

The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> Councilmember Constant: Good afternoon. We will start the Public Safety, Finance and Strategic Support, meeting for May 19th, roll call's easy because there's only two of us and we're here. And we'll have our review of the work plan. Deanna.

>> Deanna Santana: Before we start our meeting I'd like to have the city attorney's office review how the possible action how we'll handle the meeting today with two councilmembers.

>> The councilmembers can hear the items but their action is only to advance them to the council.

>> Deanna Santana: So with that I'd like to request that item D 2 be advanced to the consent calendar. It does not need a hearing today. The hearings are only for the first and third quarter per policy. And I'd also like to request that D-3 be heard first.

>> Councilmember Constant: We don't need any motions, we'll just do this. We'll advance the consent calendar as part of our report to the entire city council and we will start now with item number D-3, which is the Team San José quarterly performance and incentive measure report. Bill.

>> Bill Sherry: Thank you, Mr. Chair, and I would normally thank councilmembers, but I'll say councilmember, committee member. Bill Sherry, Team San José, CEO, my first presentation before you in my new role and so I want to thank you for your support in allowing me to be here today. I think presentation we have for you today, I know our time allocation is very short so we'll keep this very brief. So be prepared to entertain any questions you've got. Generally I want to just cover our appropriation request. In working with the City Manager's office, we will be coming in, in June, can an overrule appropriation adjustment, increasing our appropriation in the expenditures. The news we have for you today is very good. As the council and our board of directors know, they want to encourage us to seek as many new revenues as we can. And we've done exactly that. So our revenue expectation for year end will show an increase of \$3.9 million. So that's quite a significant increase. Along with that, because we work on a variable labor and also cost of sales perspective, our expenses are going up, as well. So while we have roughly \$2 million in increased expenses over and above what the appropriation allows,

we also have 3.9 million in increased revenues. So we have a net of 1.9 million so it's all good news. Nonetheless we will come in with the rest of the city departments in mid June for an appropriation request to adjust that appropriation from now until year end. I would like to hand it over to Jeanette Duvall, our CFO, who will give you a very brief summary of some of our performance measurements.

>> Okay, looking through March operating revenue actually came in 11.2% higher, which is very good considering that Adobe moved towards the end of the year. We were able to pick up significant business in the small short term business pickup as well as some of the sporting events has been very successful for us in growing our revenue. One of the things -- one of the areas that has significantly grown is the food and beverage area. And along with growing that particular line of business there is cost associated with growing that revenue. That is an area that we typically have a 30% profit so when we grow our revenue of course there's a 70% expense. One of the things I do want to mention though that there is very minimal exposure or risk to Team San José as we grow that revenue because we requests deposits before they have their actual event we have our cash in hand. Some of my -- although that we anticipate looking forward to need an appropriation adjustment so far expenses has been in line and we are actually 2.1% lower than our anticipated expensed and that is primarily because as Bill said the variable nature of our business and we've been doing a much better job than anticipated in controlling those costs. Looking at our other drivers, our academic drivers are attendance and estimated visitor spend through March is slightly lower than we had anticipated, and that's primarily because of the fact that we had projected that Adobe would be the big, Adobe event would be in September. However, we had the -- we did have that event in May and it was very successful, so we do anticipate meeting our goals or hopefully exceeding our goals by the end of the year in both in the attendance and the anticipated visitor spend in the area, which will also increase our return on investment to be slightly higher than our goal for the year. Moving on to customer service. Okay, moving on to customer service, this is an area that we have been really successful in getting more of our customers to participate in. We've gone from pretty much a 30% starting the year response rate to almost a 69% response rate. So it even validates more our customer service is at 98% whereas our goal is 92% so that's very, very good.

>> Bill Sherry: If I could chime in here, I just wanted to point out this customer satisfaction survey is done by a third party. They tally the results, they reach out to the clients and we see those results at the same time that the council and the rest of the world sees it so there's no way for us to influence it. And I just want to remark that as a new member, team member of Team San José, achieving a 98% customer satisfaction survey, in my estimation, with a 59% response rate, completely done in a statistically valid way, is a phenomenal achievement. I think a lot of kudos have to go to the team in terms of achieving that at all. However, I also want to manage expectations. In the coming year we are going to be under severe construction and obviously as we enter that period of construction, I think we all have to go into that, eyes wide open and with the full expectation that that customer service satisfaction is likely to come down. We're going to do everything we can to keep it high but nonetheless with construction activities abound, it's likely to come down. Additionally, I also want to point out that our budget doesn't give us any funds to throw towards customer satisfaction to try to help mitigate some of those aspects. While we're going to try to do everything from the human perspective, it is going to be a challenge. I want the committee and the council to understand that number is likely to come down throughout the course of next year.

>> Okay, moving on to theater performance days, we are lower than we had anticipated and that's primarily the delay of the concert series as we work through that contract. However we anticipate meeting, at least in performance days, our goal. What the occupied days is the in and out days that it takes to have a performance. So that's not necessarily a bad thing, as long as we meet the performance days, because those are our money making days, so that is a good direction. Also an important thing to mention, in our theaters, is that for fiscal year '9-10 we did have eight events in our theaters related to some of the larger convention center events where they have multiple venues and utilize some of our theaters such as Adobe and that kind of thing and we actually had 50,000 visitors that utilized both the convention center and one of our theaters at the same time.

>> Bill Sherry: On that point I think it's important to note that when we market the convention center, we really do it as a campus. We have a large number of facilities we can utilize. Here is an example where eight large events utilized facilities other than just the convention center.

>> Looking forward we do anticipate exceeding our operating revenue by 28% which is very successful and as we mentioned a lot of that is our short term, we're seeing a lot more of our short term smaller book beings as well as picking up some sporting events our public dance in April, March and April, we had 19,000 attendees so very, very successful events.

>> Bill Sherry: Lastly what I'll do is just close on sales and marketing communication efforts. I had the benefit of traveling to New York and D.C., and in five short days I probably met with over 40, 50 clients. And as a former ex officio board member of Team San José and also the policy development board I heard from Team San José frequently about the value of the one-stop shop and the high customer service. But I never really had an opportunity to hear it from the client's perspective. And while traveling to D.C., and New York, I got a -- really an overdose of comments from current clients, as well as past clients, of just how valuable that one-stop shop is and how valuable that high examiner satisfaction is. So it really is a tangible benefit that we bring, and it is a selling and marketing asset. And with that Mr. Chair we'll go ahead and cut it here because we know our time is short and we'll entertain any questions you've got.

>> Councilmember Constant: Thank you. Any questions Mr. Oliverio?

>> Councilmember Oliverio: No, Mr. Constant.

>> Councilmember Constant: We're being very formal today. I don't have any questions either. Just a comment about the reports, very clear, very concise, very easy to get through, I really appreciate that. We can't take any action other than saying good job. That's our action, pass it on to people who can actually do something with it so thank you.

>> Bill Sherry: Thank you.

>> Councilmember Constant: All right, we will then go to D-1 which is a verbal report, our actually we have a written report on the interoperability projects and Deanna do you have any comments to add to your report?

>> Deanna Santana: I do. This is an item that we requested last month after the SVRA item and several interoperability regional activities. So we want to begin providing monthly reports to keep the public and the council apprised of all the issues and activities that are underway. This has been an item that our mayor has led regionally on, with the other large city mayors of Oakland and San Francisco. The key issue I'll provide verbal update since the report was issued. We sought corrective action to have the three-way city put on the FCC lease, which was advanced through the FCC from Alameda County sheriff's office. The three cities are working collaboratively, along with the Alameda County sheriff's office to take corrective action. However the FCC has determined just this week that that lease that was issued was not valid because there was no authority on behalf of Schaeffer Ahearn to sign. So they have asked us to submit a new application for the rights to the spectrum and to obtain a new lease and we need to look through our schedule as well as the task associated with that. So we're basically at square 1 on that effort. The JPA, we do plan on bringing the JPA, referred to as the BARICS, the Bay Area Interoperability Communications, on June 7th to the full council consideration. And I do want to note the leadership areas here from the office of the mayor, particularly our office of the mayor advanced issues around weighted voting and sought agreement to ensure that the three large cities' size in the region were accounted for in the JPA. The UASI, we will be advancing second, six-month extension on our UASI. It will look as -- it will look as the other extension that we advanced in February, with the three large cities and the three counties as exists right now. However, we do know that meetings were held this week to hook at other arrangements in bringing on specifically San Mateo county, Contra Costa County and Alameda County, at that time if it's appropriate we'll bring forward a revised successor MOU. I'll pass over the issue related to the inspector-general to Michelle McGurk if there's any additional comments.

>> Yes, so the council has received a copy and it is in the pact for the inspector general for the national telecommunications and administration report which was issued in response to a request that we were very supportive of, by Santa Clara County. The inspector-general has issued a preliminary findings to their inquiry stating that our complaints were not fully investigated, and that there were some other issues related to Motorola's request to depart from grants and conditions. So the next step with this report, it looks, from the way the report is worded, that there will be additional inquiries conducted by the inspector-general's office and the mayor's office

has informed the inspector-general's office that we are happy to cooperate in any way on behalf of the City of San José.

>> Councilmember Constant: Thank you. I just wanted to publicly say thank you for all the work that you and the Mayor's Office have done along with the NF on working towards resolution here. I just wanted to add that at last night's SVRIA meeting, the JPA did take a vote to join and participate in BARICS as well. So with that, anything else Deanna?

>> Deanna Santana: We'll be up next month with another update. Things are moving quickly in this area.

>> Yes, there's one other thing, chair constant. The Santa Clara County and San José now have seats at the table for the conversations with Motorola. And Emily Harrison of Santa Clara County, deputy county executive, is actually chairing that negotiation process. And I am serving on that team, on behalf of the City of San José. The boom negotiations team has submitted lengthy questions to Motorola and we are in the process of getting those questions answered. So thank you.

>> Councilmember Constant: Great, thank you. Again, no action on this item. We will now move to the City Auditor. And we have two items. The first one will be the monthly report on activities and then the audit of key drivers of employee compensation. You can take those in either order as you like, and since we're not taking action, you can just seamlessly roll from one right into the next.

>> Sharon Erickson: Okay. First up is the monthly report of activities during the month and for the month of April. During April we issued two audits, disability retirement and the second annual financial scan of CBOs. Also during the month we continued making presentations on our pension sustainability audit and we did meet with the external auditors to begin kicking off this year's external financial audit. In terms of the assignments in process, today you have on the agenda, of course, employee compensation. We have four other projects in the works. And with that, that's my report unless you have any questions.

>> Councilmember Constant: No, other than to let you know I've been dreaming up new audits for you so I'll let you know. Anything else for you sir? Okay right into our next one.

>> Sharon Erickson: So this one we did prepare a PowerPoint presentation but I'll run through it pretty quickly since we may need to do it again at the council level. This report is key drivers of employee compensation. We looked at base pay, overtime, paid leaves and premium pays. This report, the genesis of this report was to answer the question what are the key components of employee pay. And to do that we compiled ten years of employee compensation data, reflecting actual transactions in the city's PeopleSoft system. So we've got in this report actual costs from fiscal years 2000-2001 through 2009-10. It does include all costs expended in the General Fund and other special funds. It doesn't include some other workers compensation costs or other costs that are not processed through PeopleSoft. This pie chart shows total compensation for one of those years, it's 2009-10. It totals to \$840 million. This exhibit is on page 2 of the audit report. What was startling to me in looking at this is, the proportion of base pay to total compensation, it was actually much smaller than I'd expected, and the fact that benefits are about a quarter of the pie. This next chart just shows how that breaks down, and again, these are the -- this is the data from PeopleSoft so it may not include everything. This exhibit was also on page 2 of the report and it does show that breakdown of 840 million by various departments. The next slide shows you the gross, in total employee compensation. It was happening even though the number of employees declined, this is exhibit from page 14 of the audit report. Again breaking down, the report includes, because it was primarily informational, includes a lot of these graphs. This graphic breaks down hourly costs. So PeopleSoft does track hours paid so we can do the math there and do the division. This shows that hourly benefit costs grew faster than cash compensation over this period. So benefit cost was the fastest growing component of total compensation, emotional doubled over the last decade. Of that retirement contributions were of course the largest piece but medical contributions were also large. We've done previous audits of pension and health care cost that focused on that. So this report, then, we really focused on employee cash compensation, and you can see from this graphic that cash compensation went up also. It increased at a lower rate, though, only 43% in comparison to other components of pay. The next graphic will show you over the last 10 years citywide cash compensation increased 54%. Again this shows you, compared to the number of hours, which was decreasing over that period, cash compensation grew from about 449 million at the beginning of the decade to about 640 million at the end of

the decade. Now this includes all forms of cash compensation that were received by employees through the payroll system. So it includes base pay, overtime, paid leave such as sick leave, vacation leave, holidays, leave payouts and premium pays. Now keep in mind though that even though employee cash compensation was growing, employee take home pay didn't necessarily do the same thing. So actual take home pay did not increase proportionally. Twit and 2001 civilian employees were contributing 9.79% and 4.76% respectively towards retirement. Those same retirement contribution rates by the end of the decade were 15.57 for police, 13.7 for fire and 10.3 for civilians. One key item that we looked at was just the employee contributions for example for family medical benefits increased from \$300 at the beginning of the decade to over \$2200 at the end of the decade. So over the decade, employees were bearing an ever-increasing portion of benefit costs. It should also be note they'd two employee units took compensation reductions during that time and going forward. Most increase, the next chapter in the report really talks about base pay and shows the components of base pay. One of the key things that we found was that there were substantial automatic increases in pay for most employees. In terms of automatic step increases our sample found that 42% of step increases had occurred without a corresponding performance evaluation, one step increase occurred even though employee had received a negative evaluation, keep in mind about 64% of city job classifications have steps. Steps usually result in 5% increases after working 2080 hours. In general they don't require performance evaluations. The next slide shows you the general wage increases. So in addition to step increases employees can receive general wage increases. This exhibit was on page 24 of the report. These general wage increases are negotiated between the city and the employee units. Over the past ten years, those increases have oftentimes exceeded CPI but you can see in the last year of that table where they turn red. They were less, certainly less than CPI and were actual decreases. The next slide will show you that most increases in base pay not being tied to performance led us to a recommendation really to promote that city employees are accountable in high performing team. We recommend that the city administration take steps to move towards a merit based system and you can see that recommendation. The next chapter of the report we kind of stepped through different components of pay. So the first chapter was base pay. The second chapter deals with overtime. Overtime provisions certainly add to the City's cost but you can see from this graphic that the overtime was not building up as fast as base pay on which it's based, which means the city was doing a good job at holding down those costs. It should be noted that Police and Fire employees are about 80% of overtime. Now a couple of issues that we did see with overtime, this slide shows you an example of an employee

paycheck. The city pays overtime for hours paid not necessarily hours worked. So this is an actual example where an employee worked 18 hours during a pay period but received three hours of overtime because it was based on hours paid not hours worked. The FLSA has certain standards open hours worked. And we do offer an excess of that. The other area where we pay overtime that is presumed in excess of what we believe are FLSA requires is we pay overtime to some presumably FLSA exempt employees. These are salaried, supervisory employees who receive overtime. These are negotiated again. The city does not require an FLSA review before granting these types of benefits, and in some cases some employee groups also receive executive leave which is actually meant to be in lieu of overtime as well as overtime. So the second recommendation in our report is to reduce the cost of overtime, looking at these particular cases, at the fact that we pay in excess of FLSA standards. The next chapter of the report really deals with paid leaves, and paid leaves is where the city does have a very generous paid leave package. You can see the cost here, in 2009-10, paid leaves cost about \$85 million of that total compensation that was paid to employees. You can see vacation was in excess of \$30 million, sick leave paid in excess of \$18 million, and so forth. Leave is very costly. It costs us, we figure, about \$1.9 million a day, in cash compensation, for the full-time workforce. It also, it results in lost productivity in terms of service delivery. Now the city's paid leave offerings, it varies across the city. It depends on seniority and by bargaining groups. Management, professional employees generally receive more leave. Generally, citywide, vacation leave is tied to longevity. We do see that some bargaining units receive different amounts, there's personal leave in some bargaining units and so on. We did generally find that other public sector employers offer similar ranges of leave, except in the area of paid holidays where the city is more generous than most. In contrast private sector employers that we talked to, in contrast to these numbers, offer 22 to 35 days. The City's paid leaves generally are about 38 to 56 days per year. We did recommend that the city include calculations of the value of paid leave in total compensation, when we're aligning total pay packages. Sick leave payout was the next area and of course you're well familiar with this. This graphic just shows you from the PeopleSoft system what were the actual sick leave payouts over the last ten years and you can see the rapid growth. We estimate the City's 2010-11 sick leave liability is currently more than \$20 million. We recommend, of course, that we look at, we consider eliminating or reducing the sick leave payout provision. Council has already moved forward toward that direction but it is subject to meet-and-confer, as are most of the audit recommendations in this report. The next chapter is on premium pay. We were started to see how much of the total compensation pie is actually premium

pay. This shows how they've gone up over the last decade, peaking last or in 2008-9, the second to the last year of this graphic at \$40 million. Actually, it's about 4% of citywide cash compensation but it is 12% of fire and about 7% of police. Some of what happened in the last year, of this graphic, is some police premium pays were rolled into base pay. We do have an issue where, in some cases, premiums compensate employees for what are minimum job requirements. Some examples include EMT pay for fire-sworn employees, and AB license pay for employees who operate heavy duty vehicles. Those are job requirements for all the employees in those categories. Rolling premium -- rolling premium pay into base pay does improve transparency but we do caution that it can have an effect on annual compensation. And we -- so this is an example of a hypothetical police officer, where compensation was increased by roll-ins. The problem is that when you roll it into base pay it has spillover effect onto the calculations of other pays. For this employee we estimated the total roll-in effect was about \$3700. And what we're recommending in this area is that we just be very transparent. We agree completely that we want to seek to eliminate -- if you could go on to the recommendations. We want to -- it's -- we agree completely that we want to eliminate obsolete premium pays. We just want to make sure that we disclose the direct and indirect impacts of that. So what quite honestly we'd like to see is in the council memo that goes forward, that where we're talking about cost implication that those costs are called out so that when employees do receive an increase in pay as a result of rolling in, that they're well aware of that or if it was done on cost-neutral basis that they're aware of that as well. Finally, the last chapter in the report, just addresses the issue of transparency and benchmarking. It is very, very difficult to benchmark one compensation package in one jurisdiction to another because of all the complicating factors that you've seen in our compensation package. In the report, we show how different jurisdictions if you call them up and you ask them for their total comp number they'll give you a number that's calculated on a different basis than San José calculates that number. In the interests of transparency, we do believe this is really importantly to be calculating this. We did point out in the report that there are cities who are doing this, but I believe this is a long-term best practice. This is not something the city is going to be able to do right away. And with that, I just want to thank the departments that were involved in this process. Especially the payroll division of the finance department that gave us invaluable assistance in helping us to learn the ins and outs of PeopleSoft. In the back of the report you can see the voluminous number of pay codes that were involved in trying to sort through what are these pay packages. Also want to thank the Department of -- or the office of employee relations that also provided a lot of assistance in that. And I want to

take personal minute to thank Gitanjali Mandrekar and Michael Houston from my office who are sitting here who put together this data. I don't know that anybody else is really put together ten years of data out of PeopleSoft. It does show the value of these-of these systems that we have, where we have them. In the report one of our problems was that we could only break employee groups into certain categories. In PeopleSoft now payroll is beginning to track by bargaining unit on a go-forward basis. I think as we learn how to use these systems and have historical data we'll be able to put out more and more information about the kinds of pay package we have. Thank you. We're happy to answer any questions. The administration did receive a copy of report and is in general agreement and I don't know if employee relations would like to make any -- no, they -- they -- in their response they point out that most of these are all meet-and-confer issues. They're addressed either in the City Manager's fiscal reform plan or on the bargaining table at this time.

>> Councilmember Constant: Mr. Oliverio.

>> Councilmember Oliverio: Thank you, City Auditor and as always outstanding performance. Look forward to the council discussion on this topic. I do did have one question, in that you've touted \$20 million sick leave this year. Was that a recent number this year, because I hadn't heard it going that high, I'd heard it in the 12 to 14.

>> Sharon Erickson: That is total liability. So if you look in PeopleSoft at how many hours are accrued, people within one year of retirement eligibility. So that's the total outstanding liability. That does not mean that's what you're going to pay next year.

>> Councilmember Oliverio: But it could be 90% of that, if you're in one year of retirement --

>> Sharon Erickson: I think budget office has got a different number in the budget but yeah, that's the danger here.

>> Councilmember Oliverio: Did your study look at the total aggregate liability of the total sick leave acquired by all city employees regardless of years of service?

>> Sharon Erickson: We don't know the number off hand. What we were looking for, when Michael pulled the numbers he was looking for that specifically liability of employees who could retire.

>> Councilmember Oliverio: What I think I would be looking for at some point from the office of employee relations to know what that total number is because that's an eventual payout and I think we should put that in our budget ongoing throughout the year as would likely be with other things that we owe, much like people accrue vacation time, for example. Thank you.

>> Councilmember Constant: Thank you. Just a couple of comments. I just wanted to note, correct me if I'm wrong but I think from our previous conversation, page 36 exhibit 23, the paid leave compensation by type does not include holiday in lieu pay which is another significant sum of money, is that correct?

>> Sharon Erickson: That's correct.

>> Councilmember Constant: Okay. I think that's important to point out because of the amount of money that is paid in that manner. I think what was probably -- a couple of things that stuck out highlights to me was the cumulative effect of rolling premiums into base pay. And that I guess you'd say sort of hidden rise, that hidden pay that exists there. And the continuation of having overtime when people aren't working either the full eight or 40 hours, whether you're talking about workday or work week. Did have a couple of questions on, I appreciate the appendix A that has this long list of premium pays. And there are a couple of comments I had in that area. One, I know we have a premium pay for bilingual services, when someone can speak and read, I think we have it if they just speak, or if they speak and read it's two differently premium pays. My understanding is we don't maintain a list of those employees that are available for translation services if they're needed elsewhere in the city. I know they do that in the police department, on duty, through their CAD system. But what do we do for others? Are there --

>> Alex Gurza: Good afternoon, Alex Gurza, Director of Employee Relations. Councilmember Constant, I do not believe we have a centralized list of all employees. There are -- there have been efforts in the past to maintain

such a list. You're correct, I think within certain departments they do but we don't have a citywide centralized list of employees' skills in secondary languages.

>> Councilmember Constant: I think it's important if we are paying people that have skills that are to be available for use in the workplace that we have a list so that if someone on a floor needs help and there's someone you know right down the way that can provide the translation services that we have them there. I also had a question on the sick leave. I heard that if someone takes less than four hours of time off for sick leave they don't have to report that, is that correct?

>> Alex Gurza: Well for management employees that are paid salaried, they are paid not by hour. And so there is a practice that people that are salaried do not get docked for absences of four hours or less regardless of the reason because they're paid not by hour but by work week, for a work product.

>> Councilmember Constant: Is that -- that counts all management employees?

>> Alex Gurza: All salaried employees. So all -- for example engineers, architects, unit 99, attorneys, all of those groups are -- city association of management personnel are all paid by salary and not by hour. So when an employee then that's salaried takes more than four hours off of work then that's when they'd have to start use their paid leave.

>> Councilmember Constant: One of the other ones that stuck out to me was shorthand pay. Which I would imagine that 90% of the people employed here don't even know what shorthand is anymore, given the generational changes we see.

>> Alex Gurza: Yes, that is, you're right, an antiquated pay, I'm pretty sure we have eliminated that by now, we have. And so it may just still be a code.

>> Councilmember Constant: Okay.

>> Alex Gurza: But yes, that is not something we use anymore. We were phasing it out. I think there was one person still doing that, there might be two people. Yeah, very few. We're phasing that out, and so no -- let me confirm that I am correct that no new person can receive that, is what we did. We'll get further information. We negotiated that out, it was a benefit in a contract.

>> Councilmember Constant: What I think might be helpful in the future is to have a list like this of which ones are attritioning out, which ones are active, which ones are current just so that we know. Because I'll tell you, I was shocked to see so many different premium pays and also shocked at the impact it has on overall payroll when you see those bar charts. I forget the one, I think it was 41 million on that one bar chart. I think those are all the comments we have today. We don't have any members of the public who are just dying to speak today so unless you have anything else we'll forward this on to a council meeting and we will adjourn. Thanks.