

City of Brisbane
Agenda Report

TO: Honorable Mayor and City Council

FROM: Clay Holstine, City Manager

DATE: Meeting of September 21, 2009

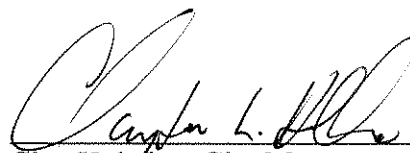
SUBJECT: Approval of Response Letter to Grand Jury
Reversing the Upward Trajectory of Employee Costs in San Mateo County

RECOMMENDATION:

Approve response letter to Grand Jury dated July 20, 2009 relating to the "Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County"

BACKGROUND and DISCUSSION:

The Grand Jury filed a report on June 4, 2009 which contains findings and recommendations pertaining to the above mentioned subject. In their report it was recommended that the response letter be approved by the City Council at a public meeting. The response letter was sent on July 20, 2009 to comply with the deadline for submitting before September 3, 2009.


Clay Holstine, City Manager



CITY OF BRISBANE

50 Park Place
Brisbane, California 94005-1310
(415) 508-2100
Fax (415) 467-4989

July 20, 2009

Honorable George A. Miram
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Dear Judge Miram:

The City Council and staff of the City of Brisbane have received the Grand Jury's report, "Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County."

To ensure accurate information is available for the public, we are providing the following notations regarding the report:

- Table 4 reflects the cities with reduced retirement formulas for new hires. While the City of Brisbane does have a two-tier retirement plan in place for our regular (Miscellaneous CalPERS members) employees, the City does not have a two-tier retirement in place for Fire or Police. The City of Brisbane only has the lower safety formula of 3%@55 for all Fire and Police employees.
- Table 7 does not seem to accurately reflect total possible days off consistently for all cities. For example, the City of Brisbane is listed as Total Possible Days Off equaling 6 weeks and 1 day, based on 15 vacation, 13 holidays and 3 floating holidays for a total of 31 days. The Town of Colma has 4 weeks and 3 days listed, based on 10 vacation, 13 holidays and 3 floating or personal for a total of 26 days. It appears that Colma should be listed having 5 weeks and 1 day instead.
- The FTE noted on Table 8 includes our part-time and seasonal workers. The correct FTE for this table should be 69 FTEs, not 117 FTEs.

Aside from these notations, our agency agrees with the findings in this report as they pertain to the City of Brisbane.

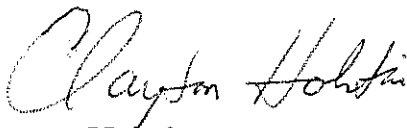
Several of the recommendations in the report have already been implemented by the City of Brisbane, including:

- Negotiated contracts and implemented two-tier retirement and retiree medical plans for new hires

- Created partnerships with the City of Burlingame for Parks and Recreation Director and the City of Daly City for Fire Administration services. Previously partnered with the City of Millbrae for shared Police Chief services
- Currently implementing incentives such as partial service retirement and golden handshake provisions to reduce staff
- Provide MOUs to the public on our city website
- Initiated competitive hiring practices by outreach to local universities, colleges and high schools during open recruitments
- Currently working collaboratively with other public agencies to create a regional training program
- Participating in the Management Talent Exchange Program of San Mateo County and Santa Clara County to provide external training opportunities to key staff members for succession planning purposes

In the course of our on-going strategy and planning to control employee costs, we will use the other recommendations as possible guiding principles for future labor negotiations and recruitments. Thank you for the opportunity to respond to this important issue.

Sincerely,

A handwritten signature in cursive script that reads "Clayton Holstine".

Clayton Holstine
City Manager



Superior Court of San Mateo County

Hall of Justice and Records
400 County Center
Redwood City, CA 94063-1655

John C. Fitton
Court Executive Officer
Clerk & Jury Commissioner

(650) 599-1711
FAX (650) 363-4698

June 4, 2009

City Council
City of Brisbane
50 Park Place
Brisbane, CA 94005

Re: Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County Report

Dear Councilmembers:

The 2008-2009 Grand Jury filed a report on June 4, 2009 which contains findings and recommendations pertaining to your agency. Your agency must submit comments, within 90 days, to the Hon. George A. Miram. Your agency's response is due no later than September 3, 2009. **Please note that the response should indicate that it was approved by your governing body at a public meeting.**

For all findings, your responding agency shall indicate one of the following:

1. The respondent agrees with the finding.
2. The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

Additionally, as to each Grand Jury recommendation, your responding agency shall report one of the following actions:

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the Grand Jury report.
4. The recommendation will not be implemented because it is not warranted or reasonable, with an explanation therefore.

Please submit your responses in all of the following ways:

1. Responses to be placed on file with the Clerk of the Court by the Court Executive Office.
 - Prepare original on your agency's letterhead, indicate the date of the public meeting that your governing body approved the response address and mail to Judge Miram.

Hon. George A. Miram
Judge of the Superior Court
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655.

2. Responses to be placed at the Grand Jury website.
 - Copy response and send by e-mail to: grandjury@sanmateocourt.org. (Insert agency name if it is not indicated at the top of your response.)
3. Responses to be placed with the clerk of your agency.
 - File a copy of the response directly with the clerk of your agency. Do not send this copy to the Court.

For up to 45 days after the end of the term, the foreperson and the foreperson's designees are available to clarify the recommendations of the report. To reach the foreperson, please call the Grand Jury Clerk at (650) 599-1711.

If you have any questions regarding these procedures, please do not hesitate to contact Brenda B. Carlson, Chief Deputy County Counsel, at (650) 363-4760.

Very truly yours,



John C. Fitton
Court Executive Officer

JCF:ck
Enclosure

cc: Hon. George A. Miram
Brenda B. Carlson

Information Copy: City Manager



Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County

In the cities of San Mateo County, employees' wages and compensation packages continue to escalate, despite the deficit environment that has existed since the dot-com bubble burst and despite the aggravated deficits experienced in the more recent economic downturn.

To accommodate escalating employee costs, and balance their budgets, cities have increased user fees, raised taxes, issued bonds, transferred funds from their reserves, and postponed needed infrastructure projects. Because personnel costs typically comprise 70% of the operating budgets in the cities of San Mateo County, any cost-containment measures must halt and reverse the escalation of employee-costs.

In this report, the 2008-2009 San Mateo County Civil Grand Jury analyzes examples of wages, post-retirement health care and pension benefits, as well as current benefits and city hiring practices that increase public employee costs.

The report also recommends to cities and voters actions they can implement to reverse this upward trajectory.

The 2008-2009 San Mateo County Civil Grand Jury concludes and recommends that:

- The escalating employee costs can and should be reversed so civic services and infrastructure improvements are not neglected.
- In addition to stop-gap measures, such as temporary wage freezes and furloughs, long-term solutions should be implemented.
- Labor union contracts for newly hired municipal employees should be introduced to reduce the cost to cities of both pension and post-retirement health care plans.
- For current, as well as newly hired employees, salary increases, total days off, the ability to convert sick leave to cash, and vacation pay must be contained.
- The practice of narrowly basing salaries and compensation packages entirely on those of nearby cities should be reconsidered. Hiring practices should be expanded to include competition with the private sector.
- Where cost-efficiencies can be achieved, services should be contracted out to other cities or private sector firms.
- Cooperation between cities to reduce overlapping functions should be pursued.
- Political barriers to change exist because all those negotiating employee contracts--staff, unions and city council members--benefit when wage and compensation packages increase.
- Barriers to change should be neutralized by providing for increased public involvement and, possibly through ballot measures.



Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County

Issue

How can the escalation of employee costs in the cities of San Mateo County be reversed?

Background

During the dot-com boom, from 1995 to 2001, the labor market was very tight, and the cities in San Mateo County and the rest of Silicon Valley had to offer competitively high wages, good benefits, and good pensions to attract qualified workers. The stock market was booming, and pensions were inexpensive to fund. Flush with revenues, city services and staff expanded. During this period, job security, salaries, pensions, and benefits became enshrined in union contracts, so when the dot-com bubble burst and city revenues declined, the cities found themselves chained to employee obligations they could no longer afford.

The police and firefighter unions were empowered to greatly expand wage and benefits for their members after California enacted a binding arbitration law in 2001. The law was struck down in 2003 by the California Supreme Court, but the negotiated gains were not reversed.

After the dot-com boom, cities started experiencing chronic deficits. New taxes and user fees were introduced, bonds were issued, and infrastructure projects were postponed to accommodate the new economic realities.

The economic downturn, which began in the fall of 2008, is exacerbating city fiscal problems for five major reasons:

- Revenues from property taxes are not increasing as much as projected.
- Revenues from sales taxes are decreasing.
- Contributions from the State are decreasing.
- Anticipation that the California Public Employees' Retirement System (CalPERS) will require cities to make larger than projected contributions.¹
- Personnel costs are scheduled, by contract, to rise.

In this report, the 2008-2009 San Mateo County Civil Grand Jury takes a broad look at personnel costs in the cities of San Mateo County and examines what can be done to reverse their upward trajectory so that cities become economically sustainable.

¹ CalPERS is a retirement system that was created in 1932 to provide retirement benefits for state employees. As of 2007, CalPERS provides retirement benefits to approximately 443 of 478 California cities and to all the cities in San Mateo County.

Cities are limited to the following options for reducing personnel costs:

- Cities can change pensions and retiree health care benefits² for new hires.
- Cities can renegotiate contracts for existing employees with the unions.
- Cities can change personnel policies.
- Citizens can consider ballot measures, which, if passed, could mandate change for new hires and for personnel policies. Such measures can be initiated by the cities or the citizens.

Investigation

The 2008-2009 San Mateo County Civil Grand Jury interviewed city managers, city finance directors, and a union official. The Grand Jury reviewed labor contracts, various Comprehensive Annual Financial Reports, and city budgets. Additionally, the Grand Jury surveyed cities for information on employee compensation, retirement benefits, current benefits, obligations for post-retirement health care benefits, pension plans, and other information.

Findings and Discussion

The 2008-2009 San Mateo County Civil Grand Jury found that:

- Eighteen cities forecast that employee costs will increase by at least 4% per year over the next five years, even as revenues decline.
- Approximately 70% of general fund budget expenses in most full-service San Mateo County cities are spent on employee salary and compensation packages because cities are primarily providers of services.
- The opportunity for significantly increasing revenues is limited to increasing taxes and fees.
- Controlling employee costs, from a long and short-term perspective, is the only meaningful way chronic deficits can be overcome.

The findings and discussion of the report are divided into three major sections:

- 1) Salary and Compensation Packages
 - a) Retirement Pension Benefits
 - b) Other Post Employment Benefits (OPEBs)
 - c) How Pensions and OPEBs are Funded by the Cities
 - d) Benefits for Current Employees
 - e) Salaries for Current Employees

- 2) Personnel Policies
 - a) How Wage and Compensation Policies Are Set
 - b) Staff Size

² California Supreme Court ruled that retirement pension benefits cannot be decreased for existing employees but has not yet made a similar ruling on retiree health care benefits.

3) The Role of Politics

- a) The Nexus Between City Council Members, Unions and Staff
- b) Public Involvement

1. Salary and Compensation Packages

a) Retirement Pension Benefits

Defined-Benefit Plan:

Employees in a defined-benefit retirement system are promised a specific, life-long annual pension at the time of their retirement, related to their years of service and the salary they received at the time of retirement. In addition, as part of the pension plan, benefits are provided for disability and death, with payments in some cases going to survivors or beneficiaries of eligible members.

In the cities of San Mateo County, as well as many public sector organizations, benefited employees are enrolled in a defined-benefit retirement system. Benefited employees include all full-time employees and many part-time employees. The cities make Social Security contributions for non-benefited employees.

CalPERS

The defined-benefit plan in which city employees in the cities of the County are enrolled is CalPERS. Contributions made by the cities to retirement benefits are deposited in CalPERS. CalPERS invests, manages, and distributes money to employees when they retire. Cities are required to increase their contributions when the costs of benefits increase and/or when investment returns decline.

Examples of How the CalPERS Formula Works for Regular Employees

Each city chooses among legislatively approved formulas that determine the amount of lifelong pensions. The formulas are shown in Appendix 1. The most common formula for regular employees, who are workers other than police officers and firefighters, is 2.7% at age 55. Applying this formula takes 2.7% of the last year's salary multiplied by years of service, which they can start receiving at age 55, upon retiring.

- Regular city employees who worked for 30 years will receive 81% of their last year's salary for life.
- Regular city employees who worked for 20 years will receive 54% of their last year's salary for life. (Table 1)
- In addition, employees will receive an annual cost of living adjustment (COLA) of up to 2% a year.

Examples of How the CalPERS Formula Works for Safety Employees

Police Officers and Firefighters

The typical formula for safety employees is 3% at age 50, upon retirement, which means that an employees will receive 3% of their last year's salary, multiplied by the number of years of service, which they can start receiving at age 50.

- Employees who worked for 30 years, using that formula, will receive 90% of the last year's salary for life.
- Employees who worked for 20 years will receive 60% of the last year's salary for life.
- In addition, employees will receive an annual cost of living adjustment (COLA) of up to 2% a year.

Table 1 provides examples of lifetime retirement pension benefits based on the formulas reviewed above for regular and safety employees. The examples in the table assume that the employee has worked in the cities for the years specified, but in fact, the employees in the example below may have been in the CalPERS system with other cities longer than the table assumes, and if they were, their pensions will be larger than shown.

Table 1: Examples of Lifetime Retirement Pensions
(Does Not Include Health Care Benefits or Annual COLAs)³

Employee	Last Year Salary	Number Years Worked and Age	Percentage of Last Year of Salary	Annual Retirement Pension
Regular employee 2.7% @ 55	\$110,725 ⁽¹⁾	30 years, age 55	81%	\$89,687
Regular employee	\$86,709 ⁽²⁾	20 years, age 55	54%	\$46,822
Regular employee	\$63,465 ⁽³⁾	10 years, age 52	27%	\$17,135
Safety employee 3% @ 50	\$110,968 ⁽⁴⁾	30 years, age 50	90%	\$99,871
Safety employee	\$96,434 ⁽⁵⁾	20 years, age 50	60%	\$57,860

(1) The median 2008 salary for regular employees with 30 plus years in South San Francisco.

(2) The median salary for regular employees with 20 years in South San Francisco.

(3) The median salary for regular employees with 10 years in South San Francisco.

(4) The median salary for a Hillsborough safety officer with 30 years.

(5) The median salary for a Hillsborough safety officer with 20 years.

NOTE: Employees carry their years of service with them as long as they stay in CalPERS, so a 52 year old employee may have been employed in South San Francisco 10 years, but s/he may have many more years for the purpose of calculating the actual retirement benefits s/he will receive.

³ Formulas on Tables 1 and 2 express as percent of salary correlated with years of service and age for both safety and regular employees can be seen at: <http://www.calpers.ca.gov/eip-docs/member/retirement/service-retain/benefit-charts/pub-9-2.5percent-55.pdf>

Table 2 demonstrates the differences in lifetime pension benefits when a less generous formula is applied to regular employee salaries, as shown above in Table 1. In this case, the formula is 2% at age 55 and was the most prevalent formula used by cities until about 2006.

**Table 2: Lifetime Retirement Benefit For Regular Employees
Using the 2% at Age 55 Formula**

Employee	Last Year Salary	Number Years Worked and Age	Percentage of Last Year of Salary	Annual Retirement Pension
Regular Employee	\$110,725	30 years, age 55	60%	\$66,453
Regular Employee	\$86,709	20 years age 55	40%	\$34,683
Regular Employee	\$63,465	10 years age 52 (Can collect in 3 years)	20%	\$12,729

Table 3 shows the retirement formulas used by cities at the beginning of 2009. Most cities increased their formulas from 2% at age 55 to the 2.7% at age 55 currently used. Also, instead of basing retirement on an average of the last three year's salary, the last year of salary is now most commonly used. Note that the cities appear to proceed in unison.

Table 3: Retirement Formulas for San Mateo County Cities

San Mateo County City	Retirement Formula - The Percentage Gained For Each Year Worked and Age Needed to Retire		Pension Based on Last Year's Salary or the Average of Three Years
	Safety	Regular	
Atherton	3% @ 50	2.0% @ 55	3 Year Average
Belmont (see Table 4)	3% @ 50	2.0% @ 55	Last Year
Brisbane (see table 4)	3% @ 55	2.7% @ 55	Last Year
Burlingame	3% @ 50	2.5% @ 55	Last Year
Colma	3% @ 50	2.5% @ 55	Last Year
Daly City	3% @ 55	3.0% @ 60	Last Year
East Palo Alto	3% @ 55	2.5% @ 55	3 Year Average
Foster City	3% @ 50	2.7% @ 55	3 Year Average
Half Moon Bay	3% @ 50	2.0% @ 55	Last Year
Hillsborough	3% @ 50	3.0% @ 60	Last Year
Menlo Park	3% @ 50	2.7% @ 55	Last Year
Millbrae	3% @ 50	2.7% @ 50	Last Year
Pacifica	3% @ 50	2.5% @ 55	Last Year
Portola Valley	-	2.0% @ 55	3 Year Average
Redwood City	3% @ 50	2.7% @ 55	Last Year
San Bruno	3% @ 50	2.7% @ 55	Last Year
San Carlos (see Table 4)	3% @ 50	2.7% @ 55	Last Year
San Mateo	3% @ 50	2.0% @ 55	Last Year
So San Francisco	3% @ 50	2.7% @ 55	Last Year
Woodside	-	2.5% @ 55	Last Year

Table 4 shows that some cities have introduced a two-tier system for newly hired employees (New Hires) in which the retirement formula is reduced. The employees who were in the system before the reduction will continue to receive the more generous pensions.

Table 4: Cities That Have Reduced Retirement Formulas for New Hires

San Mateo County City	Police		Firefighters		Regular Employees	
	Prior Hires	New Hires	Prior Hires	New Hires	Prior Hires	New Hires
Belmont *	-	-	3% @ 50*	3% @ 55*	2.0% @ 55	2.0% @ 60
Brisbane	3% @ 50	3% @ 55	3% @ 50	3% @ 55	2.7% @ 55	2.0% @ 60
San Carlos *	3% @ 50	3% @ 55	3% @ 50*	3% @ 55*	2.7% @ 55	2.5% @ 55

* Belmont-San Carlos Fire Department

b) Other Post Employment Benefits

All San Mateo County cities provide other post employment benefits (OPEBs) in addition to pension benefits to their retirees. OPEBs typically include health, dental, vision, prescription, or other health care benefits provided to eligible retirees, their families, and in some cases, their beneficiaries. However, benefits vary widely, from no additional contributions after retirement, to full retiree and dependent coverage for life, after a vesting period. These health benefits are tax-free.

Retiree health insurance premiums have been escalating. The increased number of baby boomers reaching retirement age and employees retiring at a younger age are affecting this cost.

Cities are required by the Governmental Accounting Standards Board (GASB) to calculate their long-term retiree health obligations by June 2010, depending upon the amount of city revenues. Therefore, complete information is not yet available. The magnitude of the obligations may be seen in Table 5. Eligible employees are those that are already vested.

Table 5: Other Post Employment Benefits, Where Known⁴

San Mateo County City	Eligible Employees	Eligible Retirees	OPEBs Expenditures (\$/yr)	Estimated Liability (\$)	Health Expenditure per Retiree (\$/yr)
Atherton	34	12	33,365	-	2,780
Belmont	123	56	358,000	8,645,000	6,393
Brisbane	81	25	104,000	-	4,160
Burlingame	256	216	1,750,000	66,300,000	8,102
Colma	50	14	138,000	-	9,857
Daly City	520	294	-	-	-
East Palo Alto	-	-	-	-	-
Foster City	65	31	119,856	2,974,000	3,866
Half Moon Bay	550	10	8,722	6,556,500	877
Hillsborough	85	82	677,385	15,378,000	8,261
Menlo Park	235	67	-	13,000,000	-
Millbrae	90	50	267,754	0	5,355
Pacifica	110	10	21,908	-	2198
Portola Valley	-	-	-	-	-
Redwood City	534	248	1,274,543	51,844,000	5,140
San Bruno	-	-	-	2,040,000	-
San Carlos	106	60	242,000	6,691,000	4,033
San Mateo	540	380	722,000	20,000,000	1,900
So San Francisco	397	232	1,200,000	-	5,172
Woodside	47	34	-	-	-

Modified Healthcare Plans

Hillsborough and Brisbane have recently introduced modified plans for all or some of their new employees. In both cases, the obligations of the cities end when the employee retires. For example, Hillsborough contributes \$75 a month to a tax-free Health Savings Account for each eligible employee hired after 2002, which, after vesting, the employee can take into retirement. Three of Hillsborough's four labor unions, including a police union, have accepted this arrangement. These plans are tax sheltered, and an employee can contribute to them. However, in both cases, the cities continue to fulfill more generous obligations to employees who were hired prior to adoption of the defined contribution plans.

In San Carlos, employees hired before January 1, 2009, who have worked with the city for ten years, receive a contribution to their health care of a minimum of \$610 per month for life. That amount increases by the same percentage as the contributions increase for current employees.

⁴ Based on the 2007-2008 San Mateo County Civil Grand Jury report. <http://www.sanmateocourt.org/grandjury/2007/reports/benefits.pdf>

However, for employees hired after January 1, 2009, that amount will decrease to \$350 per month, for life, for retired employees. The vesting period is 15 years. The amount will not fluctuate.

c) How Pensions and Other Post Employment Benefits are Funded by Cities

To cover pension obligations made by the cities, city workers pay fixed rates into CalPERS, while the rate for cities is adjusted every three years. Rates are determined by the performance of CalPERS investments and the anticipated pension obligations, as calculated for each city. The payment is made as a percentage of employee salaries.

Table 6 shows the percentage of salary paid to both CalPERS and OPEBs (where known). Note how much higher contributions are for police, who are all eligible to receive retirement pensions based on the 3% at age 50 formula, compared to regular employees, most of whom receive a pension based on the 2.7% at age 55 formula, or less.

Table 6: Employer Contributions as a Percentage of Salary to CalPERS and OPEBs (Where Known)

San Mateo County City	Employer Contributions as a Percentage of Salary to CalPERS Retirement			Employer Contributions as a Percentage of Salary to OPEB Retirement (Where Known)		
	Safety Employees		Regular Employees	Safety Employees		Regular Employees
	Police	Firefighters		Police	Firefighters	
Atherton	38.66	-	20.10	-	-	-
Belmont	30.06	-	13.05	9.4	9.4	-
Brisbane	14.80	14.80	13.49	-	-	-
Burlingame	19.99	16.12	11.85	-	-	-
Colma	27.10	-	13.18	-	-	-
Daly City	22.25	22.25	19.67	2.5	2.5	2.5
East Palo Alto	19.08	-	11.58	-	-	-
Foster City	33.01	33.01	13.93	1.0	1.0	1.0
Half Moon Bay	30.33	-	13.39	-	-	-
Hillsborough	37.36	29.53	25.41	-	-	-
Menlo Park	34.90	-	15.24	4.0	4.0	3.2
Millbrae	16.88	19.58	11.91	-	-	-
Pacifica	37.52	31.37	22.23	20.0	15.5	5.9
Portola Valley	-	-	14.07	-	-	-
Redwood City	29.38	29.38	15.42	3.9	3.9	3.5
San Bruno	30.72	30.72	14.22	9.0	9.0	8.0
San Carlos	38.19 *17.63	52.24 *17.63	17.38	6.7	6.7	7.6
San Mateo	28.14	28.14	11.18	2.0	2.0	2.0
So San Francisco	29.13	29.13	17.22	-	-	-
Woodside	-	-	12.03	-	-	-

*For new hires with 3% at age 55 (versus 3% at age 50, as shown in the figure above).

Employee Contributions to Retirement Pensions and OPEBs are as Follows:

- Regular employees contribute 8% of their salaries to CalPERS when the city formula is 2.70% at age 55, and 7% into CalPERS when the city formula is less.
- Safety employees contribute 9% of their salaries to CalPERS when the city formula is 3% at age 50, and 8% into CalPERS when the city formula is less.
- Employees in San Mateo County cities contribute nothing to OPEBs.
- For non-benefitted employees, who are enrolled in Social Security and Medicare, both the employer and employee pay 6.2% of gross compensation up to the current limit of \$106,800, toward retirement benefits. The employer and employee each pay 1.45% of gross wages, with no limit, toward Medicare. The retirement age for receiving full Social Security benefits is 67 for persons born after 1960.

Methods Cities Use to Cover Pension and OPEBs Debt

To meet the pension and OPEBs obligations already incurred, some cities such as San Carlos, San Mateo, Daly City, and Burlingame, have issued Retirement Obligation Bonds ranging in an amount from \$11 million to \$36 million. These bonds need not be voter approved.

Bonds scheduled to be issued by the City of Pacifica in 2008, to cover unfunded city employee pension liabilities in the amount of \$17.7 million, were not put up for sale because the municipal bond market had collapsed. Therefore, the City of Pacifica will continue to pay CalPERS interest on that obligation, which is currently 7.75%.⁵

The City of Menlo Park diverted \$13 million from its general fund to cover its retiree health care liability.

d) Benefits For Current Employees

Benefits for current employees include:

Healthcare: In almost all cities, the cost of employee health, dental, orthodontia, and vision care is completely covered, or almost completely covered, by the cities. These costs are rising. In Daly City, for example, the cost of medical, dental, and vision per employee in 2009 ranged from \$977 to \$1,221 per month, up from \$884 to \$1105 per month, in 2008. In five County cities, any increase in the cost of health care for current employees is automatically applied to retirees.

Other Benefits: Other benefits include tuition, childcare costs, longevity bonuses, and others.

⁵ Emde, Lionel, *Pacifica Riptide*, "Our Fiscal Crisis: Pacifica Pension Obligation Bonds Unsold," April 19, 2009, http://www.pacificariptide.com/pacifica_riptide/2009/04/our-fiscal-crisis-pacifica-pension-obligation-bonds-unsold.html, and confirmed by the City of Pacifica

Days Off: Employees are paid time off for holidays, vacations, personal leave days, plus time for sick leave. Table 7 shows the number of possible days off for a regular, non-management employee who has worked for a city for four years. The median number of years of regular-employee tenure is approximately ten.

Paid Time Off: The number of vacation days typically increases based on length of employment. For example, a regular non-management employee in the City of Half Moon Bay will receive the following:

- After working four years, an employee will receive a time-off total of five weeks plus two days per year, not counting up to twelve days of sick leave.
- After working eleven years, an employee will receive a time off total of eight weeks plus three days per year, not counting up to twelve days of sick leave.

Accumulated Vacation Days can be:

- Converted to cash at termination or retirement and/or
- Added to the number of years of service and calculated into the retirement benefit, sometimes at the higher salary being received at retirement. Restrictions may be imposed. For example, in San Carlos, the maximum accrual time is two years, and any time beyond two years is cashed out.

Unused Sick Days can be:

- Converted to cash at termination or retirement. Cash conversion rates range from 15% to 50% of the value of unused sick leave. There are also caps on the amount of leave that can be converted.
- Added to the number of years of service and calculated into the retirement benefit.
- Applied as health credits: these are used to extend or enhance post-retiree health care plans.

TABLE 7: Days Off for a Regular Employee, Who Has Worked 4 Years with a City

	Vacation Days per Year for a Regular Employee	Holidays	Floating or Personal Leave Days	Total Possible Days Off	Plus (+) Sick Days per Year
Atherton	15	11	1	5 weeks 2 days	+2 weeks 2 days
Belmont	10	11	2	4 weeks 3 days	+2 weeks 2 days
Brisbane	15	12 + 2 days @ 4 hr	3	6 weeks 1 day	+2 weeks 2 days
Burlingame	10	14	-	4 weeks 4 days	+2 weeks 4 days
Colma	10	13	3	4 weeks 3 days	+2 weeks 2 days
Daly City	13	10 + 2 days @ 4 hr	-	4 weeks 4 days	+2 weeks 2 days
East Palo Alto	10	12	-	3 weeks 1 days	+ 3 days
Foster City	12	11 + 2 days @ 4 hr	-	4 weeks 4 days	+2 weeks 2 days
Half Moon Bay	12	14	1	5 weeks 2 days	+2 weeks 2 days
Hillsborough	15	11	2	6 weeks	+2 weeks 4 days
Menlo Park	13	11	4 days + 2 hrs	6 weeks 1 day	+2 weeks 2 days
Millbrae	12	10	3	5 weeks 5 days	+2 weeks 2 days
Pacifica	11	11	2	4 weeks 4 days	+2 weeks 2 days
Portola Valley	10	13	0	4 weeks 3 days	+2 weeks 2 days
Redwood City	10	12	2	4 weeks 4 days	+2 weeks 2 days
San Bruno	10	11	3 days + 4 hrs	5 weeks	+2 weeks 2 days
San Carlos	12	10	5	5 weeks 2 days	+2 weeks 2 days
San Mateo	16	10	3	4 weeks 4 days	+2 weeks 2 days
South San Francisco	15	11 + 2 days @ 4 hr	-	5 weeks 2 days	+2 weeks 2 days
Woodside	-	13	24	7 weeks 2 days	none

e) Salaries for Current Employee

Employee union contracts have automatic salary increases, known as “step” increases. The first increase will typically come after the initial six months in a position, and the last will be reached in 3.5 years.⁶ Then, the employee may go on to Step II. These scheduled increases do not include pay-for-performance adjustments.

In addition, step categories are increased annually to reflect COLA increases. In the years starting July 1, 2008 and ending June 30, 2011, the COLA increase in one San Carlos contract is scheduled to rise by 9.5%.

It is beyond the resources of this Grand Jury to analyze the salaries of the twenty cities in San Mateo County. However, from the Bureau of Labor Statistics the Grand Jury learned that nationwide, state and local government workers are paid an average of \$25.30 per hour, which is 33% higher than the private sector’s \$19.00 per hour. The gap widens to 42% when pensions and other benefits are included.⁷ The Grand Jury recognizes that the private sector covers a wider range of jobs than the public sector.

Representative Salaries

From cities, the Grand Jury learned that:

- Daly City has 562 full-time employees, including police and firefighters. In 2009, the median salary for a maintenance worker without current benefits or retirement benefits is \$84,610. Twelve employees earned less than \$50,000 per year. One hundred ninety-five employees have base salaries of more than \$100,000.
- South San Francisco has 371 full-time employees, including police and firefighters, who have worked for the city at least one year. In 2008, the median salary, without current benefits or retirement benefits, was \$83,873. Without firefighters and police, the median salary was \$65,335. Twenty-five employees earned less than \$50,000 per year. Eighty-seven earned more than \$100,000.
- In Hillsborough, the 2009 median salary for 113 full-time employees is \$92,133 without current or retirement benefits. Ten employees will earn more than \$100,000, and four will earn less than \$50,000.
- In Foster City, the median salary in 2009, for 212 full-time employees including police and firefighters, is \$83,685 without current or retirement benefits. One employee will earn less than \$50,000. Fifty-six will earn more than \$100,000 a year.

⁶ An Administrative Assistant position in San Carlos, beginning in 2010, will make \$4,684 per month. After six months in that position, the employee will make \$5108 a month. After three and a half years, that employee will make \$5,913 per month.

⁷ <http://www.bls.gov/news.release/ecec.nr0.htm>

Representative Increases in Salaries and Benefits

From newspaper articles the Grand Jury learned that:

- In Menlo Park, from 2001 to 2006, the number of full-time equivalent employees dropped 13%, but personnel costs increased 27%.⁸
- In 2007, Menlo Park employees received a 35% boost in pension benefits.⁹
- In the City of San Mateo, total payroll increased from \$54.1 million in 2006 to \$61.5 million in 2008-- an increase of 12.1%. These figures include current benefits but not retirement benefits.¹⁰
- In Burlingame, total payroll jumped 11% from 2006 to 2008.¹¹
- On February 9, 2009, the Pacifica City Council approved a new one-year contract with the fire battalion chiefs represented by Teamsters Local 856, retroactive to July 1, 2008. The contract featured a lump-sum payment of \$4,778.96 for members of the bargaining unit, a three percent increase in the base hourly rate, and an option of two different health plans. The monthly contributions from the city per employee are either \$1,022 or \$1,154.¹²
- In January 2009, the Menlo Park City Council approved a raise that will increase the total pay for eight police sergeant positions 30 percent-- from \$107,086 to \$131,452-- by 2011. In that year, the new sergeants' contract will cost the city \$2.29 million, \$529,000 more than the \$1.76 million it paid in the current 2008-09 fiscal year.¹³
- For the five years from 2003-2008, the Consumer Price Index for the Bay Area increased by a total of 13.1% or an average of 2.6% a year.¹⁴

2. Personnel Policies

a) How Wage and Compensation Packages are Set

From interviews, the Grand Jury learned that most cities set their compensation packages by surveying the wage index for a handful of like cities in the general area-- not for the employment market at large. In union negotiations, cities will often negotiate to a place on the wage index rather than negotiating what they think are reasonable salaries. If the wages in their percentile increase due to new negotiations, all negotiated salaries increase. Additionally, the Grand Jury learned that this practice of limiting the survey to other cities is based on the assumption people from the private sector are not qualified for public sector jobs.

The City of Burlingame stopped using this survey in 2008¹⁵:

A city official told the Daily Post: "The practice of using neighboring cities as an index had created a system where cities are essentially bidding against each other for the highest wages.

⁸ *Almanac*, "Menlo Park Employee Benefits, a Growing Burden," July 5, 2006

⁹ *Almanac*, "Menlo Park Contracts Will Boost Benefits 35%," February 14, 2007

¹⁰ *Daily Post*, "San Mateo City Salaries Listed," March 3, 2009

¹¹ *Daily Post*, "Burlingame Slows Down Payraises," March 17, 2009

¹² *Ibid*: Emde, Lionel; For verification see <http://www.cityofpacificacounty.org/civica/filebank/blobload.asp?BlobID=3284>

¹³ *Almanac*, "Viewpoint," May 6, 2009

¹⁴ <http://www.squarefeetblog.com/commercial-real-estate-blog/2009/01/16/san-francisco-consumer-price-index-cpi-december-2008-update/>

¹⁵ *Daily Post*, "Burlingame Slows Down Payraises," March 17, 2009

The collective bargaining process makes it a 'keeping up with (the) Joneses' kind of thing.... It continually puts a great inflationary pressure on salary and wages.”

The impact of using such a survey is evident in the case of firefighter compensation. Firefighters often receive the same compensation packages as police officers and, in all cases more than regular employees. (Table 3) While there is a shortage of police officers, there are 300 to 1000 applicants for every firefighter job vacancy.

b) Staff Size: Merging, Streamlining, and Contracting Services

Merging services: From interviews, the Grand Jury learned that the twenty County cities have unnecessary duplication of services for small population pockets, and that there are many opportunities for services in different cities to merge. Some cities have merged their police and/or firefighters with other cities or outsourced the police and fire duties to the County. Some dispatch services have merged. Two neighboring cities share management recreation staff. The San Mateo County Office of Education supplies all payroll services for the more than 150 County public schools.

Streamlining: Many cities have streamlined functions by web-enabling their employment applications, building applications, Requests for Proposals, and other services.

Contracting Services: From interviews, the Grand Jury learned that services can be less expensive for cities to contract with private companies to execute functions usually performed by employees. Cities have contracted out childcare services that operate on city land, recreation services, landscaping, street sweeping, tree trimming, plan-checking, information technology functions, road surfacing, fleet maintenance, and custodial work.

When contracting services are considered, some cities will allow city departments to submit proposals to maintain the services in-house. There may be legal limitations in the types of services that can be contracted and the manner in which these services can be performed.

Table 8 shows there are differences among staff sizes in the twenty cities of San Mateo County. Many factors contribute to determining the “right staff size.”

Table 8: Comparison of Population Size with City Staff Size
 (as of December 2008, not including part-time or seasonal workers)

San Mateo County City	Population	Full Time Equivalent Employees	Includes Police	Includes Firefighters
Atherton	7,194	51	yes	no
Belmont	26,078	135	yes	no
Brisbane	3,694	117	yes	yes
Burlingame	28,185	258	yes	yes
Colma	1,197	45	yes	no
Daly City	106,361	562	yes	yes
East Palo Alto	31,500	117	yes	no
Foster City	28,803	213	yes	yes
Half Moon Bay	13,046	52	yes	no
Hillsborough	10,825	115	yes	no
Menlo Park	30,785	244	yes	no
Millbrae	21,387	136	yes	yes
Pacifica	39,616	199	yes	yes
Portola Valley	4,500	14	no	no
Redwood City	75,400	546	yes	yes
San Bruno	41,750	253	yes	yes
San Carlos	27,718	111	yes	no
San Mateo	92,482	580	yes	yes
South San Francisco	60,552	495	yes	yes
Woodside	5,352	21	no	no

3. The Role of Politics

a) The Nexus Between Unions, City Council Members and Staff

In all San Mateo County cities, salaries, retirement pension plans, other post employment benefit plans, as well as the current health care benefits, workplace rules, salary ranges, and increases are negotiated by unions on behalf of their members. Each city negotiates with three to twelve unions, usually for three-year contracts. (Appendix 2)

The negotiating unit for San Mateo County cities includes city council members and the city manager. They negotiate with the assistance of a labor negotiator. There is a conflict of interest because council members and the city manager, as well as the union members, will benefit in some ways when salaries and compensation packages increase.

When compensation packages are increased senior staff also benefit because although not represented by a union, their salaries and benefits increase proportionally to those whom they manage. Some city council members will benefit financially because they can become vested after five years, during their second terms, and receive healthcare and pension benefits for life.

Additionally, city council members benefit because they will maintain union support, and, in almost all County cities, unions play an active election role. According to the December 2008 edition of the newsletter *Labor*, "The San Mateo County Central Labor Council was successful in winning 75 percent of endorsed local ballot measures and candidate races."

A *Daily Post* editorial¹⁶ quotes from a candidate questionnaire, crafted by the unions for city council candidates, that includes the following sample questions:

"What steps would you support to balance the city's budget?
a) require city workers to take unpaid time off,
b) ask voters to raise taxes,
c) reduce wages and benefits of city workers,
d) increase user fees,
e) lay off city workers."

"If elected, will you use your influence as a city council member to support workers who are organizing to form a union or negotiating for a union contract?
a) yes, b) no."

"If the current city council votes to privatize the city's child care programs, will you vote to rescind this decision? a) yes, b) no."

During an interview, a union representative told the Grand Jury in addition to supporting their candidates with funding, union members print, distribute, and mail literature, manage phone banks, and help with candidate campaigns. Unions will also negatively campaign against candidates they oppose.

¹⁶ *Daily Post*, "Take the quiz unions give to candidates," February 9, 2009

b) Public Involvement

Under California law, labor union negotiations are held in closed session. According to a survey the Grand Jury sent to twenty cities, less than half the cities in San Mateo County hold public discussions before the closed session. Almost all cities place the negotiated contracts on the city council consent calendar, where contracts may be voted on without further discussion among the council members, unless a member of the city council specifically requests that the contract be discussed.

At the September 8, 2008 City of Pacifica council meeting, for example, three contract issues appeared on the consent calendar and were adopted without discussion. The staff report did not describe the fiscal impacts of these decisions, referring readers to the fiscal year 2008-2009 budget in which the increases were anticipated.¹⁷

Ballot measures:

In some charter cities and counties outside of San Mateo County, ballot initiatives have recently given citizens a chance to vote on retirement and health care benefits.

San Francisco, the City of San Diego, and Orange County have recently passed ballot initiatives as follows:

1. In June 2008, San Francisco voters approved two ballot measures limiting the future cost of retiree health care benefits:
 - a) New employees will contribute two percent of their salary to a new retiree health care fund and the employing agency will contribute one percent.
 - b) New employees must work ten years to receive half of their health care costs when they retire and twenty years for full coverage, whereas previously, if they worked five years they were 100% vested.
2. In November 2006, the City of San Diego required voter approval to any increases in retiree benefits.
3. In November 2008, Orange County voters decided that future retirement increases must be voter approved.

Conclusions

The 2008-2009 San Mateo County Civil Grand Jury concludes:

1. Employee wages and compensation packages are not affordable. The escalating employee costs can and should be reversed in the twenty cities of San Mateo County.
2. Long-term solutions, in addition to stop-gap measures such as temporary wage freezes and furloughs, are needed.
3. Union contracts for new municipal employees can be introduced, reducing the cost to cities for both pension and post-retirement health care plans.

¹⁷ *Ibid*: Emde, Lionel; for verification see:

<http://www.cityofpacificacivica.org/civica/filebank/blobdload.asp?BlobID=3110> see #6 on consent calendar & attachment
<http://www.cityofpacificacivica.org/civica/filebank/blobdload.asp?BlobID=3146> see consent calendar minutes

4. For current, as well as newly hired employees, salary increases, total days off, and the ability to accrue and cash out sick leave, can be contained.
5. The practice of basing compensation packages on those of nearby cities contributes to higher employee costs overall.
6. Cost-efficiencies have been achieved by contracting out some services to other cities or to private-sector firms.
7. Cooperation among cities to reduce overlapping functions has been successfully implemented.
8. Political barriers-to-change exist because the people negotiating employee contracts-- staff, unions and city council members-- all benefit when wage and compensation packages increase. These barriers can be neutralized with public involvement and, possibly, through ballot measures.

Recommendations

The 2008-2009 San Mateo County Civil Grand Jury recommends that the city or town council of: Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, Woodside, take the following actions:

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City- Staffing Action Plan.
2. Create a Citizen "Wage Benefit and City Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with:
 - a) Attending the session(s) convened per Recommendation One
 - b) Creating and reviewing the Wage, Benefit and City-Staffing Action Plan (Action Plan) that is produced by the Task Force from this session
 - c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election

The items in the Action Plan should address but not be limited to:

1. **Creating a two-tier system retirement and healthcare benefits system for new hires to:**
 - a) Replace current post employment healthcare plans with health savings plans.
 - b) Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60.
 - c) Base pensions on the average of the last three to five years of salary.
 - d) Make provisions for increasing employee contributions to current pension and post-retirement healthcare plans.

2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees to:

- a) Eliminate the practice of converting accumulated sick leave to cash.
- b) Reduce vacation time.
- c) Reduce the number of personal days.
- d) Increase employee contributions to current health, vision, and dental insurance.
- e) Extend the length of time between automatic salary increases.

3. Initiating competitive hiring practices to:

- a) Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.
- b) Employ more market-oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.
- c) Consider the number of applicants for respective jobs, when negotiating salaries, noting, for example, that there are often 300 to 1000 applicants for firefighter jobs.
- d) Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police recruits.
- e) Join with other cities, and/or the County to create a central training center that promotes cross-training and succession planning for existing staff, and, additionally, introduces qualified applicants from the private sector to public sector service.

4. Reducing need for Staff by:

- a) Expanding the use of technology to streamline services.
- b) Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.
- c) Creating partnerships with other cities and/or the county to include, for example: payroll, human resources, landscaping, fire fighting, police, recreation, and, custodial work. The County already provides centralized training and dispatch services.

5. Increasing Public Involvement by:

- a) Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits.

- b) Making public the Memorandums of Understanding (MOUs) with the unions that result from these negotiations.
- c) Placing the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena.

6. Involving Taxpayers:

- a) If a city council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the city council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them.

Appendix 1: CalPERS Formula Charts

1. For Local Miscellaneous Members (dated 04-21-05)
2% @ 55; 2% @ 60; 2.5% @ 55; 2.7% @ 55; 3% @ 60
2. For Local Safety Members
2% @ 50; 2% @ 50; 2.5% @ 55; 3% @ 50; 3% @ 55

Appendix 2:

Many cities post Union Contracts on their websites.

Go to:

1. City website.
2. City Departments
3. Personnel (or Human Resources)
4. And find the contacts listed there.

For Daly City, for example, which negotiates with 12 separate unions, go to http://www.dalycity.org/city_services/depts/hr/mous.htm