

**City of Palo Alto**  
*Office of the Mayor and City Council*

September 15, 2011

Honorable Richard J. Loftus, Jr.  
Presiding Judge  
Santa Clara County Superior Court  
191 North First Street  
San Jose, CA 95113

**FILED**

SEP 30 2011

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


Re: Response to the 2010-2011 Santa Clara County Civil Grand Jury Report, "Rehiring of Pensioners: Bad Policy, Good Business or Both?"

Honorable Judge Richard J. Loftus, Jr.

Attached (Attachment A) is the City of Palo Alto's response to the Grand Jury's Final Report on rehiring of pensioners. Palo Alto's City Council approved the response on September 12, 2011.

The report support the City's practice of hiring retirees on a limited basis in the current environment of economic uncertainty and that it makes good business sense on a short-term basis. The City wants to thank the Grand Jury for its quality work and important findings.

Sincerely,

  
Honorable Sid Espinosa  
Mayor  
City of Palo Alto  
250 Hamilton Avenue  
Palo Alto, CA 94301

cc: Helene I. Popenhager  
Foreperson  
2010-2011 Civil Grand Jury

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## **City of Palo Alto's Response to the 2010-2011 Santa Clara County Civil Grand Jury Report - "Rehiring of Pensioners: Bad Policy, Good Business or Both?"**

### **SUMMARY**

The City of Palo Alto agrees with the Grand Jury's Report Summary statement that "rehiring retirees appears to be a prudent way to secure highly skilled talent for short-term tasks at a relatively low cost to economically strapped municipalities and does not in itself appear to be a barrier to hiring new workers."

As stated in the discussion section of the Grand Jury Report, like other cities, the City of Palo Alto (City) complies with all CalPERS rules regarding the temporary hiring of retirees and limits their work to 960 hours per fiscal year as described in the City's Limited Hourly Compensation Plan. The City only hires those retirees who have the needed skills, knowledge and expertise to deliver key services. With each vacancy, the City has an Executive Leadership Committee that reviews department requests to fill vacant positions. This process encourages hiring managers to evaluate their operations and determine whether functions can be streamlined or merged under other employees or under different methods of service delivery.

The Grand Jury raises excellent "personnel concerns" regarding rehires such as "who is the boss and will old ways impede new ideas?" The City is on a limited basis, retaining key retirees to train newly hired employees and pass on the institutional knowledge that is important to operations. At the same time, the City is committed to finding more effective and efficient ways to deliver services and to strategically organize staff. For example, the City recently developed a new Strategic Plan for its Information Technology services and will be conducting a competitive procurement for an organizational review of its Utilities Department.

In conclusion, the City concurs with the Grand Jury's findings that rehiring retirees in the current environment of economic uncertainty and changing compensation plans is good business and good policy. There certainly can be drawbacks to this practice such as instances of "double dipping," but Palo Alto rehires retirees to ensure that we continue to deliver quality public services.

### **GRAND JURY FINDINGS AND RECOMMENDATIONS**

#### **Finding 1**

In spite of public opinion, there are situations that warrant rehiring pensioners and often it makes good business sense to do so. All managers interviewed follow existing procedures which allow rehiring of pensioners.

#### **Recommendation 1**

If the County or the City/Town of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Monte Sereno, Morgan Hill, Milpitas, Mountain View, Palo Alto, San Jose, Santa Clara,

Saratoga, Sunnyvale desire to end the practice of rehiring pensioners, they should make that official by means of a policy decision.

**RESPONSE:**

The City agrees with this finding. As the data in Table 1 of the Grand Jury’s report shows, the City has a high percentage of rehired pensioners relative to its number of full time employee total (5.7%) and relative to other jurisdictions in Santa Clara County. Since reporting this data to the Grand Jury, the City has decreased this percentage to 4%. The City is actively recruiting to fill forty-five positions and will continue to decrease the temporary hiring of retirees during this fiscal year. Benefit and pension reform measures that the City has recently implemented are believed to be primary factors motivating recent retirements and position vacancies.

It is important to recognize that the City had a relatively high number of “baby boomers” in its workforce prior to the Great Recession. In addition, over the past four years, the City has implemented benefit changes causing an increase in the number of anticipated retirements. For example, the City implemented an employee contribution to health care premiums of 10% for non-safety employee groups and higher employee contributions to the CalPERS employee share of retirement. As a result, numerous City employees retired before the effective dates of the benefit changes. In addition, the City implemented a second tier retirement plan for its new non-safety employees. These benefit and pension changes were not similarly instituted in the majority of other public agencies in Santa Clara County which may account for the higher number of retirements that the City of Palo Alto experienced in comparison to the other cities.

With these recent benefit and pension changes, the City experienced a significant loss of workers with considerable expertise and institutional knowledge. While the City did evaluate the need for succession planning several years ago, the recession significantly impacted this effort and the City was forced to reduce positions instead of facilitating training plans. The loss of key personnel at all levels of the organization prompted the City to rehire employees such as: wastewater treatment supervisors and workers, a Deputy Fire Chief, Police Dispatchers and Evidence Technicians, Planning and Public Works managers, and administrative staff such as the Managers of Accounting, Real Estate, and Human Resources. By rehiring such personnel the City fills critical needs at lower costs than fully benefitted employees, and provides the flexibility to reorganize to gain efficiencies, train new workers, and maintain services.

The City is in a critical transition period where there are key vacancies, which has led to the need to temporarily hire and/or rehire retirees for operational needs. Once the City has filled its key vacancies and gained the operational efficiencies it seeks, it will consider a policy statement in this area.

**Finding 2 and Recommendation 2**

These pertain specifically to the City of Santa Clara.

**RESPONSE**

This finding and recommendation does not apply to the City of Palo Alto.

**Finding 3**

The fifteen towns and cities—Campbell, Cupertino...Palo Alto...Sunnyvale—and the County may be inadvertently creating a demand to rehire pensioners because the public sector retirement age is relatively young at 50 (police and fire) or 55 (administrative positions).

**Recommendation 3**

The fifteen towns and cities—Campbell, Cupertino...Palo Alto...Sunnyvale—and the County should continue to pursue a higher retirement age with its public sector unions and associations.

The fifteen towns and cities-Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Monte Sereno, Morgan Hill, Milpitas, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, Sunnyvale-and the County should continue to pursue a higher retirement age with its public sector unions and associations.

**RESPONSE**

The City of Palo Alto concurs with Recommendation 3. The City of Palo Alto is the first city in Santa Clara County to implement a second tier retirement plan for new non-safety employees which is 2% at 60 (versus 2.7 percent at 55). The City is currently in contract negotiations with all of its public safety employees, and is actively pursuing a similar second tier for these groups by proposing plans that would increase the retirement age to 55 from 50. These negotiations have not concluded, but the City is working towards implementing a two tier plan for public safety as well.

It is important to note that during employee contract negotiations, local jurisdictions have had to react to employee compensation proposals from labor unions when the State and other jurisdictions raise salary and benefit levels for employees. This is a reality that occurs, for example, when there is competition for specific employee skills and is an issue to be considered in the public compensation market. At the time the City adopted retirement plans with lower retirement ages, there was no intent on the City's part to trigger the hiring of retirees. As the Grand Jury says, this consequence was "inadvertent."