

CITY OF SUNNYVALE

*The Heart of Silicon Valley*sm

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FILED

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

Melinda Hamilton
Mayor

August 13, 2010

Christopher R. Moylan
Vice Mayor

Otto Lee
Councilmember

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

Ron Swegles
Councilmember

Dear Judge Jacobs-May:

Anthony (Tony) Spitaleri
Councilmember

Enclosed is the City of Sunnyvale's response to the Santa Clara County Civil Grand Jury Final Report, **Cities Must Rein in Unsustainable Employee Costs.**

David Whittum
Councilmember

Sincerely,

Jim Griffith
Councilmember



Melinda Hamilton
Mayor

Enclosures: (1)

cc: Gary Luebbbers, City Manager
Grace Leung, Acting Director of Finance
Teri Silva, Director of Human Resources

Response to Civil Grand Jury Report, *Cities Must Rein In Unsustainable Employee Costs*

Introduction:

For the most part, the City of Sunnyvale agrees with the findings of the Grand Jury regarding employee costs. The increased cost of salaries and benefits has been an issue that has received a great deal of Council attention over the past several years. As described below, the City of Sunnyvale has already implemented or is in the process of implementing a number of the recommendations outlined in the report. All of these actions were taken prior to receiving the Grand Jury Report. We believe this demonstrates the City's recognition of the issue and its willingness to address it.

Section 1:

As stated in Penal Code Section 933.05(a), you are required to "Agree" or "Disagree" with each applicable finding(s), 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, & 12. If you disagree, in whole or part, you must include an explanation of the reasons you disagree.

Section 2:

As stated in Penal Code Section 933.05(b), you are required to respond to each applicable recommendation(s) 1, 2, 3, 4A, 4B, 4C, 4D, 4E, 5a1, 5a2, 5a3, 5b, 5c1, 5c2, 5c3, 5c4, 6a, 6b, 7a, 7b, 8a, 8b, 9, 11, 12a, 12b, 12c, & 12d, with one of four possible actions.

Responses by the City of Sunnyvale

Finding 1: The costs of total compensation for employees have grown substantially in the past decade and now threaten the cities' fiscal stability.

City Response: Agree

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.

City Response: This recommendation is in the process of being implemented. Through the dot com bust and the current global recession, the City has worked to develop balanced budgets while turning to layoffs as the last resort. This has meant that the impact on employees has been minimized at the cost of reduced service levels and deteriorating infrastructure. The City is currently working to determine the amount of funding required to restore services to appropriate levels and rehabilitate and maintain our infrastructure. Because salaries and benefits are over 80% of the City's General Fund operating expenses, controlling employee costs will be the key to addressing the funding requirements for services and infrastructure and to attaining a truly balanced budget. As the funding requirements are identified for both the short and long term, the City will then determine the amount of salary and benefit adjustments that are necessary to meet our needs. The City will work with the bargaining units to develop and cost out options to meet these needs.

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.

City Response: Agree

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.

City Response: This recommendation has been implemented, at least partially. Salary increase projections, beyond the current contractual obligations, do not exceed planned increases to revenues over the course of our 20-year long-term financial plan. We have not gone so far as to adjust contractual increases based on changes in economic conditions, and this would have to be negotiated into future contracts. This option has been discussed and will be considered and analyzed during future contract negotiations.

Finding 3: Step increases are arbitrary and do not adequately represent an employee's added value to a city. Combined with COLAs, new employee's wages increase quickly and are not necessarily reflective of improved knowledge and skills.

City Response: Disagree based on the City of Sunnyvale's salary structure and requirements for step increases. This is discussed in detail below.

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.

City Response: Step increases are based on completion of a probationary period and satisfactory performance in their current job classification. For example, if you do not receive a satisfactory performance evaluation rating, you do not complete probationary status and do not receive an increase on the salary schedule. The idea behind the steps on the salary schedule is that as you become more knowledgeable in the essential job functions of your position, you are compensated accordingly. If you are not performing satisfactorily, then you would remain at a current step on the salary range, until your performance is at a meet standards rating. The City of Sunnyvale currently has six steps on the salary schedule. The first step an employee receives is at completion of probationary status. The next steps are annually thereafter if the performance is rated as satisfactory or above. The City of Sunnyvale is under Memorandum of Understandings with all bargaining groups and they will expire in June 2012 and June 2013.

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.

City Response: The City agrees with the fact that medical insurance costs are growing at a rate greater than the rate of revenue growth. The City disagrees that "the employee contribution to medical care is minimal." While specifics vary by employee group, the City has capped its share of medical costs. As a result, employees have taken an increased share of medical costs in the last several years.

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 employee and increase the employee's share, if already cost splitting, and remove any employee caps.
- B. Establish reasonable co-pays 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 on another city employee.
- D. Reduce cash-in-lieu payments.
- E. Introduce a new lower premium, high-deductible medical plan.

City Response to 4A: This recommendation requires further analysis. Current contractual obligations prevent immediate changes in the cost share between the employer and the employee for medical premiums; however, we are aware of the increasing costs of medical insurance and consider that cost in the context of total compensation when contracts are up for negotiation. Almost all existing contracts are in place into 2012, but as preparations get underway for negotiations, a larger contribution for medical benefits from employees will be a consideration.

City Response to 4B: This recommendation will not be implemented. Because the City contracts with CalPERS for medical insurance, this is not within our jurisdiction's control, as these items are set by the health benefits plans offered by CalPERS. An option the City can explore is terminating our contract with CalPERS and selecting an alternative provider. At such time, this recommendation would be factored in.

City Response to 4C: This recommendation has been implemented.

City Response to 4D: This recommendation will not be implemented. An employee receiving cash in-lieu payments means that this employee is covered under an alternative plan. Based on our jurisdiction's modest cash in-lieu amounts, this is generally a much less expensive alternative than actually paying for medical benefits. The City believes reducing cash in-lieu payments could actually increase our costs.

City Response to 4E: This recommendation will not be implemented. See response above for Recommendation 4B.

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.

City Response: Agree

Recommendation 5a: Cities should:

- 1) Renegotiate and make provisions for increasing the employees' 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.

City Response: 1) This recommendation is under further evaluation to determine an implementation strategy. Developing a sustainable long-term pension plan for the City has been a focus area for the City Council, and they have directed staff to study this issue and bring back alternatives to our current pension formulas. This study will include analysis of alternatives such as moving to a two-tier defined benefit plan, moving to a two-tier hybrid defined benefit-defined contribution plan, and/or increasing the employee contribution toward pension costs. All of these would create significant personnel cost savings for the City that could be put back into service delivery. This study will be completed in FY 2010/2011. Additionally, the City is currently working with all of the bargaining units to discuss creating a sustainable pension plan for the City, with the components noted above being the focal point of the discussions. One new bargaining unit has just agreed to a contribution as a part of its initial MOU. The other units have contracts into 2012; however, all are in active discussions with City management on making concessions prior to the end of their contracts.

2) This recommendation has not been implemented and requires further analysis. As noted in the previous response, we are currently looking very closely at all alternatives that would reduce the City's cost for providing pension benefits. Having the employees pick up some or all of the contribution to their pension plans is one of the alternatives being considered.

3) This recommendation has not been implemented and requires further analysis. The City currently has what it believes to be a sustainable plan for fully funding its OPEB liability. However, given the cost to provide retiree medical benefits, this sort of contribution will be considered when new contracts are being negotiated.

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

City Response: This recommendation is being implemented. As noted in the response to 5a1, the City Council has directed staff to study

alternatives to our current pension formulas to develop a more sustainable long-term solution. The City has already done extensive analysis on moving new employees onto a second (and lower) tier retirement plan and are continuing to analyze this and other alternatives. This study will conclude in FY 2010/2011. Moving onto any alternative to the current formulas does have to be negotiated, and as noted, nearly all contracts are not up until 2012. The City believes moving to a two-tier system provides the best option for long-term pension sustainability and is working towards this goal.

Recommendation 5c1: To provide 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.

City Response: 1) This recommendation has been implemented in regards to retiree health care. The recommendation to institute a two-tier system for pension requires further analysis. See answer to 5b.

2) This recommendation requires further analysis. See answer to 5b.

3) This recommendation will not be implemented. Final five years of salary is not currently an option with CalPERS. The best our jurisdiction could accomplish would be to move from single highest year to final three years average for new employees. This is an option that will be considered during the next contract negotiations and is a key factor in the assumptions being made for the two-tier pension alternatives. All of the City's analysis regarding the cost savings resulting from going to a two-tier retirement system also assumes that the second tier will be based on the final three years average instead of single highest year.

4) This recommendation has not been implemented and requires further analysis. As noted in the response to 5a3, the City currently has what it believes to be a sustainable plan for fully funding its OPEB liability, so employee compensation containment efforts are currently being focused on pensions. However, all employee cost containment measures will be considered when new contracts are being negotiated.

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.

City Response: Agree

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.

City Response: The City will take all of these options under consideration when we start negotiations with represented bargaining units. The current agreements expire in 2012 and that will be our first opportunity to start making some changes. We can look at the reduction of vacation time and the number of holidays and/or personal days, while still taking into consideration competitiveness in the market place. The City does have a cap on paid time off and could negotiate a lower cap in future agreements. The benefit of converting sick leave balance to years of service is provided through CalPERS. The City of Sunnyvale does not provide sick leave, therefore this benefit is not available to our employees.

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 cost.

City Response: The City of Sunnyvale has not utilized a furlough program. The City will look at holidays that are provided and a negotiated reduction in paid holidays will be a cost savings to the City.

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 a 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.

City Response: Disagree, see responses to recommendations below for further detail.

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.

City Response: Cities compare themselves to public sector agencies in the same geographic area to stay competitive. It is a significant investment to hire and train employees, therefore the goal is to retain these employees and not lose them to neighboring agencies who are more competitive with salary and benefits. It is difficult to compare ourselves to the private sector for several reasons. First, the private sector is not open to disclosing salary amounts for its employees; second, the private sector often has benefits such as bonuses, profit sharing, etc. that do not apply to the public sector; and third, you will only find a small amount of positions that are truly comparable for the market survey.

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.

City Response: The City of Sunnyvale will continue to use market surveys as one element in determining salary negotiations with its labor groups as long as it is determined the best method for our agency. As our labor market cities face economic declines, the salaries and benefits will have a direct impact on our market survey data.

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.

City Response: Agree

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.

City Response: This recommendation has been implemented to a limited degree. The City currently contracts out several functions to the private sector. We will continue to look at this as an option going forward as long

as we are able to do it cost-effectively with no degradation to service levels.

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.

City Response: This recommendation requires further analysis. This is something that we are just beginning to analyze as an option, and it requires quite a bit of coordination between neighboring jurisdictions. We see great potential value in this area; however, we do not see being prepared to have a substantive conversation with our governing body within six months of the date of publication of the grand jury report.

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.

City Response: Agree.

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.

City Response: This has already been implemented. The City has recently contracted with a consultant to perform an optimal staffing and organizational efficiency study. The result was a number of organizational changes that resulted in greater efficiency and reduced headcount (through attrition).

Additionally, the City's FY 2010/2011 budget includes the civilianization of 10 sworn positions in the Department of Public Safety. This is the result of an internal analysis conducted that identified a number of areas where sworn officers could be replaced by civilian employees with no impact to services provided. This conversion is expected to occur over the next two fiscal years through attrition of sworn officers. When fully implemented, utilization of civilians as opposed to sworn officers in select areas will save the City approximately \$1.1 million annually.

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 the council meetings by a single motion and vote of the council.

City Response: Agree, however it should be noted that any consent item on the agenda can be pulled for separate consideration by the Mayor or a city councilmember. Also, a member of the public can comment on a consent item prior to the City Council taking action.

Recommendation 11: Cities should consider holding well-publicized 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 contract.

City Response: The recommendation has been implemented, however improvements can be made in the area of public awareness and public hearings. We will make recommendations to hold public hearings prior to the approval of negotiated contracts with employee labor groups. Public awareness of the negotiations process and potential areas of bargaining that could be discussed (wages, hours and other working conditions of employment) would be beneficial to the public.

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.

City Response: Agree

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.

City Response: This has already been implemented. Staff has presented detailed information on the current fiscal realities through the Budget and Budget Workshop. Staff has also presented information on pension costs and meets regularly with Council on 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.

City Response: This has already been implemented. The City Council has directed the City Manager to work with the employee groups to develop a plan for attaining more sustainable employee costs, specifically as it relates to pensions. The City Manager and the employee groups are in active discussions on this subject. Council has also directed staff to study the various alternatives to the current pension formulas provided to employees to develop recommendations for implementing a more sustainable long-term pension program.

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.

City Response: This has been implemented. The City Council and Mayor have provided direction to the City Manager to convey this information to the bargaining units.

Recommendation 12d: City councils and mayors should inform citizens of their plans for controlling unsustainable costs and remove politics from the equation.

City Response: This has already been implemented. The City Council and Mayor have communicated this information in several public forums, including the annual Budget Workshop and the public hearing that is conducted prior to the adoption of the City's budget.