

**MEETING MINUTES
CITY OF MILPITAS**

Minutes of: Special Meeting of Milpitas City Council
Date: Tuesday, February 8, 2011
Time: 6:00 PM
Location: Council Chambers, Milpitas City Hall,
455 East Calaveras Blvd., Milpitas

ROLL CALL

Mayor Esteves called the meeting to order at 6:00 PM.

PRESENT: Mayor Esteves, Vice Mayor McHugh, and Councilmember Polanski

ABSENT: Councilmembers Giordano. Councilmember Gomez was absent at roll call and arrived at 6:03 PM.

PLEDGE OF ALLEGIANCE

Councilmember Polanski led all in the pledge of allegiance to the flag.

PUBLIC FORUM

None.

APPROVAL OF AGENDA

Motion: to approve the agenda as submitted

Motion/Second: Councilmember Polanski/Vice Mayor McHugh

Motion carried by a vote of:

AYES: 3

NOES: 0

ABSENT: 2 (Giordano, Gomez)

**RESPONSE TO CITIZEN
BUDGET TASK FORCE
RECOMMENDATIONS**

Mayor Esteves welcomed all to the meeting and stated that Councilmembers were welcome to ask questions while the City Manager gave his presentation.

Vice Mayor McHugh reminded him that previously he asked the City Manager to provide the "achievability" (i.e. how easy to implement) of each Task Force recommendation. City Manager Tom Williams responded that his presentation format would address that request.

Councilmember Gomez asked if they were constrained to discussion of only ideas brought up by the Task Force, per the prepared agenda. Mr. Williams responded the study session was planned as a discussion and all ideas from the Council were helpful as staff proceeded to plan for the next fiscal year's budget.

Mr. Williams reviewed broadly the city's financial condition and the policy recommendations provided by the Citizens Budget Task Force last November. Guidance and direction were sought from the City Council at this meeting.

Councilmember Gomez asked about the policy on outsourcing. Was there was a competition policy for employees, following any concessions sought? He asked the City Manager if employees could be part of any Request for Proposal process, and he said absolutely.

Vice Mayor McHugh, in response to the Civil Grand Jury, pointed out that the City's prior Mayor explained that the City already did some contracting out of various services. His view of contracting out certain services would be a pilot project, along with the concept that employees could respond to an RFP if they could do it cheaper.

City Manager Williams stated the City must determine the most effective way to deliver services. An RFP was simply to collect data. Vice Mayor McHugh felt that landscape maintenance was an appropriate area possibly to contract out, but he did not want it to

snowball enthusiasm to consider other services, and certainly not police and fire. Measured steps would be appropriate.

Councilmember Gomez wondered about any companies that responded to an RFP: how would the City ensure they don't have certain type of employees or practices? There were many provisions for safety and legitimacy, replied Mr. Williams.

Councilmember Polanski noted that as Council continued budget discussions, it was important to look at what the core City services were. She urged a look at what the City provided for citizens and its priorities. It might be time to suspend select services, and cut those on a temporary basis until the economy was better.

Mayor Esteves quoted from the Civil Grand Jury report regarding partnerships with other governments. He wanted information on costs if police and fire were to be considered for contracting out, for a basis of comparison, since that was the "biggest chunk" of personnel costs for the City.

Councilmember Polanski said, when looking at outsourcing, the Task Force had some recommendations. She was concerned about the state, which was not looking good with a \$28 billion deficit, and now it was trying to push services down to local counties and cities. The County's Grand Jury report was completed prior to when the state's latest budget plans were announced.

Vice Mayor McHugh believed Milpitas already had an arrangement with the City of San Jose on animal services. The City Manager explained that staff had looked at those services and reported that the Silicon Valley Humane Society located in Milpitas did not handle all of the services required of the City (such as collection of dead animals on the street).

Mayor Esteves requested to be specific on measurable objectives, performance goals, and timelines, when considering contracting out of any City of Milpitas services.

The City Manager reported a recommendation to hire an independent consultant regarding a Total Compensation study, as it had been done approximately three years ago. This was done to discover where the City's salary and benefits costs were and to try to bring down total cost.

Mayor Esteves urged a look at both public and private sector organizations, and inquired when the total compensation study was done. Mr. Williams said the study completed a few years ago only looked at public sector employment. Further, the City Manager reported that the Task Force recommended to split City employees into two employee groups only: public safety and non-safety. This differed from current set up of six employee unions.

Finance Director Emma Karlen next went through Task Force recommendations line by line, to display immediate savings, future savings, and whether the recommendation was feasible. In certain areas, the City would have to wait until contracts with select union groups expired, or open those to re-negotiate in order to realize the savings identified. She reviewed Task Force recommended items 1-14 (on a chart format), displaying staff estimated savings.

Mayor Esteves suggested taking a look at extending employee step pay increases across 7 or 8 years, instead of the current five. Also, he offered consideration of not allowing a cost-of-living increase in the same year that a step increase was paid to employees.

Councilmember Gomez replied that step increases troubled him, knowing workers were still getting increases now. His preference was to keep tabs on this information and let employee groups know this was adding to the structural deficit. He asked about a recent City of Richmond legal case regarding minimum staffing. City Attorney Ogaz reported that the City of Richmond said when implementing layoffs, a City did not have to meet-and-confer when imposing layoffs, but it did have to do so regarding effects of those layoffs.

Mr. Williams noted that presently in the City of Milpitas, a vacancy of 12 firefighters existed. By not hiring those and then meeting the minimum staffing as required in the MOU by way of overtime, savings were achieved.

Councilmember Polanski confirmed pension contributions to PERs and to the LIUNA special pension fund. She asked what current PERS contribution rates were: 15% (non-safety employees) and 24% (for police and fire). Next year, the rates would go up to 18% and 29.7% for the employer portion, reported Ms. Karlen.

Upon hearing the recommendation to do away with all supplemental pay, Mayor Esteves asked if he could get data that listed all the special pay items. He wanted to know the financial impact of the costs and felt longevity pay was not rational to offer right now. City Manager said staff was prepared to provide that information.

Councilmember Polanski felt it was important for employees to take vacation, but there should be a limit on cashout of vacation hours. Regarding sick leave employee balances, she asked if there was a law about this, for it to be "use it or lose it." City Attorney Ogaz agreed to look into this question and respond back to her.

Mayor Esteves asked if cashout amounts added up to total retirement pension and staff said no. Ms. Polanski wanted to check on sick leave and how that fit into retirement pay. Ms. Karlen explained how service credits worked with regard to retirement.

City Manager Williams identified one of the hidden costs was that cashout accrued at a lower rate, and then if an employee was promoted, then the cashout is at the higher level. So, perhaps staff could look at cashouts based on how it was earned.

Councilmember Gomez felt sick leave should be used only when an employee was sick, with no cashout option. He would support elimination of sick leave cashout altogether.

Councilmember Polanski brought up the medical premium issue in the past, and supported employees paying a portion of the medical costs. Ms. Karlen responded that staff recommended a cap at 2011 rates, then employees pay the increase in years following. Councilmember Polanski believed, with increasing medical costs, employees needed to share in those costs.

Ms. Karlen said capping rates for medical could also help reduce retiree medical costs, by capping costs for employees first and then reimburse retirees at that same rate.

Councilmember Gomez thought this was a good opportunity possibly to have retirees help with cost controls on their benefits. Councilmember Polanski inquired further on retiree benefits.

The Task Force recommended two tiers for retirement formulas and to change from the present PERS formulas provided to employees. The two tiers recommended would include highest average last three years salary formula instead of the single highest year, as presently.

Mayor Esteves asked if the number of years to vesting could be changed from the current five years. Ms. Karlen replied staff had not studied that yet, to know if savings were possible. City staff provided one alternative recommendation: to cap benefits to 35% of base pay for non-safety employees, and to 40% for safety employees. This approach could save greater than \$7 million total per year, if started immediately.

Mayor Esteves wanted to know how to implement it. Mr. Williams replied that it would go back to the total compensation model that other cities negotiated under, such as Foster City. With a cafeteria style plan, employees would choose what benefits they desired up to a certain set dollar amount total.

Revenue enhancement recommendations from Task Force were reviewed. Some of these ideas required going to the ballot for voter approval, such as county reimbursement of jail expense, a 2% utility user tax and others.

Mr. Williams reported that \$700,000 was the approximate dollar value of services currently provided to the Milpitas Unified School District, in response to Councilmember Gomez, who then stated that the District needed to pay its fair share of costs.

Mayor Esteves and Ms. Polanski agreed with Councilmember Gomez. Councilmember Polanski suggested to maybe suspend some programs right now or eliminate them, for example, the DARE program. More “boots on the street” were needed, when going back to core services.

Vice Mayor McHugh felt that DARE was an excellent program but his colleagues were right, and perhaps better use of resources should be considered. On the literacy program, the City provided \$10,000 toward it and MUSD could contribute \$15,000 toward shared costs.

Councilmember Gomez reacted on the literacy program, as staff looked at it, potentially the program should be self-sustainable. City could not fund it forever, and should guide the program toward grant funding for its future success. He also suggested to cut the Chamber of Commerce annual subsidy. Councilmember Polanski agreed with parts of Councilmember Gomez’ remarks.

Vice Mayor McHugh agreed where dollar amounts were small, to focus on value. He agreed that Councilmember Gomez made an excellent suggestion about Chamber of Commerce subsidy.

Mayor Esteves wanted to focus on cutting costs, while keeping full services to residents. If something was cost neutral, focus on that primarily. He urged finding alternatives to provide best services, e.g. an alternative to the DARE program.

Councilmember Gomez urged making sure everything was cost recoverable, and that all programs were a partnership with the community.

Finance Director Karlen identified a utility user tax, which at 2% was a tax could generate \$3 million. Councilmember Gomez wondered what findings would need to be made in order to put onto the ballot a tax or sales tax.

Vice Mayor McHugh addressed the matter of retail store Walmart’s expansion. He asked if it would actually generate the \$70,000 identified by the Task Force. City Manager Williams noted that estimate was not taking into account the shift of shopping elsewhere in the City.

Councilmember Polanski asked about retail space and any net gain. She wanted to know specific facts of any possible Walmart expansion, i.e would there be a gain (\$70,000) or a loss (\$18,000), both of which were previously suggested.

Mayor Esteves wished to take a second look at the Walmart expansion. An increase in potential customers would compensate by more sales in retail. He wanted to be objective beyond the Walmart store only, with regard to development at McCarthy Ranch.

Mayor Esteves invited members of audience to speak at 7:38 PM.

Public Comments:

Rob Means, 1421 Yellowstone, was glad the Task Force did not focus only on cutting expenses, but also considered gathering a few more bucks. He suggested a tax on gasoline or diesel in Milpitas, and to tax things that were not good for environment. A voting ballot would be coming in June statewide, so that might be a good opportunity. On pensions, at the root of problems was the need to cut back on amount of money for retirees.

Dan Manassau, Milpitas resident, had served on the Task Force. That group was not making any huge horrendous cuts, but were looking at stuff that should have been cut years ago. He did not understand why certain pay was given to employees. They dealt with low hanging fruit while some topics were complex and needed more study. The city needed a salary survey for employees, independently, that included more than just other cities.

Joseph Weinstein, 66 Hamilton Ave, thanked the City Council as a member of Task Force. He could not ask more of what the City staff did to provide information. He'd been concerned that its report, after last November's election, would get buried so he was very pleased at tonight's discussion. He suggested reading meeting minutes of Task Force meetings. It strongly recommended re-opening all MOUs, in this fiscal crisis, to take the steps necessary by re-negotiating with unions.

Mayor Esteves said that when the Council held a budget workshop, the Task Force recommendations would be one area of study and preparation. Operational efficiency and effectiveness would need to be studied, and asked the City Manager to look into it. He said again that contracting out could be a big issue in the future.

Councilmember Gomez questioned the Task Force Chairman. On a utility tax, was there effort to consider different ballot measures or just the utility tax item? Mr. Weinstein heard that the state and county considered sales tax already, so the Task Force did not want to push folks away from the Great Mall, for example. Other types of taxes were complex, hard to understand or predict while a utility tax would be shared by residents and businesses together.

Councilmember Gomez wished to know, on a possible increase in sales tax, what revenue could be generated for ¼ cent or ½ cent sales tax. Ms. Karlen responded that a 1% additional sales tax could yield \$16 million more or less, so therefore a quarter cent sales tax could yield \$4 million.

Councilmember Polanski thanked Task Force members. She agreed with Councilmember Gomez on several points and reminded again to look at core services as noted in the "10 New Rules for Elected Officials" article. She questioned why the City was in the child care business (pre-school). Maybe the public art program could be suspended at this time, and in the same light maybe the literacy program, money for training or other discretionary funds, take a look at Sports Center hours of service, and maybe reduce other services.

Vice Mayor McHugh felt on taxes, a utility tax or sales tax really impacted residents directly. That could be quite difficult on residents, so he'd recommend only a tax that would not affect residents, such as hotel tax. Current rate was 10% and neighboring cities were up to 12%. Ms. Karlen said approximately \$1 million could be generated on a 2% increase in TOT (Transient Occupancy Tax).

Mayor Esteves supported economic development actions and bringing jobs to the City, so he would consider a TOT increase.

Vice Mayor McHugh asked the City Manager if the first budget work session would be held on March 15 and staff confirmed that.

Councilmember Gomez commented on past actions related to hotel tax revenue, and that when it changed from 8% to 10%, funds were earmarked. The City Manager confirmed that comment noting the funds were for library hours extension and for cultural arts programs. Councilmember Gomez wanted to review the purpose of those funds. City Manager responded that voters chose that spending plan, so any change could require a return to voters. Councilmember Gomez wanted to know more specifically the exact funds that supported the school district (he thought it was more than \$700,000). He thanked Task Force for all suggestions given.

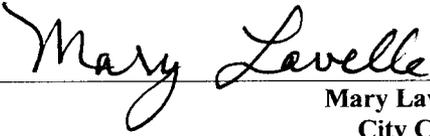
Mayor Esteves thanked City staff for their professionalism and factual data provided this evening at the study session. He looked forward to seeing everyone on Tuesday, March 15

for the budget work session (scheduled prior to the Regular Council meeting).

ADJOURNMENT

Mayor Esteves adjourned the City Council meeting at 8:12 PM.

The foregoing minutes were approved by the Milpitas City Council as amended on March 1, 2011.



Mary Lavelle
City Clerk