



TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

(408) 354-6832
FAX: (408) 399-5786

FILED

AUG 30 2010

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

August 27, 2010

Honorable Jamie Jacobs-May
Presiding Judge
Superior Court of Santa Clara County
Santa Clara County Civil Grand Jury
191 North First Street
San Jose, CA 95113

Subject: Response to 2009-2010 Civil Grand Jury Final Report - Cities Must Rein in Unsustainable Employee Costs

Dear Judge Jacobs-May:

On behalf of the Town of Los Gatos Town Council, I am providing this formal response to the 2009-2010 Santa Clara County Civil Grand Jury's Report, "Cities Must Rein in Unsustainable Employee Costs." The attached response was authorized in a public Town Council meeting on August 18, 2010.

The Town of Los Gatos shares the concerns of the Santa Clara County Grand Jury to reduce employee costs for the future. As such, the Town had already enacted many cost-containment initiatives, including many contained in the report. In addition, further efforts have been underway to explore strategies to reduce escalating costs.

As many of the Grand Jury's recommendations are covered as mandatory subjects of bargaining pursuant to collective bargaining laws, the Town is initiating the discussion of the Grand Jury recommendations through the negotiation process. The recommendations scheduled for discussion in the bargaining process are noted in the Town's response under the category "Requires Further Analysis."

The Town of Los Gatos is committed to maintaining fiscal stability and appreciates the Civil Service Report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Greg Larson".

GREG LARSON
Town Manager

Santa Clara County Grand Jury Report: Cities Must Rein in Unsustainable Employee Costs
Town of Los Gatos Response
August 27, 2010

FINDING

1. The cost of total compensation for employees has grown substantially in the past decade and now threaten the cities' fiscal stability.	
Agree	Disagree Wholly or In Part
Los Gatos	

RECOMMENDATION

1. All of the cities in the County need to implement measures that will control employee costs. As a starting point, each city should determine the percentage of savings required from the total compensation package to reach budget stability, and provide choices of wages and benefits in collective bargaining sessions for the unions to choose to achieve that percentage goal.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

FINDING

2. Salary and wage increases do not reflect changes in economic conditions; e.g. even with minimal inflation, yearly COLAs are granted with little bearing on the actual increase in cost of living or market conditions.	
Agree	Disagree Wholly or In Part
	Los Gatos - Disagree in part. Los Gatos has imposed wage freezes, furloughs and renegotiated contracts in response to economic conditions.

RECOMMENDATION

2. Cities should not increase salaries and wages that are not supported by planned revenue increases. Cities should tie COLA increases to clear indicators and retain the ability to adjust or withhold based on current economic data.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

FINDING

3. Step increases are arbitrary and do not adequately represent an employee's added value to a city. Combined with COLAs, new employees' wages increase quickly and are not necessarily reflective of improved knowledge and skills.	
Agree	Disagree Wholly or In Part
	Los Gatos - Disagree in part. Step increases in Los Gatos are awarded on the basis of performance and are not arbitrary or automatic.

RECOMMENDATION

3. Cities should negotiate step progressions from the current three and a half years to seven years. Employees should not receive COLA increases while in step progression.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

Santa Clara County Grand Jury Report: Cities Must Reign in Unsustainable Employee Costs

Town of Los Gatos Response

August 27, 2010 Page 2

FINDING

4. Medical Insurance costs for active employees are growing year after year at rates that exceed most cities' revenue growth, while the employee contribution to medical care is minimal.	
Agree	Disagree Wholly or In Part
Los Gatos	

RECOMMENDATION

4A. Split monthly premiums between the city and the employee and increase the employee's share, if already cost splitting, and remove any employee caps.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	
4B. Establish reasonable co-pays for doctors' visits, prescription drugs, and in-patient and out-patient hospital care.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	
4C. Prohibit an employee from being covered by both city-provided medical benefits and as a dependent of another city employee.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
Los Gatos - This is prohibited in the CalPERS medical plan adopted by Los Gatos.			
4D. Reduce cash-in-lieu payments.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
Los Gatos - Negotiated a lower tier to reduce cash-in-lieu payments.		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	
4E. Introduce a new lower premium, high deductible medical plan.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

Santa Clara County Grand Jury Report: Cities Must Reign in Unsustainable Employee Costs

Town of Los Gatos Response

August 27, 2010 Page 3

FINDING

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

Agree	Disagree Wholly or In Part
Los Gatos	

RECOMMENDATION

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

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

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

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

5-c To provide a meaningful, long-term solution, the cities should negotiate agreements to:
 1. Institute a two-tier system for pension and retiree health care for new hires.
 2. Increase the retirement age from 50 or 55 to 60 or 65.
 3. Calculate pensions on the last three to five years of salary.
 4. Replace current post-employment health care plans with health savings plans.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

Santa Clara County Grand Jury Report: Cities Must Reign in Unsustainable Employee Costs

Town of Los Gatos Response

August 27, 2010 Page 4

FINDING

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

RECOMMENDATION

6a Cities should renegotiate with the bargaining units to: <ol style="list-style-type: none"> 1. Reduce vacation time. 2. Reduce the number of holidays and/or personal days. 3. Cap sick leave and eliminate the practice of converting accumulated sick leave to cash or adding into their years of service for inclusion in their retirement benefit. 			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	
6b Cities should negotiate to substitute paid days off for unpaid days instead of imposing furloughs. For example, reduce paid holidays to major holidays only, consistent with private industry; and convert minor holidays to unpaid. Therefore, the public is not impacted by fewer services caused by furloughs, and the city saves the employee cost.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

FINDING

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

RECOMMENDATION

7a Cities should research competitive hiring practices and alter the approach to determine fair wages and benefits for each city by using public and private sector data.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	
7b Cities should renegotiate salaries and wages using valid market comparisons and not only the current wage index. Cities should utilize more market-oriented compensation practices so that salaries can adjust as competition for labor changes.			
Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	

Santa Clara County Grand Jury Report: Cities Must Reign in Unsustainable Employee Costs

Town of Los Gatos Response

August 27, 2010 Page 5

FINDING

<p>8. All cities perform certain core functions to run smoothly and provide services to their residents. To reduce employee costs and streamline operations, the cities are in various stages of contracting services to private industry or partnering with other cities, special districts or the County to deliver services.</p>	
<p>Agree</p>	<p>Disagree Wholly or disagree In Part</p>
<p>Los Gatos</p>	

RECOMMENDATION

<p>8a Cities should explore outsourcing some functions and services to private industry. Cities should discuss the prospect with cities that are successfully doing this to determine best practices and areas for success. Cities should develop contracts with measurable objectives, performance goals, and timelines.</p>			
<p>Implemented</p>	<p>Not Yet But In Future</p>	<p>Requires Further Analysis</p>	<p>Will Not Be Implemented</p>
<p>Los Gatos - Successfully implemented many private contracts for services. Contracts include measurable objectives, goals and timelines.</p>			
<p>8b Cities should create partnerships with other cities, special districts and/or the County for services, such as payroll, human resources, animal control, police and fire. Cities should investigate sharing the cost of new information technology systems.</p>			
<p>Implemented</p>	<p>Not Yet But In Future</p>	<p>Requires Further Analysis</p>	<p>Will Not Be Implemented</p>
<p>Los Gatos - Successfully contracts with other agencies for services such as Fire, recreation programs, animal control, and sewers. Los Gatos is also a service provider to other agencies such as providing Police services to a neighboring city. The Town is conducting studies to broaden sharing opportunities.</p>			

Santa Clara County Grand Jury Report: Cities Must Reign in Unsustainable Employee Costs

Town of Los Gatos Response

August 27, 2010 Page 6

FINDING

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

Agree	Disagree Wholly or In Part
-------	----------------------------

Los Gatos	
------------------	--

RECOMMENDATION

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

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
-------------	-----------------------	---------------------------	-------------------------

Los Gatos - Implemented position freezes, conducted job studies, and evaluated options to re-assign, combine and eliminate job functions.			
---	--	--	--

Finding 10: Does not apply to Los Gatos

FINDING

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

Agree	Disagree Wholly or In Part
-------	----------------------------

Los Gatos	
------------------	--

RECOMMENDATION

11. Cities should consider: 1) holding well-publicized public hearings about the cities' goals of negotiations before negotiations begin, and; 2) again at the end of negotiations to report to citizens clearly what changes have been made in contracts.

Implemented	Not Yet But In Future	Requires Further Analysis	Will Not Be Implemented
-------------	-----------------------	---------------------------	-------------------------

		Los Gatos - Will analyze in conjunction with negotiations in Fall 2010.	
--	--	--	--

Santa Clara County Grand Jury Report: Cities Must Reign in Unsustainable Employee Costs
Town of Los Gatos Response
August 27, 2010 Page 7

FINDING

<p>12. Current contracts were negotiated in good faith by representatives of the cities and the bargaining units; they were approved by the city councils. Promises made to employees were made by elected officials, past and present. Responsibility for formulating and approving solutions to restore the cities' financial stability resides squarely with our elected officials. The economic downturn has placed additional pressure on the situation.</p>	
<p>Agree</p>	<p>Disagree Wholly or In Part</p>
<p>Los Gatos</p>	

RECOMMENDATION

<p>12a City council members and mayors should become better informed about the fiscal realities of their cities, long-term costs and commitments, and be cognizant of potential issues in labor agreements.</p>			
<p>Implemented</p>	<p>Not Yet But In Future</p>	<p>Requires Further Analysis</p>	<p>Will Not Be Implemented</p>
<p>Los Gatos - The Town Council and Mayor are well informed and cognizant of labor agreements.</p>			
<p>12b City councils and mayors should direct city administrators to (re)negotiate collective bargaining agreements that reverse the escalation of employee costs through concessions, cost sharing, and a second tier for new employees.</p>			
<p>Implemented</p>	<p>Not Yet But In Future</p>	<p>Requires Further Analysis</p>	<p>Will Not Be Implemented</p>
	<p>Los Gatos - The Town Council and Mayor will provide direction in conjunction with negotiations in Fall 2010.</p>		
<p>12c City councils and mayors should meet with the bargaining units to clearly outline the cities' financial health and show how employee costs are impacting the budget.</p>			
<p>Implemented</p>	<p>Not Yet But In Future</p>	<p>Requires Further Analysis</p>	<p>Will Not Be Implemented</p>
<p>Los Gatos - The Town Council has and continues to address the Town's financial health and employee costs in study sessions and in public hearings</p>			
<p>12d City councils and mayors should inform citizens of their plans for controlling unsustainable employee costs and remove politics from the equation.</p>			
<p>Implemented</p>	<p>Not Yet But In Future</p>	<p>Requires Further Analysis</p>	<p>Will Not Be Implemented</p>
<p>Los Gatos - This is practiced in Los Gatos through the budget adoption process.</p>			