cc: Mayor & City Council
Sr. Staff
City Labor alliance

County of Santa Clara

Office of the County Assessor

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110-1771
(408) 299-5570 FAX 297-9526
E-mail: larry.stone@asr.co.santa-clara.ca.us

Lawrence E. Stone, Assessor

March 8, 2004

Mr. Del Borgsdorf
City Manager
City of San Jose
801 North First Street
San Jose, CA 95110

Dear Del

Enclosed is a timely memorandum which I submitted to the County Board of Supervisors and the County Executive that details the dramatic, adverse financial impact on the local property tax system if the Supervisors approve a "golden handshake" offer of early retirement for the County's most experienced senior employees.

The early retirement incentive must be ratified by the Board of Supervisors. As my memo indicates, this is a serious issue with potentially catastrophic consequences if the 57% of my senior appraisers and auditors who are over the age of 55 accept the early retirement incentive and leave within the 90-day window. I urge you to join me in conveying your concerns to the Board and County Executive, Pete Kutras.

Please call me if you have any questions, or would like to further discuss this matter

Sincerely,

Larry

Lawrence E. Stone
Assessor

Enc

County of Santa Clara

Office of the County Assessor

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110-1771
(408) 299-5570 FAX 297-9526
E-mail: larry.stone@asr.co.santa-clara.ca.us

Lawrence E. Stone, Assessor

March 4, 2004

TO: Board of Supervisors
Peter Kutras, Jr., County Executive

FROM Lawrence E. Stone, Assessor

SUBJECT: Early Retirement

Last Friday's *San Jose Mercury News* reported that the County had tentatively reached an agreement with SEIU Local 715. I write to express my strong opposition to the inclusion of a financial incentive encouraging early retirement for senior County employees. The early retirement incentive will likely cost the County, and other local jurisdictions, significantly more in lost property tax revenue than the anticipated $4 million in savings. If I had been advised of this proposal in advance, I would have informed you of the deleterious impact on revenue available to the County and local government.

Data, which we obtained from Personnel, indicate that more than 20% of the employees in the Assessor's Office are over age 55. These folks are the most likely candidates to accept the proposed PERS retirement incentive. Many more are currently over age 50! More problematic is the fact that most of the employees over 55 are clustered into a handful of professional, non-clerical classifications. For example, 50% of our senior appraisers would be eligible to accept early retirement.

In addition, the extremely short 90-day "window" available to employees to accept the retirement incentive, encourages our most experienced appraisers and auditors to retire during our "peak season" as we prepare to close the assessment roll. As I have explained on other occasions, the work of the Assessor's office crescendos in the months of April, May and June, as we prepare to close the assessment roll by the legally mandated date of July 1, 2004. This is precisely the same time period that the special early retirement must be exercised by senior employees.

The immediate impact on our workload, property tax revenue, and later on other departments such as the Clerk of the Board and the Finance Agency would be significant. The Chief of our Real Property Division, himself a candidate for early retirement if the incentive program is extended to executive managers, estimates that important valuation work associated with transfers of ownership, new construction and restoration of Proposition 8 declines, would not be completed by the roll close deadline. Consequently, backlogs would once again begin to accumulate, costing the County and local jurisdictions substantial property tax revenue. The overall impact in the following year will be even greater as supplemental assessments are delayed, further disrupting the revenue flow.

The reduced staffing levels would also disproportionately affect our Proposition 8 program. This is particularly significant since, as economic conditions improve in Silicon Valley, we would not have the experienced staff available to restore assessed values which were temporarily reduced during the recession. Last year for example, the assessed value of 32,500 properties was temporarily reduced reflecting a $9 billion reduction from the assessment roll. Approximately 1,300 non-residential properties accounted for $6.5 billion of that decline. If the early retirement incentive is adopted, it is certain that we will not have the experienced staff remaining to conduct the mandated appraisals for the 1,300 non-residential properties that comprised 2/3 of last year's diminution of assessed values. Nor will we have sufficient staff to perform complex appraisals when assessees challenge their assessment. The obvious result will be an increase in assessment appeals.

The Business Division will be similarly impacted. It is likely many audits, particularly audits of our largest corporations, would not be completed prior to the close of the roll. In the past three years, major audits have accounted for 90% of the total value added to the assessment roll due to audit. The three-year average value added per audit of major corporations is $3.85 million per year. Obviously, we rely on our most senior auditors to perform this complex work. If we are unable to complete even 20% of this work, the annual loss in revenue will exceed $4.5 million, more than the projected savings from the early retirement proposal. Worse, mandatory audits of major corporate taxpayers are on a four-year cycle. Consequently, we would <u>permanently</u> lose revenue from the first year for any audit not completed prior to July 1. Finally, the next year's audit workload will be adversely impacted with a proportionate impact on revenue.

Compounding the problem is the fact that real property appraisers and auditors are a very scarce commodity with far fewer joining the profession than departing. Compensation for government appraisers and auditors is not competitive with the private sector in Silicon Valley, further reducing our ability to recruit and train new employees. A senior appraiser vacancy has remained unfilled for more than a year. The possibility of losing 50% of our senior professional staff within a three-month period would be catastrophic!

The experience and skill set of our senior appraisers and auditors requires several years to develop. A <u>minimum</u> of five years of experience is necessary to become qualified to appraise large commercial and industrial properties, or to audit major corporations.

Of course, these serious problems will be compounded if early retirement incentives are also offered to CEMA and Executive Management employees. In the Assessor's Office, 33% of the executive managers (Chiefs of Real Property and the Business Division) along with 57% of the CEMA line managers and supervisors would also be eligible for early retirement.

I understand it's your premise that the most likely candidates to accept the early retirement benefit are those senior employees who are probably going to retire anyway. And, it is your desire to manage the retirement process. If indeed, these senior employees will retire anyway (an opinion I do not share), then why offer a financial incentive that forces them to retire within a 90-day window?

The logic of this entire proposal escapes me. Experienced senior employees receive greater compensation because of their experience and talent. Less experienced, junior staff receive less compensation because they have not yet developed the skills to perform productively at the highest level. The early retirement program is intended to preserve the jobs of the less skilled, by providing a significant incentive for the more skilled to retire early. In a time when all departments have as much or more work than they have ever had, and with the expectation that there will be fewer staff to complete that work, it defies reason to encourage the most experienced, most skilled and most efficient workers to leave the organization.

I fully recognize the County is facing a severe budget crisis. However, this early "golden parachute" will only exacerbate the financial crisis, not help it. I respectfully request that if the County continues to embrace this bad idea, that you create some form of exception for revenue generating departments, or at least extend the window from the proposed three months to a much longer period to allow us to manage the change in a more orderly fashion.

Finally, I am very disappointed in the lack of communication between Employee Services and the County's department heads and executive managers. Moreover I am perplexed by the County's desire to provide incentives for "early" retirement for those employees who have the most experience. On an employee-by-employee basis, we are losing far more than just another employee. We are losing our best and our brightest, which in the past has been the justification for higher compensation and excellent productivity.

Members of the Board of Supervisors have stated that preserving the jobs of County employees should be our highest priority. I disagree. Performance, productivity and service to the public should be our highest priority. It is counterproductive to preserve the jobs of the less experienced, less skilled at the expense of performance and productivity. The victims, in addition to the County, are cities, redevelopment agencies, and special districts including the seven basic aid school districts in Santa Clara County.

As the manager of a department responsible for $2.3 billion in property tax revenue annually, I must protest this irresponsible course of action. I intend to send a copy of this memorandum to impacted cities, redevelopment agencies and basic aid school districts.