



CITY OF MOUNTAIN VIEW

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HONORABLE JAMIE JACOBS-MAY—PRESIDING JUDGE
SANTA CLARA COUNTY SUPERIOR COURT
191 NORTH FIRST STREET
SAN JOSE CA 95113

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

Dear Judge Jacobs-May:

This letter transmits the City's response to the findings and recommendations contained in the 2009-2010 Santa Clara County Civil Grand Jury's Final Report titled, "Cities Must Rein In Unsustainable Employee Costs."

On behalf of the City of Mountain View and the Mountain View City Council, I would like to acknowledge the work of the Grand Jury and ensure the jurors that the City Council and City staff take the responsibility for sound fiscal policy seriously.

I am pleased to report that the City has a structurally balanced budget and that this achievement was, in part, the result of a fiscal policy and strategy that is consistent with many of the recommendations contained in the Grand Jury's report. The City Council has been proactive with ongoing discussions about strategies to maintain a balanced budget, and these discussions will now also consider the Grand Jury's recommendations.

Please find enclosed the City's response to the Grand Jury's report, which was approved for transmittal by the City Council. The City appreciates the opportunity to respond to the Grand Jury's report and commends the work of the Grand Jury members.

Sincerely,



Kevin C. Duggan
City Manager

KCD/MB/7/MGR
612-08-19-10L-E^

Enclosure

**CITY OF MOUNTAIN VIEW RESPONSE TO THE
FINDINGS AND RECOMMENDATIONS OF THE
2009-10 SANTA CLARA COUNTY CIVIL GRAND JURY REPORT,
"CITIES MUST REIN-IN UNSUSTAINABLE EMPLOYEE COSTS"**

Finding 1

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

The City agrees with this finding.

The City of Mountain View agrees that the costs of total compensation have grown substantially and must be managed for cities to achieve or maintain fiscal sustainability. While the City has achieved a structurally balanced budget through a number of strategies, including working with employee organizations to reduce cost growth, cost-containment efforts must continue in cooperation with employees. Challenges to control compensation costs still exist, but the City believes it can maintain a structurally balanced budget through its comprehensive efforts in managing cost growth while continuing economic development and service cost recovery efforts.

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.

The recommendation has been implemented.

The City takes its responsibility for ensuring fiscal responsibility seriously, and the City Council has been proactive in implementing measures that control employee costs. An example of one measure includes negotiating the unique practice of employees cost-sharing the City's rate for pension benefits, which was implemented for safety employees more than 10 years ago, and has since been agreed to with all employee organizations. The City's current financial condition is likely more sound based on its policies and actions. The City has achieved a structurally balanced budget this fiscal year through a multi-prong approach that included reductions in personnel costs. Employees agreed to cost-containment measures that contributed to the City's structurally balanced budget, and the City will continue to fulfill its obligations to "meet-and-confer" in good faith while keeping the City's budget financially sustainable.

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.

The City disagrees partially with the finding.

Cost-of-living adjustments are one of several factors to consider in adjusting salary and wages. The job market in Santa Clara County has been competitive and during the past 15 years, the City had difficulty at times retaining employees due to the cost of housing, competition from the private sector and low unemployment.

There have been instances where COLA increases have been either above or below the Consumer Price Index (CPI). The City agrees that care must be taken to assure that increases adequately reflect the CPI, job market competition factors, the ability to pay and a responsible use of public resources.

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.

The recommendation is being implemented. Increases in compensation need to be more directly tied to a variety of factors, including the City's ability to pay. These factors should be part of compensation policy development and employee group negotiations. The ability to fully achieve these goals will be determined through future negotiations processes.

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.

The City disagrees partially with this finding.

The City of Mountain View respectfully disagrees that its salary plan and compensation policy is arbitrary and does not adequately represent an employee's value to the City. The salary plan provides for step increases based on increased experience and effective performance in a position. The City agrees that the combined cost impacts of COLAs and step/merit increases need to be carefully managed.

Recommendation 3

Cities should negotiate step progressions from the current 3-1/2 years to 7 years. Employees should not receive COLA increases while in step progression.

The recommendation requires further analysis. The City agrees that the combined impact of steps/merit increases can be substantial. The City also agrees that this should be the subject of further review and discussion with employee organizations. Changing the salary plan and compensation policies is a comprehensive undertaking that will require professional consultation and negotiations with employee organizations. The City is not prepared to commit to a specific method or time frame to implement potential modifications.

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.

The City agrees with this 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.
- B. Establish reasonable copays for doctors' visits, prescription drugs and in-patient and out-patient hospital care.
- C. Prohibit an employee from being covered by both city-provided medical benefits and as a dependent of another city employee.
- D. Reduce cash-in-lieu payments.
- E. Introduce a new lower premium, high-deductible medical plan.

These recommendations are being implemented. Currently, employees are responsible for a portion of medical premium costs. However, the City's cost is growing rapidly and stresses the City's fiscal balance. The City has previously negotiated health insurance cost containment provisions, but additional action is necessary. The recommendations noted are all potential ways to address this challenge. The City will be engaging

in a Request for Proposal for an insurance broker service. A part of the requested service will be assessing the City's current medical benefits and to provide recommendations to contain costs. This effort will take place in the coming fiscal year. Any changes will need to be negotiated with employee organizations over the next two years.

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 the cities are facing. The city contribution to pension plans and OPEBs far exceeds the employee contribution.

The City agrees with this finding.

Recommendation 5.a

Cities should:

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

The recommendation has been implemented. Employees fully pay the employee share of pension costs. Additionally, the City of Mountain View had agreements with its employee organizations to make additional cost-sharing contributions for enhanced retirement benefits with employees paying for a portion of the City's share of the costs. For example, the Police Officers Association cost shares up to an additional 4 percent of their salary to the 3 percent @ 50 PERS pension plan. This contribution is above and beyond the employees' contribution of 9 percent. These contributions were unique in the industry at the time they were negotiated over 10 years ago.

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

This recommendation is not warranted in the case of the City of Mountain View. As noted above, the City of Mountain View does not pay for the employees' contribution to PERS.

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.

This recommendation is being implemented. OPEB cost-saving measures are required. The City has already negotiated a number of such measures with employee organizations, such as an option for a defined contribution plan for retirees' medical coverage. Additional measures, including potential additional employee contributions, should be explored.

Recommendation 5.b

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

The recommendation is being implemented. The City of Mountain View is considering the potential of a two-tier retirement formula. This process will include a review of the Santa Clara County/Cities Managers Association Policy Statement on Retirement Benefits by the City Council and discussions with employee organizations. See Recommendation 5.c for additional comments.

Recommendation 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.

These recommendations (1 through 3) require further analysis. The City is in the process of discussing these alternatives with its employee organizations and is preparing for a Study Session with the City Council to consider a policy statement on these issues. In order to effectively assess these recommendations as meaningful, long-term solutions, it will require further analysis of actuarial assumptions. In addition, negotiating these provisions would only be possible with the expiration of labor contracts in the next one to two years.

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

This recommendation has partially been implemented. The City has negotiated the option for employees to participate in a defined contribution retirees health savings plan with most employee organizations. Additionally, modifications to

the current defined benefit program has been implemented for some categories of new employees.

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.

The City agrees with this finding.

Recommendation 6.a

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.

The recommendation has been partially implemented. This recommendation covers a variety of topics and these issues are appropriate to reexamine. What, if any, changes should come out of this reexamination are premature to conclude. The City already caps vacation accrual, and both vacation and sick leave accrual payouts. The City is very careful in examining employee organization requests for adding vacation time and holidays, and the City Council has taken a position to discuss additional potential modifications in future negotiations with employee organizations.

Recommendation 6.b

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.

This recommendation is not warranted in the case of the City of Mountain View. The City does not impose furlough days. In one instance, an employee organization negotiated two unpaid days as a cost-containment measure, which will be taken during the Christmas/New Year holiday period. Provisions exist to ensure time off for these days has minimal and no unreasonable impact to City operations and service to the community.

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.

The City disagrees partially with the finding. The City does use benchmark comparisons with other like agencies in the Bay Area. This is consistent with practices that compare like industries. Using private-sector comparisons can be problematic based on the challenge of obtaining compensation information, the challenge of matching the private sector's practice of signing bonuses, stock options, performance bonuses, etc. Also, some job classifications are not practically compared to positions in the private sector, such as Police Officers and Firefighters. Challenges also exist when comparing positions because job titles do not necessarily reflect the same minimum qualifications, job duties and required skills, knowledge and abilities. The City agrees that public-sector-only comparisons can be problematic and private-sector comparisons should be explored where feasible. The City agrees that some, but not all, positions may pay disproportionately high (or low) in comparison to the public sector.

Recommendation 7.a

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

Recommendation requires further analysis. Where feasible, market data beyond public employees should be examined for similar positions. This topic will be subject to discussions with employee organizations in future negotiations.

Recommendation 7.b

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.

The recommendation is being implemented. While the City believes it is generally following these principles, further refinement can be achieved as future negotiations are undertaken.

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.

The City agrees with the finding.

Recommendation 8.a

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 time lines.

This recommendation has been implemented. The City currently outsources some functions to private industry, such as janitorial services, some park maintenance and patrol, as well as some professional services. The City is actively reviewing opportunities for exploring outsourcing to include the possibility of contracting its golf course operations.

Recommendation 8.b

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.

This recommendation has been implemented. The City has partnerships with other cities, special districts and/or the County. An example of contracting services includes the City contracts for animal control services with the City of Palo Alto. The City also has joint partnership with the Cities of Sunnyvale and Palo Alto for solid waste and recycling disposal and with the City of Palo Alto for wastewater treatment. The City has a long-standing practice of partnering with local schools that includes sharing the cost of providing and maintaining parks and sports fields. In addition, the City is entering into an agreement with neighboring jurisdictions to procure a public safety computer-aided dispatch and police records management system. The City is always open to considering partnership opportunities.

Finding 9

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

The City agrees with this 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.

This recommendation has been implemented. The City routinely reviews its job classifications and departments perform assessments to ensure efficiencies with its work force. For example, the Police Department consolidated functions and eliminated a mid-level supervisor classification. There are a number of other examples, including work group and even departmental consolidations. Most recently, the Employee Services Department was combined with the City Manager's Office, eliminating a department head position. The City is providing more services with fewer employees than 20 years ago.

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.

The City agrees with the finding.

Recommendation 11

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

The recommendation has been partially implemented. The City agrees that there should be adequate disclosure and transparency regarding compensation issues and their financial impact. The City does not agree that there can be a "one-size-fits-all" approach to achieving this goal among all issues and agencies. The City does hold Study Sessions and public hearings for budget development. Labor agreements, including salary and benefit information, are made available to the public on-line and they are detailed in City Council meeting reports. Results of negotiations are made public and are provided to the media.

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.

The City agrees with the finding.

Recommendation 12.a

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.

This recommendation has been implemented. The City Council has a long-standing practice of staying informed about the City's financial condition. The City Council has studied detailed information on the financial condition of the City via budget workshops, Study Sessions and public hearing reports and presentations. The Council also reviews and analyzes information regarding employee cost containment and labor negotiations via Closed Sessions.

Recommendation 12.b

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.

The recommendation has been implemented. The City has worked with its employee organizations and has reached agreements for adjustments in some instances.

Recommendation 12.c

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.

The recommendation has been implemented. The City Council has publicly expressed concerns to employee organization representatives and others regarding the impact of compensation costs in Study Sessions, public hearings and other meetings.

Recommendation 12.d

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

The recommendation has been implemented in regard to public discussion of the impact of employee compensation costs and actions needed to contain those costs.

MB/7/MGR
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