



**CITY OF CAMPBELL**

Mayor's Office

**FILED**

AUG 30 2010

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

August 19, 2010

Honorable Jamie Jacobs-May  
Presiding Judge  
Santa Clara Superior Court  
191 North First Street  
San Jose CA 95113

Dear Judge Jacobs-May,

I am writing to you on behalf of the Campbell City Council which approved the attached response to the Civil Grand Jury's report, *Cities Must Rein in Unsustainable Employee Costs*, at our August 3, 2010 meeting. We hope you find our response helpful.

The City of Campbell agrees with the Grand Jury's findings on many of the broad issues that affect municipal operating costs and, in fact, has either already implemented many of these recommendations or is currently in process of trying to implement cost savings measures. In fact, the night our response was approved, the Council also approved contracts with concessions from employee groups and the establishment of a two-tier pension system. The issues raised in the report are complex and difficult, constrained in many ways by state laws and past practices. Most of the recommendations are subject to legally-required collective bargaining. Be assured that the City of Campbell is committed to working on these issues in order to maintain long-term fiscal sustainability.

In addition to the individual city responses, it is my understanding that the Santa Clara County City Managers Association, representing all of the cities within the County, is working on a joint policy paper related to many of the issues raised in the Grand Jury report (beyond the pension issue, which has already been addressed).

Please feel free to contact me or City Manager Dan Rich, at 408-866-2125 if you have any questions or need additional information.

Regards,

Evan D. Low  
Mayor

cc: Councilmembers  
City Manager

Attachment: City Response

## **City of Campbell Response to Finding/Recommendations:**

### **Finding 1:**

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

**Response:** *The City of Campbell agrees with the finding.*

### **Recommendation 1:**

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

**Response:** *The recommendation requires further analysis. The City agrees that all cities need to implement measures that will control employee costs, but the recommendation is overly simplistic and formulistic. While employee compensation is a significant portion of the City's budget, any budget balancing strategy needs to look at all expenses as well as all revenue options. In addition, total compensation is made up of many components and the high cost of health care, for example, is a national issue not limited to public sector employers. Campbell's level of total compensation is generally below average.*

### **Finding 2:**

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

**Response:** *The City of Campbell agrees in part and disagrees in part with the finding. Salary and wage increases reflect a number of factors, with market comparability being a critical one. For example, if Campbell's total compensation is 6% below average and inflation is 3%, an increase greater than inflation might be agreed to (if resources are available to fund it). In reality, Campbell employees are generally below market and have at times taken a zero wage increase, given back agreed to increases and taken furloughs (a loss of wages).*

### **Recommendation 2:**

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

**Response:** *The recommendation has been implemented. Campbell gives wage increases consistent with multi-year budget projections.*

### **Finding 3:**

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

**Response:** *The City of Campbell agrees with the finding.*

**Recommendation 3:**

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

*Response: The recommendation requires further analysis. As part of future negotiations, the City will discuss the issue of step increases, including their relationships to COLA's, with employee groups.*

**Finding 4:**

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

*Response: The City of Campbell agrees with the finding.*

**Recommendation 4:**

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

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

*Response: The recommendation requires further analysis. The City agrees conceptually that employer paid medical expenses need to be contained; the method in which to accomplish that objective will be evaluated further prior to the City's next negotiations process with the City's employee associations. During future negotiations, the City will negotiate in good faith to control health care costs. It should be noted, however, the excessive increases in health care costs is a national issue not limited to public-sector employers.*

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

*Response: The recommendation requires further analysis. The City agrees conceptually that employer paid medical expenses need to be reduced, the method in which to accomplish that objective will be evaluated further prior to the City's next formal negotiation process with the City's employee associations. During future negotiations with the employee associations, the City will negotiate in good faith collaboratively to reduce City-paid health care cost. Co-pays are set by the health care plans of which the City has limited control over.*

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

*Response: The recommendation requires further analysis. The City provides health care coverage through CalPERS PEHMCA, which currently prohibits dual coverage within the PEHMCA system.*

- D. Reduce cash-in-lieu payments.

*Response: The City agrees that reducing cash in-lieu payments is one method of reducing costs; in fact, cash in-lieu payments were limited in the past. Whether this is the best method for the City will be further evaluated*

prior to the City's next negotiations process. During future negotiations with employee associations, the City will negotiate in good faith to limit the amount of cash in-lieu payments.

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

*Response: The recommendation requires further analysis. The City agrees conceptually that it would be beneficial to have a lower premium plan. However, the plans available to the City are dictated by CalPERS. Should such a plan be available, the City would offer it.*

**Finding 5:**

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

*Response: The City of Campbell agrees with the finding.*

**Recommendation 5a:**

Cities should:

1) Renegotiate and make provisions for increasing the employees' contribution for current pension plans.

*Response: The recommendation has not yet been implemented, but will be implemented in the future. As part of future negotiations, the issue of the employer share of pension costs will be discussed.*

2) Renegotiate to stop paying the employees' contribution amount to pension plans.

*Response: The recommendation has been implemented. The City of Campbell does not pay any of the employees' contribution to pension plans.*

3) Renegotiate to implement a contribution amount for employees to OPEB; this contribution should provide for a reasonable split of costs between a city and the employee for retiree medical and dental benefits.

*Response: The recommendation has been implemented. The City of Campbell pays a relatively small portion of retiree medical costs, up to a maximum dollar amount of \$325 per month, on a reimbursement basis only.*

**Recommendation 5b:**

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

*Response: The recommendation has been implemented. The City of Campbell has thoroughly investigated reduced pension formula options, has received actuarial valuations on them from CalPERS and has actively negotiated with its employee groups on the issue.*

**Recommendation 5c:**

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

- 1) Institute a two-tier system for pension and retiree health care for new hires.

**Response:** *The City of Campbell has successfully negotiated a two-tier pension system with the Campbell Police Officers Association and negotiations with the City's Miscellaneous groups are currently underway.*

- 2) Increase the retirement age from 50 or 55 to 60 or 65.

**Response:** *The recommendation requires further analysis. The City of Campbell has negotiated a lower-cost two-tier retirement plan for Police Officers whose formula is 2% @ 50, which was in place prior to the current 3% @ 50 formula. The City is in the process of negotiating with Miscellaneous employees for a plan that would increase the retirement age to 60.*

- 3) Calculate pensions on the last three to five years of salary.

**Response:** *The recommendation will not be implemented because it is not warranted or is not reasonable; it was determined not to be the best option for the City to pursue. In the City of Campbell, Miscellaneous employees already have a "highest three year" formula. When investigating a two-tier system for Safety employees, the City was able to save more money by maintaining "single highest year" but having the group give up the Post-Retirement Survivor Allowance. This was also evaluated in the context of also being able to implement a 2% @ 50 retirement tier. We believe the ultimate outcome was the best for the City of Campbell.*

- 4) Replace current post-employment health care plans with health savings plans.

**Response:** *The recommendation requires further analysis. The City of Campbell already limits its exposure to OPEB by having a \$325 per month benefit reimbursement maximum. However, the City will explore this option, including the costs and benefits prior to the next round of contract negotiations with represented groups.*

#### **Finding 6:**

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

**Response:** *The City of Campbell disagrees in part. Each City sets its own policies and benefit packages. The City of Campbell's is comparable to those of other agencies in the County, which is important for recruiting and retaining employees. The City of Campbell allows no conversion of vacation. The City allows a percentage of sick leave payout based on years of service. Upon retirement, conversion of sick leave is allowed to purchase service credit through CalPERS.*

#### **Recommendation 6a:**

Cities should renegotiate with the bargaining units to 1) reduce vacation time; 2) reduce the number of holidays and/or personal days; 3) cap sick leave and eliminate the practice of converting accumulated sick leave to cash or adding into their years of service for inclusion in their retirement benefit.

**Response:** *The recommendation requires further analysis. As with all items provided for in the City's Memorandum of Understanding with employee associations, the City will review the various leave policies and negotiate in good faith changes with the respective employee association(s) at that time.*

**Recommendation 6b:**

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

**Response:** *The recommendation will not be implemented because it is not warranted or is not reasonable. Only two of the seven furlough days imposed in Campbell will result in additional closure days of City Hall. The City believes it is appropriate for the public to understand there are service level implications to budget reductions.*

**Finding 7:**

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

**Response:** *The City of Campbell disagrees in part with the finding. While the City traditionally has based compensation on comparisons with similar public sector positions, there is not "major resistance" on the part of management to include comparisons to the private sector. The classifications compared to must be negotiated and agreed to by both the City and the bargaining units. Any private sector comparisons have to be true "apples to apples" including total compensation and may not be possible for all job classifications, such as public safety. In addition, the current system has not, de facto, led to "artificially high and out of synch" wages and benefits compared to the private sector. For many professional positions, similar jobs in the private sector would have higher compensation. In fact, a study by the Center for State and Local Government Excellence and the National Institute on Retirement Security, using data from the US Bureau of Labor Statistics, found that wages and salaries of local employees are typically 12% less than similar private sector employees, and the gap has grown in the past 15 years. "The picture is clear. In an apples-to-apples comparison, state and local government employees receive less compensation than their private sector counterparts," according to Professor Keith Bender of the University of Wisconsin-Milwaukee, coauthor of the study.*

**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.

**Response:** *The recommendation requires further analysis. For those classifications that have comparable counterparts in the private sector, total compensation data analysis would be a useful tool. The City will raise this issue with labor groups in future negotiations.*

**Recommendation 7b:**

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

*Response: The recommendation has been implemented. The City uses market comparisons as the primary factor in negotiating wage agreements. Due to limited resources, many classifications in the City are below the comparable market average.*

**Finding 8:**

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

*Response: The City of Campbell agrees with the finding.*

**Recommendation 8a:**

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

*Response: This recommendation has been implemented and the City will continue to explore opportunities to outsource where there are financial and operation advantages. The City currently outsources several services to private contractors, such as:*

- *Janitorial Services*
- *Street Sweeping*
- *Specialized Legal and Engineering Services*
- *Major Road Repairs*
- *Theatre Management*

**Recommendation 8b:**

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

*Response: This recommendation has been implemented and the City will continue to explore opportunities to partner with other agencies where there are financial and operation advantages. The City currently partners with other jurisdictions on the following services:*

- *Fire Service*
- *Solid Waste*
- *Animal Control*
- *Information Technology*

**Finding 9:**

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

**Response:** *The City of Campbell agrees with the finding.*

**Recommendation 9:**

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

**Response:** *This recommendation has been implemented. Over the past seven years, the City has reduced staffing by approximately 15%. Departments have been reorganized, sworn officer positions have been replaced by lower cost civilians, and processes are constantly being evaluated to achieve greater efficiency.*

**Finding 10:**

N/A

**Finding 11:**

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

**Response:** *The City of Campbell agrees with the finding.*

**Recommendation 11:**

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

**Response:** *The recommendation will not be implemented because it is not warranted or is not reasonable. The City of Campbell, along with all cities, holds publicly noticed meetings all year long. Meeting agendas and minutes are posted on the web and meetings are now webcast. The specifics of any contract negotiated are posted on our website in advance of any final Council action. The public had ample opportunities to weigh in on issues of concern at any given meeting. One of the many public discussions of a city's budget is a particularly good time for residents to express any general concerns about labor costs.*

**Finding 12:**

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

**Response:** *The City of Campbell agrees with the finding in part and disagrees in part. Specifically, the City objects to the inference of "promises made to employees were made by elected officials, past and present."*

**Recommendation 12a:**

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

*Response: The recommendation has been implemented. The Council has numerous meetings devoted to the budget and cost implications of labor negotiations.*

**Recommendation 12b:**

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

*Response: The recommendation has been implemented. In FY 10, all labor groups "gave back" agreed-to and binding wage increases. In FY 11, all groups accepted a furlough, reducing wages. In addition, a second tier retirement formula has been agreed to by the Police Officers Association and the Campbell Municipal Employees Association.*

**Recommendation 12c:**

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

*Response: The recommendation will not be implemented because it is not warranted or is not reasonable. The City Council is the policy-setting body and appoints the City Manager to administer the operations of the City and manage all personnel matters. It is not appropriate for Council to meet directly with bargaining units.*

**Recommendation 12d:**

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

*Response: The recommendation has been implemented. The City of Campbell has done extensive outreach over the past three years to discuss fiscal issues with the community, to get input and to share recommended budget correction strategies, including efforts to reduce labor costs.*

**Finding 13:**

N/A