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>> Mayor Reed: All right, we're getting there. Welcome everybody, good morning. Finds your tables. If you don't have a seat, they're available for \$100 each. Talk to the scalpers out front. Grab your coffee and your health food. Because we're going to try to get started here in just a minute. There's still a few people that need to sit down. Come on in. I want to welcome everybody, and thank you for taking a chunk out of your weekend, to partnership in this. We take this very seriously, and I'm glad that you do, too. This is an important session. Before we get started I want to introduce some of the people that have joined us. Vice Mayor Nguyen is here. [applause]

>> Mayor Reed: Councilmember Pete Constant and clan. [applause]

>> Mayor Reed: Councilmember Oliverio is somewhere, over there. [applause]

>> Mayor Reed: And you'll probably see most of the other councilmembers come enthuse the meeting during some time of the day. As I mentioned we take this very seriously. We got our top people are here, we really want to be engaged with you, and vice versa. So I'll introduce some of the experts that are here. City Manager, Deb Figone. [applause]

>> Mayor Reed: Assistant City Manager, Ed Shikada, somewhere. [applause]

>> Mayor Reed: Kim Walesh from our Office of Economic Development. [applause]

>> Mayor Reed: Jane Light, library. [applause]

>> Mayor Reed: Chief Willie McDonald, fire chief. [applause]

>> Mayor Reed: Hans Larsen from transportation. [applause]

>> Mayor Reed: And I think I got all the department heads. Many other people from the departments here to participate. We really appreciate your engagement. And then there's another group of people here wearing the blue shirts at each table from innovation games. I'll talk about that in a minute. But they're here working for free. [applause]

>> Mayor Reed: So they're burning their Saturdays as well to help us out. Let me just get started with talking about why you're here. And why we've asked you to come in and do this. And this is a part of our community based budgeting program, that we have implemented since I've been mayor. And the objective of the whole effort is, when we get done with our budget, and we will be done with our budget because we have to, we will balance the budget but we want to do it in a way that reflects the values and priorities of our community. And there are a lot of steps in the process, but this is an important step where we try to engage with the neighborhood association leaders, and our youth commission who are also present, to go through a process of trying to figure out what the priorities are. And the innovation games piece of this is about priority-setting. And we'll give you some more details on that later. But we want to get a good process, where people are engaged, and this is just the beginning of your engagement I hope. Because you can't just walk away from today and say okay, I did my part. We have months and months ahead of us on budget work and we need to hear from you, need to hear from your members not just those of you who are in the room but the entire city council and everybody else. You got to stay engaged until the end because there are tough decisions we need to make and we need your help. Speaking of the tough decisions I'd like to get the first slide up to show you where we are going into the fiscal year beginning July 1st. That red line at the bottom is the gap, really \$110 million. That's a gap we have to fill. That's a difference between our revenues, and our expenses that we're projecting for next year. That's nearly as big and as bad as last year's gap of \$118 million that we have to close. It's an enormous number that's bigger than the combined budgets of libraries, parks, recreation and neighborhood services. So it's a very significant problem that we face. But I want to thank you all for helping us close that gap last year. And helping us at the polls with approval of measures J and K that maintained some of our important funding sources, and measure G, I think it was, this last time around on the increasing the tax on the card rooms. Of course, V and W, last November, were important steps in getting control over costs, the fiscal reforms you approved, V and W. I appreciate that. Within this gap public safety is the biggest number within the budget. This year Public Safety budget is \$451 million. Last year the

Public Safety budget was \$451 million. We have less police officers and less firefighters working for the city than we have a year ago and that's because costs have increased dramatically. And that's the same case this year, costs are increasing dramatically. And if you look at the top line on this chart the increased retirement contribution, \$60 million, that's just the increase in the costs of retirement benefits. The total number is much bigger than that. That's the increase this year. And unfortunately, it's going to get bigger next year. We'll get a slide in a minute that will show you that. But public safety has been identified by you, and our citizens, as our number 1 priority. It's the council's number 1 priority. But it's also clear if from from this community based budgeting process that it is not the only priority of the city, that there are many other things that you value at a very high level, and if you look at the data, you'll see that that's true across the city. We've just finished a poll, a statistically valid scientific sample of the entire city. I put out a memo on Friday with the top line results open that, that's available online. The additional information will come out this week as well but you can take a look at that and you can see the values and the priorities of the people of our community, are reflected there. Now, last year I asked that in order to close that gap that we get a concessions from all of our employees, I asked for 10%, council approved the 10% and we got 10% concessions from a quarter of our workforce which is great because it helped us save jobs. Our police officers gave 4% but that allowed us laying off any officers so we saved the jobs of 72 officers through the concessions given by the police officers. We were not able to get an agreement for concessions from our fire union. And so we did end up laying off 49 firefighters. This year, the council has directed the staff to continue to seek that 10% from everybody. So those who have already given, well, we're going to focus on those that haven't but we will try to make all of those concessions ongoing, because last year, half of them were ongoing and half were one time so we still have a problem. But we're going to be engaged with our unions. There are 11 unions, Alex Gurza is not here, he has the toughest job in the city I think, negotiating with 11 bargaining units. And we're doing 11 of them all at the same time. Because they're all -- have open contracts or expiring contracts. So we know that if we don't get concessions, well, there's \$109 million gap there. If we get 10% concessions that's worth about \$38 million. We still have a problem but it's a much bigger problem if we don't get concessions. But another reason that we have you here is because you represent the broader interests of the community. And we wanted a way to engage you, folks are organized, all kinds of groups and sometimes you're an organized group, representing special interests. But we wanted to try to reach the broader community, and this is a way to do that. I want to give you the schedule of what we're going to do. Not

this morning, but over the next few months. As you can see there are a lot of steps in there, and that's not everything because we have at least ten community meetings scheduled or will be scheduled in that process. Typically one in every council district and many of you have participated in those. We will do those again. But you can see we have a lot of steps here. We just did the budget survey. Today, January 29th is the session, so we're just getting started. There's a lot of work to be done, a lot of heavy lifting. Final budget adoption June 21st, that looks a long ways off. I'm just thinking about all the hours it's going to take to get there. But we will get this. We have no choice. That's the law we have to have a balanced budget by the end of the year and we will do that I'm sure as we always have mainly because we don't have a printing press and we can't just setback the clock so we can't do what the federal government does and we can't do what the state legislature does so we will be done by then, how many ever hours it takes. Next I'd like to put up the slide of the projections for retirement contributions. This is the biggest problem facing us. As I -- on the earlier slide there were \$60 million increase in the numbers for this next fiscal year. So in that first column there, the total of \$256 million, that represents a \$60 million increase in the General Fund. And more in other funds. But that's not the end of it. So we're going to pay the price with the \$60 million increase, in next fiscal year and can you see another \$50 million a year after, another \$50 million the year after, another \$40 million the year after. We have a very long ways to go to solve this problem. And let me just give you the short version of the magnitude. I always try to figure out a way to explain this. Think about the implications of this set of numbers. Our General Fund revenues are approximately \$700 million. Our public safety part of the budget, approximately \$450 million. The difference is \$250 million, that we can spend on everything else. What we're looking at is a \$250 million increase in retirement contributions. That is enough to consume everything else that we have after the public safety budget. So these are really big numbers with enormous consequences. So there are things we have to do. We will talk about those. But today all we're asking you to do is to help us with a piece of it. And that's why we're doing this. I like to call it a simulation because that sounds fancier than game. But it really is a game, a very serious game that we do, and gaming exercises are used around the world by all kinds of organizations and governments. And this particular game, by innovation games, is something that they use with Fortune 500 companies, it was developed by folks here locally, but we have people from around the country here today that have come in to help us with that as well as local people. And the reason I'm anxious to see this game is, I think this is the first time it's ever been done at this kind of a government level, so we're being innovators here. And most of you have probably been here every year for

this session, and you know we do it differently every time. So this is an experiment, but that's always interesting. It will make it fun, we'll work on your feedback. If you don't like this game, we won't do it again. If you think it's a great thing, then maybe we'll do it again, but it's an interesting way to get engaged, and an important way for you to understand the priority-setting, and it's about setting priorities. So on your tables you'll see games, information, you'll see about \$14 million of moving parts that you have to deal with, not \$110 million. So just assume for purposes of our game, that we've done everything else. We've done all the easy stuff and a lot of hard stuff and we got concessions but we still have a pretty big gap to close. So we're not trying to do everything in one morning here. This is really about setting priorities. And what's in front of you are not proposed budget cuts. We took these out of last year's documents, so the numbers aren't exactly the same. Nothing is exactly the same because it's a simulation, it's a game. But the first half is really the prioritization exercise and we have facilitators and you can see, they're around the room. The second piece of the morning will be more specific. Question that I have to answer, that council has to answer, the City Manager has to answer. We're going to ask you. And we'll have a clicker exercise, we're way way way beyond by voting by dots. We've gone to clickers. So we're going high tech with our vote-by-dot exercise to give you all a specific chance to weigh in on the topics that we have to deal with, and questions that we have to answer, whether we like it or not, we have to come up with an answer. So with that, I want to turn it over to Luke, telling me I'm forgetting about something. Since I started talking Sharon Erickson our independent auditor, City Auditor. [applause]

>> Mayor Reed: Dennis Hawkins, City Clerk. [applause]

>> Mayor Reed: Jennifer Maguire, our budget genius that has to figure all this out! [applause]

>> Mayor Reed: Peter Jensen from general services, GSA. [applause]

>> Mayor Reed: Scott Johnson, finance. [applause]

>> Mayor Reed: And Norberto Duenas, deputy City Manager. You all probably know Norberto. Well, we'll introduce other people as they come in right now I want to turn it over to Luke from innovation games, to explain

what we are going to do. Thank you Luke. This is the way to get back to the community, they're doing it for free and we really appreciate it. Thank you Luke. [applause]

>> Hi everybody everyone my name is Luke Homan and I'm the founder and CEO of innovation games company. What we do is design and produce serious games predominantly for companies like Cisco and Skype and Qualcomm and Verisign and even Armstrong Flooring, household names that you're familiar with. And what we help our customers do is grapple with the same kind of issues that you're grappling with. We help them do things like prioritize their budgets and identify the most important areas for their companies to make investments. So we're really excited as Mayor Reed said, this is the first time that we've been able to work with a city to produce an event this large, and we're very excited to be here. We do this because playing these kinds of games gives us access to two kinds of information. One is what you think is important, and the second is why you think it's important. So as you're playing these games you're going to have our team of trained facilitators and observers listen to what you say to each other and listen to how you negotiate. Because this information will help us inform how the priorities of the citizens should be reflected in the budgeting process. We're not asking you to can, you know, prioritize the budget and we're not dealing with every single item as Mayor Reed said. We're dealing with a representative set of items that enable us to understand your priorities. Now, the other reason we do that is -- and we do what we do is, play is a very deep part of being human. If you look at some of the emerging research on games and game-play coming out of places like Stanford right here in Silicon Valley, what we're finding is that the concept of play isn't really distinguishable from the concept of work when we are fully engaged in the process. So we hope that you can find a way to engage in this challenging exercise, and it's going to be challenging. It's going to be thought provoking. There's going to be animated discussions in a way that lets you see things from multiple perspectives. Now, the way this game works is, we will have a list of items that you may want to fund. And each of you has been given some money. You have not been given enough money to fund all the items that you think are important. So the first thing that you're going to have to do as a team, and it is a team based game. It is collaborative play. It is not competitive. It's collaborative. You have to work together. The first thing you're going to be asked to do is work together to identify the items that you think as a team you want to fund. If you can fund those items with the money that we've given you, you can fund the item. And our trained facilitator will sort of listen to the reasons why you're making this choice and will take your money. Because you

know, as the mayor said, you can't print it. Now, you may find that there are additional items that you would like to fund. So you would like to obtain more money. I kind of want to obtain more money, too, right? Need a raise. So there is another set of items that you can cut. And if you cut one of those items, you can take the money from the cut to purchase additional items. So it's a way to test the different balance between things that you want to buy, and things that you might want to cut. Now, this is very important. I'm an engineer and so, as an engineer, a software engineer, you think of things in terms of binary terms. On or off, 1 or 0, yes or no. So in this game we've carefully constructed it so that every item that you will purchase or every item that you will cut is indivisible. The facilitators will listen to you and you'll negotiate and say what about half of this item? That's a good idea. It is either all or nothing. And each program is carefully, he see all these smileys going oh, okay. It is easy doing budgets to say walk up and say save 5%. When you engage in the activity of saying, save 5%, you're kinds of deferring the hard decision to someone else. So we want to bring that hard decision to your table. And we want you to look at each item, as an indivisible chunk of work that will either be bought or not bought. And that's kind of important. We look forward to an exciting and challenging game, and my team, and on behalf of my team trained facilitators we actually want to thank the community for letting us serve in this way. We're very proud to be here. Thank you. [applause]

>> Good morning. I'm Kip Harkness director of strong neighborhoods and it's my team's privilege to be supporting the mayor and innovation games in bringing you into this conversation this morning, we just want to take you a brief moment to ask you to reflect on the way you are going to choose to play this game, both here and outside of the room. And what came up for me, many of you in this room are of the age that you will fondly remember the Carol Burnett show. If you are not check it out on Hulu. There is one particular scene and Carol is mama, she is the matriarch of a strong but highly dysfunctional family. They are gathered around the table playing monopoly. The game becomes increasingly bitter and rancorous until they stand up and walk away from the game. And mama, clutching onto her real estate, says "I've got boardwalk and park place, we're going to finish the game." Now, you can choose to play the game like mama, and you may end up with boardwalk and park place if you do that. You will certainly end up with a table full of people who want to walk away. So you can also choose to play this like the game of life, not the Parker Brothers version, but the actual one. And so I would submit to you that we have the opportunity here to seek to understand, to be respectful of each other and the

consequences of the decisions that we make on our neighbors and our staff, to work collaboratively as a single team. And once we leave this room -- this is the important one that the mayor alluded to -- to hold each other accountable for the difficult decision that make our neighborhood stronger and our city great. So with that, let's play! [Individual discussions]

>> Hello everyone, we're not getting much pickup are we? Okay everyone. First off, thank you for playing these games. It gets loud at the end, hmm? How was it for you? Was it challenging? Was it hard to engage in this discussion? No? Sometimes yes, sometimes no, little bit yes, sometimes no. Yes, passion. We like passion. Passion is good. Did you feel that some of the players at the table enabled you to see things from a different perspective? And this is conversation you got a chance to learn a little bit about items or issues that you may not have known as much about? And we have different levels of knowledge, right? And those -- and that different level of knowledge was actually helpful in making some thoughtful choices, yep? So David, let's start with you. Shout out to me, what was one item that your table purchased? You purchased branch libraries. Did other tables purchase branch libraries? Now, we'll notice that branch libraries wasn't purchased everywhere. So Table F didn't purchase branch libraries. What did -- what were one of the items that you purchased? Antigrffiti. Okay, Antigrffiti was purchased by Table F. Did any other table purchase antigrffiti? All right. Let's move over, I'll move way to the end, because this table was actually animated in its discussions. You thought I was going to knock them over, didn't you? I have four kids so I like chaos. What was one item you did not purchase? That was like easy not to purchase? None of it was easy, by design, none of it was easy by design. Christmas in the park was easiest to not purchase. There's other ways to get that done.

>> Would you like to donate to that (inaudible).

>> I will be happy to accept your money on behalf of the mayor.

>> Well sadly, the only money I have is this funny stuff and the mayor said we're not able to print money, something about that being illegal.

>> Working an angle.

>> I appreciate that, Bob. Everyone take your money and give it to Bob. Okay, what was one of the items at this table that you decided to not fund on the red sheet?

>> We actually did four.

>> You did four. Give me one of them.

>> Truck staff.

>> Truck staff. Did anyone un-fund truck staff? Wow, that -- what you guys are going to ask questions about is, what are we going to do with all this information? And what you're doing now, lightly, just by talking with me, we're going to take -- our team is going to take all of those notes that the observers have been recording and all of the purchases that you've made and we're going to be consolidating that into a report and we're going to hand that to the staff, to the mayor's office staff, as information to help them in the budgeting process. Again, this isn't all the budget items and this isn't all the budget information. But this is information that will help them make a decision. So let's go over here to David's table. David what was one of the things that your table decided not to fund on the sheet?

>> Item F, fire truck staffing. And South San José substation.

>> South San José police substation. Did anyone else decide not to fund, the South San José police substation. One table here, one table here, one table up in the front. Tough choice to make. (inaudible).

>> Okay, yes, you don't already have it now. (inaudible) we're living without it, I'm repeating so everyone can hear. We're living without it now and we'll live without it another six months. This is one of the kinds of statements that were made during the negotiation, so the mayor has that as part of your reasoning about the choices that you

made. Now, our goal will be as much as possible, to not make any opinions about what we heard. That's not our job. Our job is to try and create an environment where your thoughts and your voices can be heard. The innovation games company actually is a member of an organization called the qualitative research consultants association. And there's a set of ethical guidelines about how we work on these. Obviously we're human, but we're going to try to represent as best we can what you said and not put our opinions in that. This is not about our opinions, this is about what's important to you. So now do you have any questions to me, directly, about this process or these games, that we might have? And I'm going to walk over here. And this is what's best. Okay, yeah, I was going to repeat it but I'm just going to hand her a mic.

>> Hi there. In one of my neighborhood involvements, I'm chair of the neighborhoods commission. And I would like to request of the mayor's office and the City Manager's office, if we could get the results of this game, and also, the marvelous presentation sent out to the neighborhood development center so we can then send it out to our neighborhood groups and members of the community so they can also have this information and learn more about the budget and the different options being considered in these difficult times.

>> Would that be okay with the mayor's office? Kim? Okay, so we'll find a way to make this available. It may or may not come through us. But we will find a way. Now, just to set expectations on time frame, there is so much rich information that you provide to us that it's going to take us at least two weeks to post-process this information and put it in a form, transcribe it onto paper, we'll work diligently to get that done but it will take us a little bit of time. Tom.

>> Not a question but an observation. So at our table, everybody here went straight to cutting. Which seemed like a good strategy, because then, everybody could get probably most of what they wanted. But actually we didn't wind up funding all that much. And I think it was because we delayed the conversation about what we wanted to do that we really didn't have a discussion about what values we had, and what information we needed to share with one another, and so forth and I think it really wound up underlining a process that brings people together for that kinds of discussion.

>> My name is (saying names) I'm president of Lynn Del neighborhood association, it is on the East side, a coalition of our NAC. I am hopeful and request that for next year the community be more involved in the planning. Coming in, I felt like we had a subset of hypothetical projects to choose from. I felt like much of the discussion that we had could have been prevented if we were able to focus on other things that maybe are not as high a priority but were not on the list. And so I hope that in the future we can be part of the process. I think that the outcome would be beneficial.

>> Thank you so much for saying that. I want to let you know everyone in this room, we'll get you a microphone next ma'am. I want to let everyone know that the city staff did a lot of work in trying to put this together. That said, we know that these are very complex issues and we didn't want to overwhelm you with all the possible choices. So if you found that this was a useful activity, or if you have some ideas on how we can improve it, please either get that information to one of my team or one of the city staff, and we will, you know, Kip, we'll certainly take that into consideration. We really do appreciate that kind of feedback. We hope that this was valuable enough to consider doing again maybe in some other form. And there's a lot of ways that we can design this and we're interested in your feedback on that. Let's go to this lady here.

>> Hi, my name is Tina Morrill and I think it was a good exercise. But one of the things I thought was a little bit difficult and this is with all due respect, it made the assumption that San José will operate business as usual. So there wasn't as much room for options such as outsourcing and that was a little bit constraining so in the future kind of dove tailing on what is already said, maybe we would have an opportunity to come up with some other type of business models or how to run a department. Just an idea.

>> That's a great idea. And I want to second that, in the following way: The purpose of this game is to really be a prioritization game as opposed to an ideation game or an alternative generation game. Would this group be interested in engaging in another activity, that is, instead of prioritizing over a closed set, also associated with generating new ideas, would you find that interesting? Right. [applause]

>> And the reason I bring that up is, and to be fully you know full disclosure, Eric, for example Eric is a Cisco employee. He is also a customer of my company. And what you should know is that we have more than a dozen of these games or these activities that are specifically designed for different kinds of questions that you might have. So this format really isn't a particularly good format for getting new ideas. It's a good format for understanding preferences, as a group. However, if you would like to participate in another round where we did different activities that were explicitly designed to look at alternatives and different ways of working in business not as usual, we would be happy to help out with that if this group would be interested in that. [applause]

>> Excellent. Okay. Gentleman here.

>> Robert Ben Scoter from Stevens Creek neighborhood in district 1. I just want to say I found this exercise extremely valuable and informative, much better than last year's. I would like to find a little more time to participate in. I don't know if other groups felt the same way. We felt really pressed for time and under a crunch and didn't accomplish as much as we could have done had we had a little bit more time.

>> We appreciate that. When we are working with -- in a sense, as Kip or the other peep people on the staff, even though this is pro bono work, we have been treating them like a client. And this is a complex agenda. The mayor has things he would like to discuss. Maybe next time we'll take this into the feedback of how much time they need. This is a little faster than normal because many times we'll go two, two and a half hours on a single game like this. So we appreciate that. You had a choice over here?

>> Yes, Bonnie Mace. So the one problem with this game from our perspective was if you have a hard discussion and you come to consensus, the way that the money was allocated afterwards made it very complex and confusing. Because he was marking down how we would turn in the money and yet we were all agreeing. So you need to have some way to incorporate that. If you have a hard discussion and have consensus, and everyone is dividing things evenly, how do you incorporate that into your prioritization at the end?

>> Right, one of the ways -- and it's a good point that she makes. And so that's why each table had two members of our team at each table. So Dan was the observer, and as John is negotiating the -- you know, the process of the money, Dan is also writing down this had unanimous consensus this is this and that feeds our report. There are two things we're trying to acquire out of this Bonnie, your preferences were as evidenced by what you purchased and the proposals that you reduced and why you did that. And when there was unanimous consensus, someone like Dan will be writing that down in his observer notes and we'll try and correlate both of those pieces of information. What she's saying is clearly important. We want to know when there is that unanimous consent. We have a microphone over here. We are trying to do our best but I also warn you we've got 15 minutes until the next segment.

>> Hello, my name is Teresa Foss, and I'm from the Pamilar neighborhood association in district 6 and I've participated in similar things in the past and this has been my favorite. We were all able to interact together, and nobody really took leadership or we were all able to participate, I think, in a very level field. And I really want to thank Brett, because he really would -- just by sitting back he was still able to guide us and bring us back into focus. And we did -- I felt we did really good. We were able to purchase nine items which were all of varying importance to all of the us so we even had money at the end that we were trying to look and see what else we could purchase. It was a good process and I think the mayor and the city, that's all can I say, thank you so much.

>> Okay, I must now point out that my next week is going to be just grief. Because Brett works in marketing. And to have someone at a table give him that much praise, all we're going to hear next week when we go to work is, hey, did you hear what she said about me, by the way? And I'm going to be like yes, Brett we heard it. And I guarantee on Tuesday I'll probably get an e-mail on Tuesday and then text messages on Wednesday. But thank you so much.

>> Hi, my name is Amanda, I'm from the youth commission. I think this activity was really well and being able to see our priorities, but one thing to be able to choose our priorities better is know what our alternatives were. Because some of these items, a lot of them, were interconnected. And if you fund one item, it could cover

the cost of the other item, as well. So that would have been one thing, to know what our alternatives are and different options how they interrelate to the group for next year.

>> Absolutely, and that's great feedback for the design of the game in terms of trying to capture the interrelationship of the items or the interdependence of the items, absolutely.

>> I'm sorry.

>> Go ahead sir.

>> Richard McCoy, I appreciate the opportunity of everybody coming here in the community and putting in their input. There are a few things I thought should have been on one of these things but it is one of many. The dilemma I witnessed at the end we had money left over and there was this itch to spend it. I got this money, it's burning a hole in my pocket, I got to spend it. I got a novel idea, let's put it away for a rainy day because God knows it always happens. I thought we didn't need to spend all of it but save some of it.

>> Thank you so much for saying that. As part of our several weeks of planning with that facilitation team, that question came up and that's a table's choice and of course Jennifer and Celine are going to write that down as part of the observation notes. That's definitely a valid observation. You don't have to spend all the money. And we might reflect on the fact that sometimes we get ourselves in trouble both personally and as a government when we spend all our money. Right here. I have -- oh, good. Noel gets to say something, there you go.

>> Noel carpenter, 9th district community action group. One thing that kept happening over and over in our group is that people say well we can generate money in an alternate way, we don't have to spend it this way? We can use volunteers, we can generate more income from the city in different ways. So it seemed like the emphasis here was cut cut cut cut cut, rather than increase our revenues. There are ways we can increase our revenues, right now, that we're not doing, and it will help the City's budget.

>> And that's part of I believe Bonnie said that earlier, is that there's opportunities for you to provide feedback to the city on your ideas on how to generate revenue. I can't speak for the city but I'm pretty willing to guess that they want to hear that, too, right? Kim's nodding. Absolutely so this game was designed that way. But we have other opportunities to work with you. And work with the city. To help you get your ideas on how to increase revenue. Absolutely.

>> Hi, Randy kinman from Sherman oaks in D-6. For us there was a lot of technical questions at the beginning which delayed our process and I don't think we got all of our answers. For instance if there's information out there that we might be cutting our contribution to senior nutrition programs that would have given us different information to go into maybe the HNVF funding. The other thing that was missing for me on this was a component of -- it's one more time, we're funding you one more time but next year you're on your own. For instance, crossing guards which everybody felt was a huge safety issue. Can we turn that over somehow to the school districts, so that we aren't funding what the school districts should be supplying or could be supplying. So there was a couple of components there that could make this a better -- a better thing all the way around the next time.

>> Absolutely and again I want to point out and celebrate the role of that observer. That would be what Mary would be recording down, and Mary's nodding she's like yeah Luke I wrote it down. And good. We'll take that as part of the qualitative feedback that goes back about some of those observations that she made and your table made about listen, this is something that needs to be considered and then we'll hand that back to the city leaders to review. But absolutely, thank you so much. (inaudible) (inaudible) (inaudible) which programs we wanted to buy. The first question we would ask is, who wants to be a champion for this? And it was -- it had to be somebody who had money. That they were willing to put towards it and they said yes, I will put this much towards this program. And then we would see who else would contribute to it. And it made it a very effective and efficient process. (inaudible).

>> Next microphone, let's go with Manuel.

>> Manuel Sousa, District 2. One thing that I felt was hugely important to us and really helped us out is being able to tap into some of the department heads that were walking arounds when we didn't understand an issue and was wondering what was going on one of the critical choices we had to make was with MLK. We didn't know it was a library issue, very important. Then you look and it's only a nine-hour difference is what we're talking about here. We were able to call on Jane, she was able to help us, thank you Jane, was able to explain to us what the real repercussions would be, with knot having approved this. I appreciate the help, our fire chief has been huge to help us out with the truck decision and some of the other things so really appreciate the input and I think that's something we need to keep that department head input to us as residents so we can make the choices rather than the political red tape that we're used to.

>> And I want to second that. We really appreciate what we call SMEs, the subject matter experts that happen, that joined us. So thank you so much for your participation. We really appreciate that from the subject matter experts. There was a gentleman here.

>> Tom Perambo, neighborhood commissioner and president District 8 community round table. The aspect of this activity was very realistic because it was set on priorities. We didn't have any other options than to work within the parameters that were given to us. And so I felt that it eliminated that, you know, discussion of outsourcing and volunteers because we only have a certain pot of money. And volunteers and outsourcing is an unknown variable, we can't depend on it because we don't know what quantity or quality we're going to have. But we do know in this game we have a certain pot of money. And that's why it made us have to realistically set priorities with what we have, not with what we want to have. And that's what I liked about this, because I feel this is what the councilmembers have to face, when the budget comes up in a couple months. We can't plan on an unknown variable. We have to plan with what we have.

>> Thank you so much. And it does reflect some of the tensions that they have to address. Amy, did you want to -
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>> Hey, hi I'm Amy and I'm the district 5 youth commissioner. And I just wanted to also thank our facilitator John, because he, when one of us was quiet he always asked for our opinions, of you know, what are you observing? And I also wanted to say that, it was great having the youth commission come along because as a youth, we have a different perspective. For example, I felt so strongly about number 2, the libraries. Because the library not only works as part of a community center, too, because they offer services such as, you know, reading to little kids, and, you know, renting books, that otherwise most, you know, neighborhoods like my neighborhood in District 5, some families don't have the income to go to Borders or Barnes and Noble to buy books. We rent them. We may not be able to buy them ourselves. I find the libraries have community centers where a lot of youth commissioners use for their meetings. So it works out that libraries, to me, were important. And it was important that the youth commission were able to come out here and talk about it.

>> And -- [applause]

>> And to add to that, that's -- that's the design of this small-group interaction. You'll notice that the largest table was nine people. Most tables were either seven or eight. That's actually by design because we know, by studying how humans work as humans, there's not much meaningful collaboration when you get to large numbers of people, right? If you had 100 people around the room we wouldn't be talking to each other. So by having these small-group interactions we can really have that kind of discussion that Amy talked about and get a better perspective and a better insight.

>> Hi my name is Blanca and with west side him owners, there's Pete. Getting involved in I would say politics getting involved in your committee I came to this session three years ago, I left frustrated didn't want to come to the next one because the table they sat me at, they said here's the money, it's a game and we don't want to get involved, just threw me in there. I couldn't come last year, I just want to say for point of experience I came three years ago, very well done job. I will come back next year if Pete invites me.

>> Or they invite you.

>> Or they invite me, sorry I'm moving the mic. I'm just saying from that experience to this experience, good job. [applause]

>> My name is Jerry Mungai from Almaden valley community association. I noticed, by the way it was a very good exercise because the choices we had to make reflected our shared values or to the extent they were shared. But I notice the service they were social services that we could vote on, but there weren't any on the cut-list. They were basically services that most residents enjoy and share. So I wonder why we could vote for more social services, but we couldn't vote against some that we may think are not as effective as they should be.

>> I'm actually not the best person to answer that. We collaborated with the city staff to organize the set of items for purchase and the set of items for cuts. What I would ask is that either with Kip or with Antonio, if you would want to talk with them individually, after this, the design of the actual choices, it's a very tough position that they were in. Because the city is a large and complex budget and what we were trying to do is working with them, is pick the best options that were representative of the questions the employees have. Because this is -- or the staff has, because this is a research activity. We're trying to understand your preferences in a set of dimensions and of course, it's so large and so complex we can't cover every possible dimension. One more question, and then -- this lady over here and then I'm going to hand it to the next step for the mayor's office.

>> Not a question so much as a comment.

>> Okay.

>> When in a line item specifically relates to an area or a service, we could have used a map. There were certain things like the educational park, we weren't exactly sure where that was located and that made a decision, it factored into our decision making.

>> Okay, so Tammy could you grab that one for me, next year, map, thank you. Okay, this is a quick note to my facilitator team to all the facilitators stay at the table. We're going to go through an electronic voting activity and

we're going to leverage you to distribute what I guess they call the clickers. And with that, I'm going to hand the microphone to the mayor, thank you again, for your active participation. We really appreciate it. [applause]

>> Mayor Reed: Thank you. Well, I hope you found this useful, informing and as agonizing as I do. So welcome to the club! It's great to have you turn out and I want to thank our team leaders and everybody that made this possible. This is an innovative way, I guess that's what you do when you're in innovation games, you do innovative things. So we appreciate this. The next phase of this is we're going to be individually voting on a series of questions with clickers. So I want to get started on passing those out, because we got to distribute them around the room. I don't know how long that will take. So start doing that, okay. I want to introduce a couple of more people that have arrived since I did introductions last time. Councilmember Rose Herrera. [applause]

>> Mayor Reed: Councilmember Don Rocha. [applause]

>> Mayor Reed: Our director of housing, Leslye Corsiglia. [applause]

>> Mayor Reed: I think that's it on the introductions. We'll have some more, probably. And if I could get up the slide on the gap. Get that up, a little reminder, refresher what we did a few -- couple hours ago. This is the gap. We are having to deal with for this next year. And I don't like to give you all the bad news at once because I don't want anybody having a heart attack. So I gave you a \$110 million gap there earlier. But some of you realize that there's another \$22 million of services that are being eliminated at the end of the fiscal year, June 30th. If you'd like to look at what that \$22 million is, there's a list attached to the manager's budget in brief which is posted on the Website. It's included in the preliminary forecast, Jennifer, right, that's posted on the Website. But that's another \$22 million of things that the time will run out on June 30th. So it's a pretty big task for us at the city council level to try to figure this out. But there's no shortage of bad news so it's always good to share it. And I want to let everybody know early. Then the other slide that I had up, so this is the bad news for this year. And we had the other slides up on the projections on retirement cost if we could get that up. That's the sort of the bad news in the five or part of the bad news in the future. And so the little exercise we're going to do next asks -- will ask you questions individually with the clickers, you'll get to answer and then when we're done with the answering

we'll get the totals immediately. Which is kind of cool. But those questions will relate to this year's budget, things we need to do and things we have to do to deal with some of these future problems. It is not the all-extensive list. There's only ten questions out of maybe a thousand. But I wanted to get your feedback on that plus you've been all nice to each other in a group. Now you can just vote. Although you know, there's nothing that stops you from consulting with the people at your table on how to vote, that's okay too. But we'll take about five minutes on each of the questions. We'll put the questions up, and then some questions about what it is we're trying to do. And then we'll vote on it and we'll move on. Hopefully, we'll get done before -- we will get done before it's time to leave because it won't be time to leave until we're done. So are we ready? We got clickers out, everybody got clickers at the tables all distributed? I'm going to have Armando Gomez explain how this works. I want to thank Armando for helping to set this up and Antonio Guerra and Bobby Neilson. [applause]

>> Mayor Reed: And I have to confess when this idea first came up I thought it was crazy. But we refined it, worked it, and I think it's turned out to be an excellent exercise and we'll get your feedback and decide whether or not to do something like this in the future but I appreciate everybody being here. Armando, you want to explain the clickers?

>> The mayor covered pretty much most of it but the way this exercise is going to work is we're going to have a series of questions, and you now have clickers as the mayor said, we've progressed keeping up with technology so we've moved from vote by dot to clickers. And so the way it works is, the mayor's going to, there is a number of questions we want your help with. We've got about ten of them and when one set question comes up the mayor will briefly explain it and you'll have some time for Q&A. You'll have the clickers so any time at which that slide is up you're able to click your answer. The clickers will only record your very last answer. Or your very last click so you can change at any time, it's just whichever one is last. Once the mayor says it's time to vote, you've got five seconds to register your last vote. After that we will have a slide that shows you how you all voted as a group. So thank you.

>> Mayor Reed: All right. Let's put up the first question. Question number 1: Currently provide a lot of services to our residents but we're not going to have enough revenue to continue providing services at the current

levels. So the question is, in terms of priorities, how best to address this \$110 million budget shortfall. Those are real questions, questions that councilmembers have to weigh and decide on so this is 1, 2, 3 options. We get more options later, but any questions on this before we ask you to vote? Jerry. Mike, I'll repeat the question. The question is what power do we have to reduce city employee compensation and retirement benefits, because we got contracts and rules and everything. Well, that does make it complicated, but nevertheless that is one of the things that we have pursued and have successfully gotten reductions and we'll pursue this year. We don't have absolute power but we have 11 unions and we negotiate with all of them. So it's something that we have. The question is, how much importance is that relative to the others, it's just a question of where do we put our priorities. Richard.

>> What are the different areas on which revenue could be raised other than taxes and fees?

>> Mayor Reed: I haven't thought of any additional revenues except tamps and fees. That's like everything. One category or other. Well, bake sales. Okay, all right. So taxes and fees. But those are the big ones. Those are the big ones. Volunteers, well, that's a different category. But --

>> For option 2, which ones are possible to -- that you could reduce our cost?

>> Mayor Reed: Reducing existing city services, almost all services could be reduced. Question is, which ones. And that's part of the exercise that you guys just went through. But reducing existing city services. Last year we have -- you know we laid off firefighters, we have less cops on the street. Every department took a hit. So all services are potentially able to be reduced. I don't think we can eliminate everything but everything can be reduced. Yes, sir.

>> Chances are what's going on so far with the two tier compensation package for police and for hire, as far as the new hires being on a different benefits package?

>> Mayor Reed: We are currently negotiating with the unions on second-tier retirement benefits, those negotiations are underway with almost all the unions. I'm sorry, what was the status of the negotiations on second tier benefits for new hires. So those are underway. Robert.

>> What percentage are you asking on compensation and retirement from each employee, or each union?

>> Mayor Reed: The council has approved direction to the staff to seek 10% reduction in total compensation. So if that's pay and benefits, 10% of that, that's the goal. A quarter of our unions gave up 10% last year. Some of that was one-time, some of it was ongoing but the council direction is 10%.

>> (inaudible).

>> Mayor Reed: The question is whether or not the 10% is being negotiated as permanent or only temporary. Well, one thing is, there's nothing that's permanent. No matter what you say, next year is always next year. The next council is always the next council. But what we are asking is for those reductions to be ongoing which means more than one or two years. But we change it permanently, until it's changed again. As opposed to one-time, which is just one budget year typically.

>> Would encouraging businesses to open or relocate the San José involved number 3 raising additional revenue, for example, instead of encouraging more housing?

>> Mayor Reed: No, that's really another strategy, growing the economy with jobs, it's -- we're trying to do that. That's really not the question. The question here is about a sales tax or a parcel tax or some kind of a fee increase like that.

>> So let's say we chose number 1, reducing city employee compensation and retirement benefits, if we chose that as a priority number 1 does that mean the priority is to reduce or the priority is to not reduce?

>> Mayor Reed: The priority is to reduce. So if you think that's the most important thing of these three, then reducing is the priority versus reducing services. It's a tradeoff between pay, services, revenues or services, or pay. I mean, it's a tradeoff and we're wrestling with this. Trust me, councilmembers are worrying about this all the time and we have to make these decisions. Okay are we about ready to vote?

>> Mayor, one more quick question Mr. Mayor. When we look at the slide of the gap and we look at that \$60 million gap there and we understand that there's 11 bargaining units, are all bargaining units weighted equally, or are there different units that are essentially a bigger part of that slice?

>> Mayor Reed: The Public Safety budget is the largest chunk. So out of the gap, the pension and retirement costs are heavily weighted towards Public Safety because Public Safety makes up the largest chunk of the budget. And the retirement benefits in Public Safety have gone up substantially more than they have at the other - at the state they call them miscellaneous employees, we call them Federated. It has such a large chunk of the budget, roughly about, I think this year about 64% of the budget goes into public safety. Okay, we're going to give you five seconds to finish voting. I'm going to give you a little extra this time since it's the first time through. If you haven't already voted or you want to change your vote now is the time to do it. Five seconds counting down. Official count-down, make sure you vote. Okay, voting is over. And now, magically, we get the results: [Laughter]

>> Mayor Reed: Okay, that's an interesting result, and those of you who want to look online, can you see the survey of all of the people of the city. We asked the question, and you can compare your opinion to that. All right, next question: Another strategy that we could pursue to reduce expenses is contracting-out. Which means we contract with the private sector to do some services, at a cost savings, eliminating the position of city workers who currently provide those services. So the question is: Should we pursue contracting out some services? All right. Questions about the question. Robert. Well, contracting out, theoretically you could contract out almost every service. I'm sure there's a city in the country that has contracted out every service. Last year we contracted out janitorial services. We are currently looking at the possibility of contracting out police and fire services at the airport. Park maintenance services as been on the list for contracting out in past years. Theoretically you could

contract-out every service except being the mayor. So it's a philosophical statement as opposed to okay this is what we will contract out.

>> By rough percentage, what kinds of percentage savings are we talking about?

>> Mayor Reed: Well, it depends on the area of contracting-out. The one we know for sure is the airport. Because we've just done that. And roughly, the impact at the airport was \$3 million a year. Which was approximately half of the cost of the service before we contracted it out. But you know, that's a pretty big margin. It wouldn't be that much in other areas. But we have that experience.

>> When determining contracting companies is there any method or desire given to preferential treatment to local companies?

>> Mayor Reed: Well, there are a lot of things we consider in contracting out. And whether or not there's preferential treatment for local companies we have restrictions in the constitution about how local we can make it. So within the constraints of the law, we can lean a little bit towards local companies, but we can't make it a requirement typically. But you know, there are other issues around contracting out like maintaining the quality of the service, maintaining the quantity of the service and who gets to do it and those are all factors that go into the ultimate decision-making.

>> Can you consider sending services out of state like many companies do today, they, for example, accounts payable and accounts receivable can be done in a cheaper state to do business and do you have to consider prevailing wages or living wages?

>> Mayor Reed: We could theoretically contract-out with somebody in another state. To do some things. There is some issues with all of that, that in terms of assures the quality of the work, but there's no rule against it. The prevailing wage, living wage policies are city policies. And typically in our contracting-out we require those policies

to be followed. That is another area that could be changed. But it's not a requirement in order to do contracting-out.

>> What would some of the key arguments be against contracting?

>> Mayor Reed: Lots of arguments against it. One, it's just wrong. Two, you can't maintain the quality of service. Three, the -- you'll contract with somebody and then as soon as you've gotten rid of your people who can do the job they're going to jack the price up. Those are some of the issues that we have to worry about. Quality of Service is obviously a big idea. Some of the things we do require a great deal of expertise. We have the people that can do it. It's not necessarily available in the private sector.

>> My question is have you already tried this and if so how has that worked out in the past if you've already tried this?

>> Mayor Reed: Well we talk about it a lot. We've look at it a lot of different areas. The one we just did was the janitorial services for this building and the airport, there's some recent ones that's the most recent and the most -- easiest for me to explain.

>> What percentage of city services would you expect to be available for this, I mean 5%, 10%?

>> Mayor Reed: I don't have an expectation really of how much there could be. I don't see us contracting out police department or the fire department. But there are cities that are thinking about that. And since Police and Fire are basically two-thirds of the budget it's obviously less than that. Although I suppose we could get to that if we get in a place where we don't have a choice. But I don't see that happening this year.

>> Just as an aside, we keep talking about public service being a greater part of the budget, that is because the greater budget keeps shrinking and the public service becomes a larger part of the budget. So that statistic or that

number of being Public Safety is an increasingly large part of the budget is because of the overall budget shrinking.

>> Mayor Reed: Well the public safety budget has gone up in real-dollar terms as well as in percentage of the budget. The percentage of the budget has gone up more because as the real dollars go up in the Public Safety department, other departments aren't moving as fast or actually shrinking.

>> Would it be possible or has the idea been considered to combine or partner with certain services through other municipalities and/or the county?

>> Mayor Reed: Partnering with another government agencies is another subsets of contracting-out. And yes we do look at consolidation activities like that and that's part of contracting out. Okay, we need to bring this to a close or we'll not get through all the questions. So I want to open up the time period here to give you time to vote. You've got five seconds. Yes or no. Time is closed. Let's see what we got. Okay, so that was two-thirds yes. Again, that's we ask a similar question on the citywide poll, not exactly the same question. Third question, all right, these are some more of the details that we have to decide. Police department, budget costs are going to go up, primarily pension and retirement. Right now it's looking like a \$28 million increase in the pension and retirement cost for the police department only. How do we deal with that? So, the police department budget, public safety budget has been that the for the last couple of years. But when costs go up even if your budget is flat, you end up having to do some difficult things. So the choices really are these: Because there is no more money, it's not like revenues are going to go up and we're going to have money to put on this. So we're assuming no more money which is the projection. And this is the choice. It's a horrible choice. But it is the choice that we face. Okay, question:

>> (inaudible) number 3 is really not in your or the council's control. That's more or less controlled by the union and the police officers themselves, which mean, then, if they failed to give concessions, the choice actually becomes 1 or 2. Is that a fair assessment?

>> Mayor Reed: That is accurate. If we don't get number 3, wage and benefit concessions then we're left with 1 and 2. The council is seeking -- we're already -- no we're trying to get wage and benefit concessions and part of what I'm asking you about is how important is that? Because we, as councilmembers have to decide how much work to put into that. What kind of decisions have to be made? Now, ultimately we do still have the right of Police and Fire to go to arbitration within limits that were established by the voters. So this is a very real option. We got 4% from the cops last year in order to avoid laying off police officers. Well, the question really, shall we attempt to get police officer wage and benefit concessions, that's about the best we can do. But there's different levels of effort that you put into these things, depending upon how important they are. Some other questions:

>> If you were to get number 3, if they were to give us concessions in the pay what kind of a risk do we run of the officers choosing to leave work, in employ of San José? Potentially having officers wanting to go to other municipalities to work because the wage wasn't a living wage any longer?

>> Mayor Reed: Well, I don't think we're going to be worried about the living wage issue with our cops and firefighters because we're talking about a top step of about \$110,000. So even a 10% reduction is still a lot of money. So living wage isn't at issue. People leaving here to go to work elsewhere is a great concern but we're not the only city with this problem. And there are lots of other cities that are doing concessions and other changes. But we live in a competitive world and we don't want to lose our police officers and firefighters so that's one of the considerations about what we do.

>> I understand the need to prioritize. And in looking at this I see that number 1 is very, very, very specific. I mean could you have at least -- you could have also put close this very specific library. I wonder why is it so specific, why isn't it close city -- yeah, it's very specific, it's -- it doesn't seem rigged but I think the question -- the responses could have been a little bit more generic.

>> Mayor Reed: Guess what: That's the choice we have to make. I don't like that choice, either. But if you look at last year's budget and the process we went through and what was on the list that we were able to save with

one time dollars and where the cuts were being made, it's at the libraries and community centers. That's unfortunately the choice that we're having to make.

>> So when it says close libraries and community centers, is that as a total in the scope of reality, or is it --

>> Mayor Reed: Well, closing could mean a total shut down. We have some libraries that never opened, that are technically closed even though we built them and reducing libraries and community centers and we also have community centers that are closed. It encompasses both shutting them down completely and reducing the hours in that category, that's how we dealt with it last year was in both categories.

>> Mr. Mayor I want to thank you for giving me all of the fear that I've had throughout my life about multiple choice examinations. [Laughter]

>> However, I'd like to ask.

>> Mayor Reed: You can do an essay afterwards if you want. I will accept the essays.

>> And you sure will get my essay.

>> Mayor Reed: Good.

>> But the question I really have to ask is, is this universe not as closed as you're suggesting? And I get a sense from this room that we would like -- some of us would like you to hear that there's a number four, go back to your table, go back to your staff, and figure out another answer.

>> Mayor Reed: No, actually, there's probably ten more answers. And the problem is, I've got \$110 million gap to fill. We're using all ten of those answers. I mean that's just the reality that we face. We are doing everything we can and any other category you think we're missing, please, give it to me in the essay. I think the time is -- we got

to bring this to a close so you need to vote. And you'll have five seconds as soon as we get it up on the screen. All right, next question is very similar, probably don't have to spend as much time on this. The fire department. Again, benefits, cost of benefits are going up dramatically, about 20 million, \$21 million there. And the question, same question. How do we deal with it? I think it's the same thing. We'll take a couple more questions on this. Essentially the same as the last question, but a different department.

>> Is there any consideration of negotiating with the retirees to reduce their benefits?

>> Mayor Reed: Question was whether we could negotiate with the retirees to reduce their benefits. Yeah, we can. It's practically impossible. But, you know, it's something that, you know that's on the table. Doesn't solve this problem. But you know there's a whole story about vested rights and people that have earned and accrued and all that stuff and it's very complicated legally. The short answer is yes but it just doesn't help us in this next budget year.

>> Yes, since most of fire's responses are for medical things, can that part of it be outsourced and reduce the cost?

>> Mayor Reed: Yes, possibly and we're in the process of renegotiating the long term contract with the county. AMR had it now rule metro is going to have it and how those services are performed and how they're paid for are things that are part of the discussion. But theoretically you could outsource the emergency services, AMR already does the transport. So I'm not saying that's out of the question. Difficult. Probably doesn't help us in the next budget year.

>> From competitive perspective how are our firefighters compensated? Are they paid pretty much equal to other cities?

>> Mayor Reed: Well the comparative compensation of both Police and Fire is always a topic of great discussion when we're negotiating. Depends on what you think the relevant universe is. If you think the relevant universe are

the big cities in America, we're at the top of the scale. If you think the relevant universe are big cities in California, we're at the top of the scale. If you think the relevant universe is Santa Clara County, we're not at the top of the scale. So it all depends on what you think is important where we have to compete and that is always a topic of the negotiations but even in Santa Clara County, we're not at the bottom either. We tend to be in the middle. Above the middle I think, in both categories. But the numbers have changed in the last couple of years with all of the changes in other cities so I'm not absolutely certain where we stand on that scale. As our people, some of our people took concessions and other concessions were done in other cities and I haven't seen the most recent data. Okay. Bobby. Are you ready to go? You need to vote, you're going to have five seconds once it hits the screen. Answer please. Game show day. All right, that's -- can't remember what the last one was, pretty close. All right, question number 5. One of the topics that we attempted to negotiate last year, unsuccessfully was to change the way we cash out unused sick leave. It got to be a really big number. As you can see, it's \$14 million so this isn't, you know, a small number. And it varies among our bargaining units, how much of their accrued sick leave they can cash out. Some of them have a much spaller percentage and Police and Fire have 100%. But it is an area that we could save some money if we changed the policy. So that's the setup. Questions.

>> So if it says -- so this is basically if someone doesn't take the time off, in sick leave, let's say they're allocated 14 days throughout the year, for example. If they don't take any of those 14 years they would get paid that amount?

>> Mayor Reed: Currently that's right. But they -- they save it until they retire.

>> Okay. Thank you.

>> Mayor Reed: So when they retire it could be a thousand or 2,000 hours. And has been, up in -- in some cases the range of hundreds of thousands of dollars. That's not for everybody, though. It gets cashed out at their final salary. Even though they may have earned it 20 years ago. So it's a benefit, it's a great perk and a lot of people love it and they're counting on it. But it is an area where we could save some money. Down here, I'm sorry.

>> Yes, oftentimes you get a perk when you originally hire-on. And the unfortunate thing is that some of those perks may or may not be taken away. That original --

>> Mayor Reed: Wait, you got a question? Because we're not going to do that campaigning in here.

>> I understand that.

>> Mayor Reed: All right.

>> My question is, is: Account county actually take away that sick pay?

>> Mayor Reed: Yes. The answer is, yes. But we have to negotiate with 11 of our bargaining units. It is not a unilateral thing. So if it's not important, it usually doesn't get negotiated. The more important it gets, the more likely it is to be something that gets handled in negotiations. But we do have 11 unions that have an interest in this.

>> Mr. Mayor, question, is there a functional difference between sick pay and vacation?

>> Mayor Reed: Yes, those are two separate things. Employees get vacation time, they also get sick time. They take the vacation. They don't have to take the sick time if they're not sick. And they can accrue the sick time.

>> Hi, my name is Senavarum with Konen NAC and also represent District 7. I want to ask, it mentions up there that last year the city paid out \$14.6 million. If you are looking to -- depending on the kind of changes that you are going to implement or can implement, what kind of cost savings is it?

>> Mayor Reed: Well, theoretically you could save \$14 million if everybody agreed, no more sick time. Whatsoever. That's one scenario. Another scenario is to say we're not accruing any more sick

time. Everything you've got you've got bud we're not going to accrue anymore. The savings are smaller but there's a range in between. Everything from zero to 100 could be negotiated in one form or another. I think we need to vote pretty soon. I don't want to run out of time here.

>> I have a question. Is there a follow-up question on this?

>> Mayor Reed: Not on sick leave.

>> Okay, so what this is saying is if I was hired 15 or 20 years ago, voting yes would negate the contract under which I was hired 15 or 20 years ago?

>> Mayor Reed: No.

>> By -- no?

>> Mayor Reed: No.

>> From now on?

>> Mayor Reed: Voting yes means you will attempt to negotiate that with our 11 unions. And theoretically the union could agree that instead of paying out 100% of your sick leave, like other cities, they'll pay out 50% and some of our bargaining units today have a 50%. All right we're just about out of time. One more --

>> Rather than upsetting people by taking away their sick leave you can empower them by saying all right, you can cash in on your sick leave but not cash in for yourself, cash in to donate it to a city service or a program or a certain department. That way, they feel they are contributing, and that money goes back to the city.

>> Mayor Reed: Okay, it's time to get your votes in. You'll have five seconds once we hit the screen. Okay. All right, next question. How are we doing on time? I think we got enough to get done here. All right, retirement.

>> (inaudible) how would you vote? After you voted?

>> Mayor Reed: . yeah, I'm -- we're going to move on. I'm here to get your opinion. My opinions are pretty well-known on almost all of these I'm not shy in sharing those but I don't want to get into that. Retirement, one of the things we were talking about in our second tier benefits is to change the retirement for police officers and firefighters. Right now, they can receive a pension if they're here long enough. To earn 90% of the highest annual salaries. Some people think 90% is too high. And some people have a different opinion. So this is just a gauge of where you think is an appropriate level of retirement benefits for our public safety officers. And that's the reason we ask because we are going to have to try negotiate something.

>> How do these retirement figures compare to police officers or public safety officers that are under the Cal PERS system?

>> Mayor Reed: Generally, the Cal PERS agencies are in the same ballpark. We have different systems but you often hear 3% at 50, which was -- that was 3% a year after 30 years you could get the 90%. There's different methods, different formulas but 90% is a very common number in public safety, not universal but very common.

>> Hold on a second. Is that the highest year -- the year's salary, in other words, if he's paid a base sit a base or is it all the income for that year, including overtime, first? And secondly, is the 75%, would that be comparable to what other employees get, 75%?

>> Mayor Reed: Right now, the charter allows existing employees to go up to 75%, that's the nonpublic safety, miscellaneous, Federated whatever we call them up to 75%. Let me ask you a question in a minute about the other employees, I think, maybe it's the next question. So 90% is number when the charter was first implemented that number was 50% for public safety but it's been increased over the years and now it's at 90%. Oh, I'm sorry,

pensionable is something that's negotiated. But typically it's the base salary and I've got some experts here. Education pay. Some but not all premium pays but not overtime. So we don't have as much of a spiking problem as they have in some other jurisdictions but nevertheless, this is the highest 12 months, not an average over three years or five years, which others have. And it's after 20 years to be eligible for retirement as a public safety. Okay we're just about out of time here, another question.

>> We have one question has to do with the structure of retirements and I'm asking if there's a follow-up question to this. Because currently this question refers to a defined benefit system where employees are promised a certain percentage of salary. Whatever the market might be, et cetera. Most of us in the private sector, who fund their retirements, have defined contribution plans that we fund into. And so is there a follow-up question as far as looking at the structure of those retirement benefits, and how to provide --

>> Mayor Reed: I think there is. Let me check.

>> And how to provide retirements but look at the more current methods of doing that that are more fiscally balanced?

>> Mayor Reed: Yes, there is another question because we have defined benefit, defined contribution and then there's the hybrid idea. Who's got the wand there?

>> Frank Hernandez from Roosevelt community. I kind of think that a fair system would be 2% a year so if somebody starts right out of college at 25 years old, and you know, 35, 45, 55, 65, then 2% a year that's fair to me.

>> Mayor Reed: Okay. That's not precisely this question. Because how you get to 90, you can take more years, different percentages. But there are agencies now, public safety agencies that have gone to a 2% at 60, so 2% a year and you can retire as early as 60. So there is a lot of different ways to do this. This is just testing the amount so we need to cut this off so we can get on to the other questions. So you need time to vote. This is a hard

one. You've got five choices but you've got five seconds. There it is. We're going to circulate all this information so you don't necessarily have to write it all down. It will be ported as well. Next question, this is the age part of retirement. Our police officers and firefighters can currently retire as early as 50 years of age. That's not the average. The average retirement is over 55 I think in real years. But, it does affect the cost of the plan. So if we are redesigning it, and -- oh, if the decision were yours, if you got to make this decision, what do you think it should be? At what age? What's the reasonable age for public safety officers who can retire with full retirement benefits, that's really the question. Who's got the microphones?

>> I -- since this is a physical position, do they lose effectiveness after a certain age? Is 60 or 65 too old actually to be an effective policeman or fireman?

>> Mayor Reed: Some people think that's true and I certainly think that's a factor in the nature of the job. Something that we have to consider. But we have lots of other miscellaneous and Federated folks who have a really physical job as well but it is an issue that I think is important.

>> So what is the age for those that are -- the public safety officers that don't work in the field?

>> Mayor Reed: It is the same for all public safety officers whether you're out there chasing the bad guy or sitting in the office filling out the reports.

>> So even the people that file the reports their retirement age is 50?

>> Mayor Reed: If they're public safety, police or firefighters, if they're licensed it's the same for everybody.

>> Is there any way we could separate those?

>> Mayor Reed: Yes, theoretically we could negotiate a contract to separate those out, it's not prohibited.

>> Since some of these jobs do require certain physical abilities would it be possible that once you reach a certain -- reach a certain age you be moved into a nonphysical part of the job such as a desk job or some type of things where it doesn't require to you go out into the neighborhood and perform physical duties?

>> Mayor Reed: I think all things are possible and as a practical matter, if you look around, most of the officers with more seniority are not running patrol but that could be negotiated. There are a lot of ways things could be negotiated but typically across our department and all other departments they are all treated the same and that's really the -- this is the question of if they are all treated the same what should be the appropriate age?

>> Would this increase the age, average age of those on patrol, meaning that if you do have an interaction with a police officer, you're more likely to run into a seasoned veteran than a rookie?

>> Mayor Reed: I don't think I know the answer to that question. Because patrol is not everybody goes on patrol. We do have sergeants and lieutenants that are out working patrol. But typically most of the patrol officers are not -- they typically are younger but I don't know what that would do with this. I can't answer accurately. I'm getting the high sign to go on. One last question.

>> They can retire at 50, what is the average age they do retire from or average age?

>> Mayor Reed: The average age for public safety officers, over the past five to ten years, somebody here might have the precise number I believe the last data we got is over the past four years it was 55 or 58 and over the last ten years it was 55 or 58 and I forget which is which. Some may retire at 50, I don't know how many retire at 50. But definitely 55 or so. And the ability to retire at 50 was something that was added just a few years ago. All right, I'm told it's time to vote so you're going to have five seconds once it hits the screen. All right, next question. This is about the other retirement age for the other city employees, the miscellaneous employees or the Federated employees. Whatever you want to refer to them. Again, it's the same question. They all get treated the same under our system. It's just a question about the age. They cannot retire at 50. The minimum here is 55. And

I don't know what the average age, in reality, is. If anybody here knows that, there will probably be a question, I don't see anybody who has that data in their head and our retirement staff are not here. Okay, questions on this?

>> Just so that I'm clear, is had saying that they could -- if somebody easily picked like 62, you could still retire at 55 but your retirement benefits don't kick in until 62.

>> Mayor Reed: Yes. Yes. Because under this plan, employees vest after five years. So if they work for at least five years they could retire at a different age, they're just not going to get payments until they reach 55. And disability retirements are a different category because they're treated differently. But on average, that would be the case. Other questions?

>> Over here. Is there a minimum number of years of service? Like you could retire after 30 years or age, you know, 60 or some combination?

>> Mayor Reed: If you serve for 30 years, you can retire at any age. But you need at least five years to vest. So there's a lot of different combinations. But most people retire sometime after 55. All right, I think we need to vote on this one. Ready to go? You'll have five seconds. All right, we only have ten questions so we're almost at the end. I want to get you out of here on time. This question number 9. Has to do with the cost of so-called cost of living allowance. It is a guaranteed increase in the pension benefit paid after you retire. Goes up by 3% without regard to whether or not there's inflation or not, so it's guaranteed. It's called a cost of living allowance but that's just what it's called. It's not the same way say a Social Security does where Congress gives a cost of living allowance based on a consumer price index. So it's a guaranteed increase that goes up 3% per year. For as long as you are retired. And this is a significant contributor to the cost. Based on the auditor's audit. Which you could look at that's on her Web page. Lots and lots of information about pensions if anybody's really interested in it, the City Auditor did a really extensive report on it and you can see the value of this versus the value of some of the other changes. Questions on this?

>> I just -- it says lower the cost of living, are you tying it to inflation or doing some kind of indexing or are you just going to lower it? How are you lowering it?

>> Mayor Reed: The most common way probably is the way PERS does it for most of the people which is a cost of living index not to exceed 2%, but it could be set at zero or any other number. So this is just a question of whether or not we come off of the 3% which we are now to some other number which can be negotiate.

>> Can you negotiate a variable with actual cost of living increases, year by year?

>> Mayor Reed: Yes. I think that would be something that we could negotiate. And let me just give you an example of the impact of this. And why it's a concern to me. Not that I'm lobbying you guys or anything like that. [Laughter]

>> Mayor Reed: I don't want to do that. I talked about the average police officer-firefighter retiree over the last few years I couldn't remember what the age was. But what I do remember is if you look back over the last ten years the average Police and Fire retiree who's retired in the last ten years is drawing \$100,000 or more. So at a 3% increase that will double in 24 years because it's compounded. So the numbers can get pretty big, over a lifetime. And it's a really significant cost driver.

>> Yes. In the private sector, when we retire, there is no cost of living increase. I've been retired 10 years. And I have zero cost of living increase in my retirement. And of course, we do have Social Security. But there again, another plan can be developed because you said 3%. That will really amount to a lot of, lot of money at a cost to the city.

>> Mayor Reed: Okay, I think it's time to vote on question number 9. Five seconds. All right, let's move to question 10. I think this is the last one if I counted right. All right, this is something I mentioned earlier when somebody asked about alternatives. We've been -- we have a defined benefit plan for almost all of our employees. And the question is should we continue on with a defined benefit pension and a health care

package. We haven't talked about health care but retirees are entitled to health care medical coverage for life, as well. So there's been some discussion here about a 401(k) kind of plan. It is not exactly the 401(k) like the government but that kind of plan which is a defined contribution plan. And the third alternative there is a hybrid. So a hybrid would be some level of defined benefit, obviously less than we do now, plus, a 401 kind of a -- 401(k) kind of a plan. So you would have an element of guaranteed and an element that you would contribute to with a match from your employer. So probably a lot of people in this room have Social Security. And a 401(k) with employer match. That's not unusual. Probably most people in the room have Social Security, of one kind or another. But this is the range of things that we're looking at. And we're doing this in real time. We're already negotiating over these kinds of things so this is important for us to hear from you. So questions on this. Wherever the microphones are.

>> For the --

>> Mayor Reed: I'm going to get you a mic.

>> For this question, is this across the board or is this public safety you know combined with nonpublic safety?

>> Mayor Reed: This is contemplating that we do it for everybody.

>> So my question is when you say defined pension I know that the city guarantees a certain rate of return. Is that built into the defined pension?

>> Mayor Reed: Yes.

>> Okay.

>> Mayor Reed: If you have a defined pension we have to guarantee the performance. So if it's defined you will get 90% of your salary. We, you the taxpayers guarantee that performance. So if the plans don't make enough

money with their investments we guarantee the performance. So that creates the need to put more money in that we're seeing now.

>> Thank you, just wanted to clarify.

>> Is there a way it could be divided between regular city employees and public safety?

>> Mayor Reed: Yes, and there are cities that have done that. There was an election, back in November, in the election there were half a dozen different ways things were done. That is one of the ways that has been done and typically, public safety employees do have a different system than the miscellaneous or classified employees.

>> If we went with option 2 and eliminated the pension plan by the fall wouldn't the employees automatically roll into the Social Security system?

>> Mayor Reed: Basically yes. If we don't have something that's at least as good as Social Security and a defined benefit plan then we have to participate in Social Security. There's all kinds of rules about that. So ultimately everybody would be at least Social Security, even if we had no other plan. But ours is quite a bit better than Social Security so we don't do Social Security. All right. We've got a couple more. All right.

>> I have a question, Mr. Chuck Reed. In the form of -- I have two parents that are seniors and one of them did work for the City of San José in parks and recreation. He has a program where he does his retirement and he has a Kaiser health plan. Unfortunately with that you can't go outside and get anything else that's Medicare covered however he does have to pay the fee for Medicare because that was his retirement plan. That's when he signed you know for his retirement that was what he had to do. And my argument in trying to help him every single year when it comes to renewal is that he's getting to be charged for this Medicare when he has no access to it because he chose Kaiser, he cannot go outside of that plan. So can that be changed? Can that be reviewed? I myself said, okay let's choose the one maintain the status but arrive what the health plan coverage has.

>> Mayor Reed: Well we can certainly deal with the health care separate from the pension but we're not getting to that level of detail here. Pete, Councilmember Constant. (inaudible).

>> Mayor Reed: Health care is way too complicated to try to decide here today. Only got ten questions. So on in particular piece of this, any other questions before we vote? All right. Time to vote. You'll have five seconds. Okay, those are the results, thank you for participating in the exercise. Is this more fun than voting by dots? [applause]

>> Mayor Reed: It's great to go high tech. All right. I want to give you the next steps and the schedule again. February 14th, the council and our senior staff will be back here in this room in a exercise. We won't do it the same way we did it here but this information will be provided as part of that along with a poll and everything else. And the report, we'll share the report, circulate the report so you can all see what we've got but with that I want to thank you for your participation. It's critically important that you stay engaged with us so stay in touch. Thank you very much for being here. [applause]

>> Everyone if you could please remember to leave your clickers, please leave them at the center of the table.

>> Mayor Reed: Leave the clickers.