies of the full agenda packet are also available at each Council meeting.

The Town has a long history of contracting with private firms for the provision of services. The Town's Planning and Public Works Departments are primarily staffed with contract employees. The Town contracts for landscaping, janitorial, and records management services. The Town has had a contract City Attorney for over 10 years. As a result, employee salaries and benefits represent 53% of the Town's General Fund operating budget (FY 2009-10 Adopted Budget) rather than the 70% cited on page 1 of the Grand Jury's report.

The Town also works with neighboring jurisdictions to jointly provide services. The Town contracts with the City of South San Francisco for street light maintenance, and a portion of our dispatch services.

The Council supports, and staff actively engages in continuous process improvement. Staff has been actively streamlining business processes with an emphasis on using technology to reduce costs for over a year now. One aspect of this effort is a redesign of the Town's website, which is expected to be launched in the next month or so.

Some of the Grand Jury's recommendations cannot be implemented because they are inconsistent with state law; other recommendations are challenging because they pose significant legal risk to the Town. Also, the Grand Jury's recommendations do not take into consideration the vast differences among the cities in the County. Staff disagrees with the Grand Jury's "one size fits all" approach because it ignores Colma's uniqueness.

**Recommendation #2:** Create a Citizen "Wage, Benefit and City Staffing" Task Force consisting of five to seven members drawn by lottery from resident applicants, charged with:

- A. Attending the session(s) convened per Recommendation One.
- B. Creating and reviewing the Wage, Benefit and City –Staffing Action Plan (Action Plan) that is produced by the Task Force from this session.
- C. If not satisfied with the Action Plan, recommending ballot measures, in consultation with the City Attorney, for the City Council to sponsor at the next regularly scheduled election

Response:

This recommendation will not be implemented because it is unwarranted at this time. The recommendation creates a hardship for a small community of 1,600 residents. The Town has no boards or commissions, preferring to vest that responsibility in its elected City Council. The Grand Jury may not have considered the additional cost associated with convening, and providing staff support to a Task Force. The City Council cannot agree to expend funds toward a separate Task Force given the Town's current financial constraints.

Also, this recommendation appears to be predicated on the assumption that the Council is unable to make informed decisions with regard to employee compensation. We




respectfully disagree with this assessment. In fact, our Council held two Study Sessions in 2008 to discuss retirement health benefits, and a Study Session in March of 2009 to initiate a Long Range Financial Planning process. Clearly we are well aware of the issue and have been taking steps to address it for some time.

In addition, the Grand Jury recommendation is contrary to the current democratic form of government where the citizens elect representatives who are entrusted to make policy decisions that guide the Town. The City Council, therefore, cannot support such a recommendation at this time.

Finally, I wanted to mention the Grand Jury report contains some inaccurate data regarding the Town. The report indicates there are 1,197 residents when the number is approximately 1,600. Also, Table 8 shows the Town having 45 employees, not including part-time positions. The 45 employee number includes part-time positions.

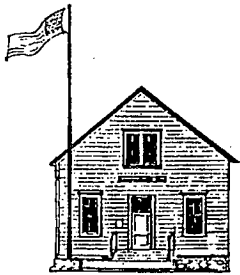
Thank you for the opportunity to respond to the report on this important topic. If you have any questions or need additional information please contact City Manager Laura Allen at 650-997-8318 or [laura.allen@colma.ca.gov](mailto:laura.allen@colma.ca.gov).

Sincerely,

  
Joanne F. del Rosario  
Mayor

Cc: City Council  
City Attorney  
City Manager

Approved at August 19, 2009 Board meeting.



The Town of  
Woodside

July 29, 2009

The Honorable George A. Miram  
Judge of the Superior Court  
Hall of Justice  
400 County Center, 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655

**RE: 2008-09 GRAND JURY REPORT - REVERSING THE UPWARD TRAJECTORY OF  
EMPLOYEE COSTS IN THE CITIES OF SAN MATEO COUNTY**

Dear Judge Miram:

The Town Council of the Town of Woodside reviewed the referenced Grand Jury Report during its meeting of July 28, 2009. On behalf of the Town Council, I would like to offer the following.

The Grand Jury Report includes four primary findings. Our response to these findings is:

**Finding 1:** "Eighteen cities forecast that employee costs will increase by at least 4% per year over the next five years, even as revenues decline."

**Response:** The Town of Woodside is not one of these eighteen cities. The Town's financial projections indicate that employee costs will increase by no more than 3% per year, while revenues will increase between 2.3% to 4.7% per year. This finding does not apply to the Town of Woodside.

**Finding 2:** "Approximately 70% of general fund budget expenses in most full-service San Mateo cities are spent on employee salary and compensation packages because cities are primarily providers of services."

**Response:** The Town of Woodside expends approximately 47% of its General Fund budget on employee salary and compensation packages. The Town contracts out for police services, relies on an independent special fire district for fire suppression services, and utilizes private contractors to provide many of its day-to-day services, including janitorial, landscape and field maintenance, plan checking, building inspection, planning, and engineering services. This finding does not apply to the Town of Woodside.

**Finding 3:** "The opportunity for significantly increasing revenues is limited to increasing taxes and fees."

**Response:** The Town of Woodside agrees with this finding.

P.O. Box 620005  
2955 Woodside Road  
Woodside, CA 94062

650-851-6790  
Fax: 650-851-2195

**Finding 4:** “Controlling employee costs, from a long and short-term perspective, is the only meaningful way chronic deficits can be overcome.”

**Response:** This finding does not apply to the Town of Woodside. The Town has enjoyed many years of fiscal stability and is projecting continued fiscal stability in its current five-year General Fund forecast, which anticipates budget surpluses ranging from \$174,000 to \$252,000. Employee costs are less than half the expenses supported by the General Fund. Managing all expenses across-the-board has been the Town’s successful emphasis.

The Grand Jury Report includes two major recommendations, and six subsidiary points concerning the second recommendation. The two major recommendations are:

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in the Grand Jury Report, and this session should result in a “Wage, Benefit and City-Staffing Action Plan.”
2. Create a Citizen “Wage and Benefit and City Staffing” Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with: (a) attending the session convened per Recommendation One; (b) Creating and reviewing the “Wage, Benefit and City-Staffing Action Plan” that is produced by the Task Force; and (c) if not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, For the city council to sponsor at the next regularly scheduled election.

The “Action Plan” included in the second recommendation should include the following six subsidiary points:

1. Creating a two-tier system retirement and health care benefits system for new hires.
2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees.
3. Initiating competitive hiring practices.
4. Reducing need for Staff.
5. Increasing Public Involvement.
6. Involving Taxpayers.

The Town of Woodside will not be implementing either of the two recommendations. The findings in the 2009 Grand Jury Report do not apply to the Town and the report itself has limited applicability to the Town. In short and in partial repetition of foregoing points, the Town of Woodside:

- Is in solid financial position, with healthy General Fund reserves projected over the course of the next five years.
- Is anticipating annual General Fund budget surpluses in the range of \$174,000 to \$252,000 during the next five-year period.
- Will spend between 46.3% and 47.7% of its total General Fund budget on salaries and benefits during that same period.
- Has no union contracts and can react quickly to modify its Personnel Policies and practices should the need arise.

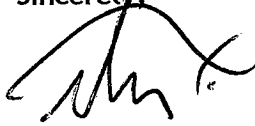
- Utilizes the services of private service providers for many functions, including but not limited to janitorial, field maintenance, landscape maintenance, plan checking, building inspection, planning, and engineering services.
- Has no public safety personnel, utilizing a contract with the San Mateo County Sheriff for the provision of police services and benefitting from the independent Woodside Fire Protection District for fire services.
- Has no “political barriers-to-change” because there are no unions, no negotiations, and no compensation paid to the elected officials of the Town.

We would like to point out an error in Table 5 of the report. This table indicates that the Town has 47 eligible employees and 34 eligible retirees for “Other Post Employment Benefits.” The Town actually has twenty and one, respectively. The table utilizes the data from the Woodside Fire Protection District and attributes it to the Town in error.

The Town greatly appreciates the efforts of the Grand Jury. On behalf of the Town Council, I would like to extend our thanks for an opportunity to respond to the work of the 2008-09 Grand Jury. The Town is in a unique position to respond quickly to sudden financial changes of fortune and, if such a change should be predicted for the future, we may consider the Grand Jury’s recommendations at that time. We also may consider adopting a two-tier retirement benefit system if such schemes become the norm in the Bay Area.

Please do not hesitate to call our Town Manager, Susan George, at (650) 851-6790, should you require any further information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Mason', with a large, sweeping flourish extending to the right.

Peter Mason  
Mayor