



Incorporated October 22, 1956

CITY OF SARATOGA

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

August 18, 2010

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

Dear Judge Jacobs-May,

On behalf of the City of Saratoga, the formal response to the May 26, 2010 report "*Cities Must Rein in Unsustainable Employee Costs*" is attached. The City Council reviewed the City's responses and authorized that it be submitted at their meeting on July 21, 2010.

The City of Saratoga would like to thank the Civil Grand Jury for the opportunity to respond to their report. We are committed to providing efficient, transparent, and inclusive government services, and welcome constructive guidance. As Saratoga has a history of prudent and conservative fiscal practices, operating as a contract city with minimal staff, a number of the findings and recommendations are not applicable to Saratoga. However, the City recognizes that the Civil Grand Jury is speaking to the cities as a collective group, and that the current economic situation has emphasized the need for all cities to manage their budgets and employee costs with a long-term fiscal perspective.

Please feel free to contact our City Manager, Dave Anderson, if you seek additional information or have any questions regarding the responses to the Civil Grand Jury's report.

Sincerely,

Kathleen King
Mayor, City of Saratoga

City of Saratoga Comments on
Santa Clara County Civil Grand Jury Report:
Cities Must Rein In Unsustainable Employee Costs

Report Issued: May 26, 2010
Response Due: August 30, 2010

1. Finding:

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

The City of Saratoga disagrees partially with the finding.

- While the City of Saratoga agrees compensation has grown in the past decade, there are many factors impacting a city's economic situation; employee compensation is just one of them.
- The selected time frame reflects several economic anomalies which skew the portrayed rate of growth in total compensation:
 - ❖ In FY 2000/01, Saratoga's wages were not competitive with neighboring cities or the public sector, and resulted in high turnover and multiple staff vacancies, whereas the FY 2009/10 total wages reflect competitive salaries without vacancies. Therefore, a comparison between the two time periods contributes to an overstatement of growth in median wages (Table 2).
 - ❖ The City's 2.0% at 55 CalPERS pension plan benefit did not change during this time period, however the FY 2000/01 CalPERS employer contribution rate was 0% due to a "superfunded status" at the time, whereas the FY 2009/10 CalPERS contribution rates is 11.652% of salary.
 - ❖ The City has not changed its medical insurance benefit during this time period; however premiums have increased substantially from 2000 to 2010, more than tripling in cost.
 - ❖ Employee compensation packages differ: some cities include enhanced retirement formulas and post-employment benefits, such as retirement medical rather than paying the full CalPERS contribution. However, as the CalPERS contribution is part of the compensation base, and post-retirement benefits are not, the median wages analysis does not reflect a comprehensive comparison of total compensation packages.
- The City of Saratoga remains fiscally stable due to conservative financial practices:
 - ❖ The City manages its staffing levels in line with revenues;
 - ❖ The employee retirement plan was not enhanced; and
 - ❖ The City does not provide retiree medical benefits and, therefore, does not share the significant unfunded liability of some of its neighboring cities.

Recommendation:

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 not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligation under State labor laws and subject to labor negotiations commencing in Spring, 2011.
- The City of Saratoga agrees that the overall intent to control total compensation growth is essential, and will be a fundamental objective in labor negotiations.

- Saratoga has a history of operating very efficiently and economically as a contract city with streamlined operations, conservative staffing, employee pay and benefits, and does not provide enhanced retirement pensions or retirement medical benefits. The City will continue to maintain fiscal stability and balanced budgets through careful analysis of various long-term options, rather than leap to the conclusion that a reduction in employee wages and benefits is the solution.
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2. Finding:

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 of Saratoga disagrees partially with the finding.

- Under the City of Saratoga's Memoranda of Understanding (MOU), COLA increases are tied to the United States Bureau of Labor and Statistics Average Consumer Price Index for All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose region (for the months December to December), within a minimum and maximum range of 1.0% to 2.5%. The CPI-U reflects the actual increase in the cost of living.

Recommendation:

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 has not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligations under State labor relation laws and subject to labor negotiations commencing in Spring 2011.
 - Current MOUs have already set the standard to tie wage increases to cost-of-living growth in the economy, as evidenced by linking COLAs to CPI-U indicators.
 - The City of Saratoga will review its MOUs to determine the ability and effectiveness of adjusting or withholding wage increases based on current market conditions, or determine whether there are other available economic indicators more reflective of the economy.
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3. Finding:

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 of Saratoga disagrees partially with the finding.

- The above statement does not apply to the City of Saratoga.
- City of Saratoga step increases are contingent upon a satisfactory annual evaluation of an employee's performance, which includes achieving advanced knowledge and skills, to qualify for a higher step. Step increases are not automatic based solely upon completion of a specified period of time.

Recommendation:

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.

The recommendation requires further analysis.

- The City will carefully review this recommendation in the next six months to determine the full scope of this suggestion, and the impacts this change would have on recruitment and retention.
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4. Finding:

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 of Saratoga agrees with the finding.

Recommendations:

- 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.

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011.

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

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011.
- Contingent upon an expansion of CalPERS health insurance options.

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

The recommendation has been implemented.

- According to CalPERS, employees cannot be enrolled in a CalPERS health plan as a member and a dependent or as a dependent on two enrollments. This is called dual coverage and it is against the law.
- When dual coverage is discovered, the coverage will be retroactively canceled and the employee may have to pay for all costs incurred from the date the dual coverage began.

- D. Reduce cash-in-lieu payments.

The recommendation will not be implemented because it is not warranted or is not reasonable.

- The City of Saratoga's cash-in-lieu payments of \$118.75/medical and \$25.00/dental per month (pro-rated for part-time staff) are very low and, if lowered further, would not provide an incentive to forgo insurance benefits.

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

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011.
 - Contingent upon an expansion of CalPERS health insurance options.
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5. Finding:

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

The City of Saratoga agrees with the finding.

Recommendations:

1) Cities should:

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

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City’s obligation under State labor laws and subject to labor negotiations commencing in Spring 2011 (recommendations 1-1 and 1-2).
- The City of Saratoga did not enhance its pension plan from the traditional 2% at 55 formula, therefore CalPERS pension contribution rates did not increase to the higher premium levels.
- Recommendation 1-3 is not applicable as the City of Saratoga does not provide post-employment health care benefits.

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

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City’s obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011.
- The City of Saratoga did not enhance its pension plan from the traditional 2% at 55 formula, therefore CalPERS pension contribution rates did not increase to the higher premium levels.

3) 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.

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City’s obligation under State labor relation laws and subject to labor negotiations and market conditions.
- The City of Saratoga does not provide post-employment health care benefits; therefore recommendation 3-4 is not applicable.
- Saratoga has a history of operating very efficiently and economically as a contract city with streamlined operations, conservative staffing, employee pay and benefits, and does not provide enhanced retirement pensions or retirement medical benefits. The City will continue to maintain fiscal stability and balanced budgets through careful analysis of various long-term options, rather than leap to the conclusion that a reduction in employee wages and benefits is the solution.

6. Finding:

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 of Saratoga agrees with the finding.

Recommendations:

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 requires further analysis as the above suggested reductions in benefits would impact negotiated employment packages.

- Staff will assess these recommendations in relation to data collected from other cities and regional employers and the City's budgetary constraints, as part of preparation for labor negotiations beginning in Spring 2011.

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.

The recommendation has not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011, and as determined necessary by budgetary constraints.

7. Finding:

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 of Saratoga agrees partially with the finding.

- While the City agrees it is prudent for wages and benefits to be aligned with reasonable market trends in both the private and public sectors with respect to salaries, benefits, and other non-salary compensation, it recognizes that timing factors in both economic conditions and existing labor agreements will, of necessity, delay implementation.

Recommendations:

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.

The recommendation requires further analysis as many public sector positions involve functions that are specific to government operations.

- In preparation for labor negotiations in Spring 2011, City staff will further assess this recommendation.

- 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.

The recommendation requires further analysis to determine its feasibility and the fiscal and operational impacts and advantages of employing market-oriented practices.

- In preparation for labor negotiations in Spring 2011, City staff will further assess this recommendation.

8. Finding:

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 of Saratoga agrees with the finding.

Recommendations:

- 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 timelines.

The recommendation has been implemented.

- The City of Saratoga currently functions with minimal staff (FY 2009/10 = 54.85), contracting services for legal, public safety, animal control, development and engineering reviews, landscaping and street maintenance, recreation and senior services, as well as facility and infrastructure construction work.

- 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.

The recommendation has been implemented.

- Most of the above suggestions are already in place. The City has established several joint partnerships with other cities and agencies, including solid waste, recycling, and environmental services, and for public safety functions for animal control, emergency services, and interoperability. Staff also shares information and resources with other agencies to leverage skills and workload. The City continues to review other functional areas to determine practicality, cost savings, and/or operational efficiencies.

9. Finding:

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.

The City of Saratoga agrees with the finding.

Recommendation:

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.

The recommendation has been implemented.

- As a minimally staffed contract city, Saratoga continues to explore a wide variety of service approaches including the expanded use of technology, contracting for a variety of services, and creating partnerships with other public agencies.
 - The City of Saratoga looks for opportunities to achieve savings through varied methods on an ongoing basis.
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10. Finding: N/A

11. Finding:

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 of Saratoga agrees with the finding.

Recommendations:

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.

The recommendation requires further analysis.

- Over the next six months, the City will consider this recommendation further to determine the impacts this action would create for both public expectations and labor negotiations.

The recommendation has not yet been implemented, but will be implemented.

- At the conclusion of labor negotiations, a staff report will be brought to the Council which clearly identifies contract results for additional transparency.
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12. Finding:

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 of Saratoga agrees with the finding.

Recommendations:

- A. 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.

The recommendation has been implemented.

- Saratoga staff educates Council candidates about City finances and operations beginning with the start of the election period, and continues this education with elected Council Members to keep them informed about the City's fiscal realities, long-term costs and commitments, and labor agreement issues and impacts.

- City Council Members annually review the five-year forecast to understand the implications and status of the City's current and long-term financial situation, review monthly Treasurer's reports, quarterly financials, mid-year budget discussions, and participate in budget development study sessions prior to the budget hearings. Staffing and contract service costs are reviewed in detail.
 - The City also has a Finance Committee (in which two Council members serve), which meets to review and advise staff on ongoing financial issues, and then reports its discussions to other Council Members at the Council Meeting.
 - Council Members meet regularly with the City Manager to keep informed of City operations and fiscal matters on a timely and ongoing basis.
- 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 will not yet been implemented but will be implemented in the future.

- Consistent with the City's obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011.
 - The City's labor contracts were entered into by Council and the City's three bargaining groups with the understanding from all groups that the agreements were fair, reasonable, and would be in effect for the full term, which is set to expire in one year (Sept 1, 2011).
 - Contract negotiations begin in six months and as the City of Saratoga's fiscal stability is not threatened with unsustainable employee costs at this time, the Council believes it both should and is required to honor its commitment.
 - The City worked with employee groups to reduce salary and benefit expense for FY 2010/11 and obtained voluntary agreement on mandatory furlough days, suspending car allowances, vacation buy-backs, and the City Manager's salary increase.
- 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 will not be implemented because it is not warranted or is not reasonable.

- The Council is a legislative, not administrative/programmatic body; therefore, it does not customarily meet directly with bargaining units. The Council customarily would direct its management representatives to meet with bargaining units to inform them of the City's financial health.
- 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 not yet been implemented, but will be implemented in the future.

- Consistent with the City's obligation under State labor relation laws and subject to labor negotiations commencing in Spring 2011.
- On an ongoing basis, the City Council and Mayor will inform citizens of issues regarding employee costs as the topic is relevant - as part of the Council's regular meetings with various community groups, in public Council Meetings, study sessions, and the Council's annual retreat, and through written communications such as the City's newsletter.

13. Finding: N/A
