



Office of the City Auditor

**Report to the City Council
City of San José**

**TEN YEARS OF STAFFING
REDUCTIONS AT THE CITY
OF SAN JOSÉ: IMPACTS
AND LESSONS LEARNED**

**Report 12-08
November 2012**

November 8, 2012

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Ten Years of Staffing Reductions at the City of San José: Impacts and Lessons Learned

Over the past decade, the City of San José has cut 28 percent of budgeted positions. The City has eliminated budgeted positions over the last ten years mainly by eliminating positions as they became vacant. This either shifts the workload to remaining employees or causes managers to scale back work. In addition to laying-off 337 people over the last ten years (all but 6 were laid off in the last three years), 2,444 fulltime employees retired and 1,507 fulltime employees resigned. The City's annual turnover rate, which historically had been between 5 to 8 percent, spiked to 14 percent in 2011 – a year in which the City cut more than 600 budgeted positions.

In addition to the sheer number of position eliminations, the City's layoff, bumping, and reinstatement rules caused significant disruption to the City's workforce. San José's layoff and subsequent bumping and reinstatement procedures are determined strictly by seniority, and are similar to the procedures used by many other governmental entities. Because many City employees are in broad cross-departmental job classifications, even a few eliminated positions can have large impacts on other City employees and departments. Some City employees, position types and departments have been disproportionately affected by the City's recent layoff, bumping and reinstatement activities. Over the years the City's workforce has become more specialized and are in jobs that are less conducive to bumping. In addition, bumping and reinstatements sometimes lead to "poor matches" in new positions. Reinstatements can also be problematic as managers and laid-off employees have virtually no flexibility in who they can appoint to work in newly refilled jobs. Finally, managing these processes is very time intensive on the part of Human Resources Department (HR). Our report recommends eliminating or dramatically modifying the bumping process and increasing flexibility for both managers and employees in reinstatements.

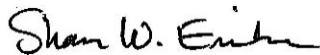
The City faces continuing workforce challenges and should track and monitor trends in employee turnover. The workforce is older, with more years of service, and therefore closer to retirement "triggers." With 11 percent of the workforce currently eligible to retire, and another 13 percent eligible within the next three years, the City will continue to feel the impacts of employee departures. Salaries and benefits have been reduced, and the City faces higher resignation levels than experienced since the "dot-com boom" era. With high vacancy rates and diminished staffing in HR, some vacancies may have to wait to be filled. For all these reasons, monitoring employee turnover will continue to be an important component of future workforce planning efforts. Furthermore, employee feedback tools,

such as employee surveys and exit interviews would provide quantifiable, objective, and actionable answers as to what motivates San José's employees to stay or leave City service, and could help shape employee retention and recruitment policies. Moreover, as the City is able to replace employees, it will need to invest in training for new employees.

Our report includes recommendations to update job specifications to reduce barriers to entry into positions, add resources to address hiring and training needs in HR, conduct employee surveys and exit surveys to quantify reasons why employees stay or leave City service, and develop ongoing human resources analytics for workforce planning.

I will present this report at the November 15, 2012 meeting of the Public Safety, Finance, and Strategic Support Committee. We would like to thank the Human Resources Employment Services Division and the Office of Employee Relations for their time and cooperation during the audit process. The Administration has reviewed the information in this report and their response is shown on the attached yellow pages.

Respectfully submitted,



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Introduction

In accordance with the City Auditor's fiscal year (FY) 2012-13 Audit Work Plan, we have completed an audit of the effect of ten years of staffing reductions in San José. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The City Auditor's Office thanks the management and staff of the Human Resources Department and the Office of Employee Relations for their time, information, insight, and cooperation during the audit process.

Background

The City of San José is the tenth largest city in the nation, and third largest in California, with a population of almost one million and area of about 180 square miles. The City operates 22 departments which provide myriad services. Some of the major functions the City provides include:

- Policing
- Firefighting and emergency response
- Libraries
- An international airport
- 2,366 miles of city streets
- Safety inspections to ensure that fire, building, and other codes are followed for all the built areas in San José
- The regional animal shelter
- 1,162 acres of parks
- Community centers and community services to seniors and youth
- Gang prevention and graffiti abatement
- 3 golf courses
- Happy Hollow Park and Zoo
- Convention and meeting facilities
- Homeless services

- Affordable housing services including new developments, rehabilitations, and homebuyer assistance
- Water utility services for 26,300 customers
- Regional wastewater treatment facility
- Stormwater management
- Workforce development to San José residents
- Economic development programs including small business assistance
- Outdoor special events

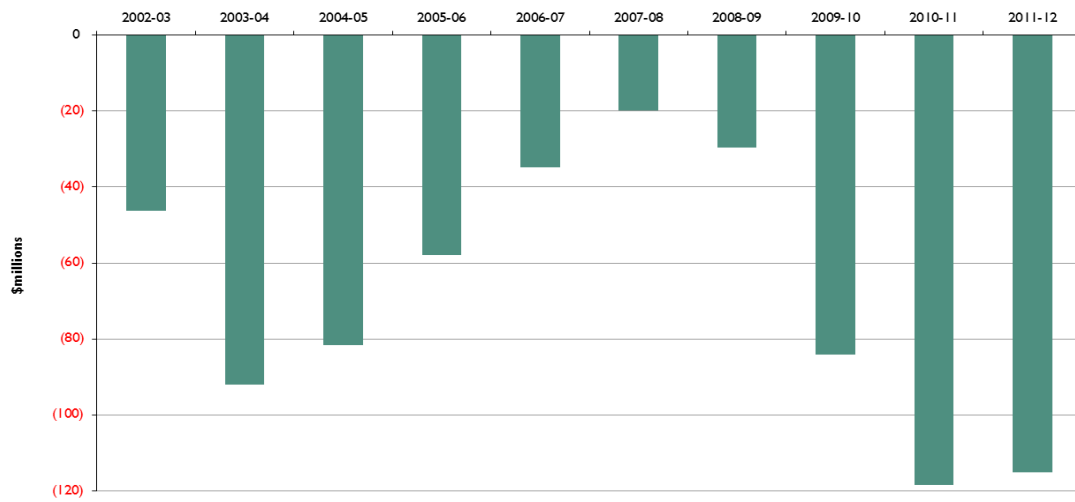
The City also maintains a basic support infrastructure to allow these programs to operate. This support infrastructure includes human resources management, accounts payable, accounts receivable, purchasing, debt management, management of the City's cash pool, payroll, technology services including telecommunications and network management, public facility management, accounting, public record keeping, legal services, audit services, and pension management.¹

Ten Years of Budget Shortfalls

San José has made major cuts to City staffing in recent years as it has faced ten years of budget shortfalls. The City's main unrestricted funding source, the General Fund, has faced over \$680 million in budgetary shortfalls over this period. In order to balance the budget each year, the City has employed a variety of measures to cut costs including 1) service reductions and eliminations, 2) employee compensation and benefit reductions, 3) service delivery changes and outsourcing, and 4) funding shifts, use of reserves, and fee and tax increases. Exhibit I below shows the shortfalls for each fiscal year during this period.

¹ For more details about City services, please see the City Auditor's Service Efforts and Accomplishments 2010-11 Report, which covers major services and performance changes undertaken by all City departments.

Exhibit I: Ten Years of General Fund Shortfalls

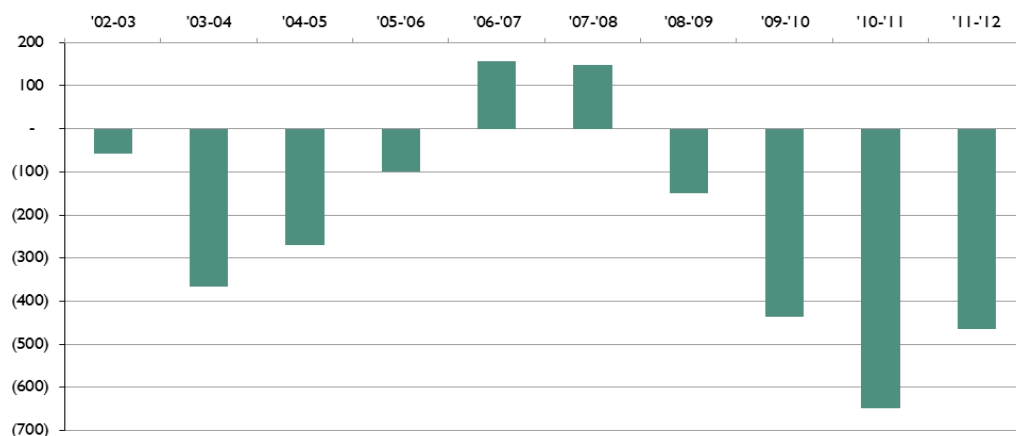


Source: City of San José Operating Budgets

Ten Years of Staffing Reductions

The biggest share of the City's General Fund goes towards personnel expenses. In FY 2010-11 \$612 million, or 64 percent, of the General Fund's \$954 million in expenses were allocated for personnel costs. When the City is forced to make major budget cuts, it has to cut staffing. Exhibit 2 shows changes in budgeted staffing over the past ten years, and shows the impact of the General Fund shortfalls shown in Exhibit 1. As Exhibit 2 shows, the City's biggest cuts to staff took place over the last three fiscal years; of the 2,130 positions cut since 2002-03, more than 1,100 or 52 percent have been cut in the last three fiscal years.

Exhibit 2: Year-Over-Year Change in Budgeted Positions

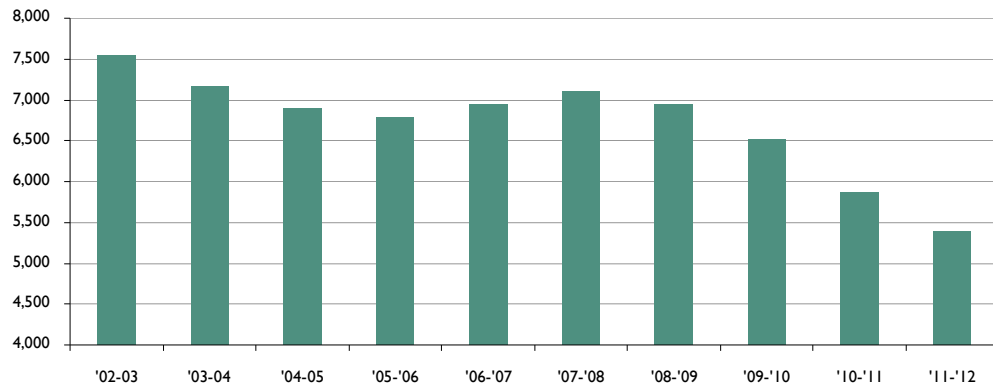


Source: City of San José Operating Budgets

Staffing Reductions

These reductions resulted in a significantly diminished workforce. Between FY 2002-03 and 2011-12, the City's staffing – in terms of full-time equivalents – declined from about 7,500 to 5,400. This is a 28-percent decrease over a 10-year span.

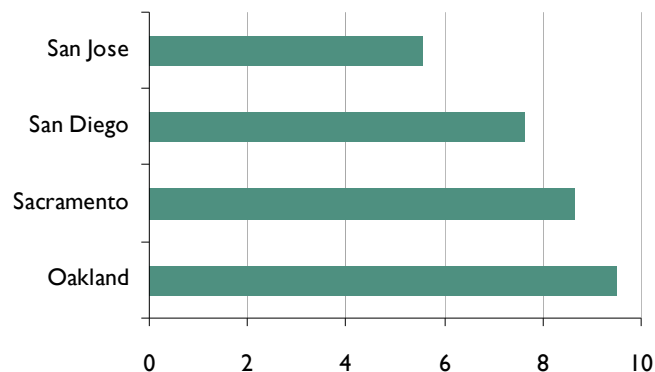
Exhibit 3: Citywide Budgeted Full-Time Equivalent Positions Over the Past 10 Years



Source: City of San José Operating Budgets

This staffing level reduction is dramatic, but even more so when one considers that the City's population actually grew 8 percent since 2002. For context, by 2011-12, San José employed roughly 5.6 people for every 1,000 residents, down from 8.4 people for every 1,000 residents in 2002. As shown in the following chart, San José has a small staff as compared to other California jurisdictions.

Exhibit 4: San José Staffing Levels Versus Other Jurisdictions (Employees per 1,000 Residents)



Source: 2012-13 Operating Budgets from San José, San Diego, Sacramento, Oakland, and California Department of Finance population data

The Cumulative Impact on City Services

The City has taken steps to mitigate the impact on services when position reductions occur. Nonetheless, the impacts to service delivery have been considerable. Among other things, the City has:

- reduced library hours by roughly a third
- delayed opening four new branch libraries
- stopped City operations of 42 community centers
- reduced community center hours for the remaining centers
- delayed opening a newly built police sub-station
- cut funding to special events
- laid off 49 firefighters and 64 police officers²
- outsourced janitorial, airport parking control, and other services
- continued to defer street maintenance leading to declining pavement conditions
- significantly reduced street landscape funding

Audit Objective, Scope, and Methodology

The objective of our audit was to determine how the City's elimination of 2,130 budgeted positions, including 337 lay-offs, have affected the organization. In order to address this objective, we:

1. Analyzed employee data from as far back as 2000-01 from the City's human resources and payroll management system (Peoplesoft) by using Microsoft Access and Excel to track: job start and end dates, placements, employee hires and departures by type, age and tenure of employees, paid hours worked by type of employee in each department, and vacancies by department.
2. Analyzed the City's Operating Budgets for budgeted position counts by department since 2000.
3. Sampled more than 75 employees in classifications affected by layoffs and bumping to look for evidence of high or low job performance.
4. Reviewed the City's 2011 Employee Survey, other government employee surveys and looked at best practices in public employer workforce planning.
5. Reviewed the City Charter and Municipal Code sections pertinent to employee layoffs and bumping and looked at best practices in those areas.

² As recorded in Peoplesoft.

6. Interviewed staff from the Human Resources Department, the Office of Employee Relations and other City departments to get their perspectives on issues that have come up through the City's recent staffing reductions.
7. Interviewed staff and reviewed personnel policies and practices of other government agencies including San Francisco; San Diego; Los Angeles; Sacramento; Oakland; Chesapeake, VA; Seattle; Dallas; Memphis; the State of Colorado; the State of Washington; and the Office of Personnel Management of the U.S. Government.
8. Reviewed human resources best practices, such as those from the International City/County Managers Association (ICMA), the Society for Human Resources Management, the University of Southern California, the U.S. Government Accountability Office and Washington State's Human Resources Division.

Finding I The City’s Layoff, Bumping, and Reinstatement Rules Caused Significant Disruption to the City’s Workforce

Summary

San José’s layoff and subsequent bumping and reinstatement procedures are determined strictly by seniority and are similar to the procedures used by many other governmental entities. Because many City employees are in broad cross-departmental job classifications, even a few eliminated positions can have large impacts on other City employees and departments. Some City employees, position types and departments have been disproportionately affected by the City’s recent layoff, bumping and reinstatement activities. Over the years, the City’s workforce has become more specialized, and jobs are less conducive to bumping. In addition, bumping and reinstatements sometimes lead to “poor matches” in new positions. Reinstatements can also be problematic as managers and laid-off employees have virtually no flexibility in who can work in newly refilled jobs. Furthermore, rules on layoffs, bumping, and reinstatements do not consider work performance or employee conduct. Finally, managing these processes is very time intensive on the part of Human Resources Employment Services Division.

City Layoffs, Bumping, and Reinstatements Are Determined Strictly by Seniority

The *San José City Charter* establishes the Civil Service System and generally defines those employees who are classified and unclassified. Classified employees – more than 95 percent of the City’s workforce – are subject to Civil Service Rules that outline requirements for how the City performs budget-related position reductions.

Layoffs occur when the City has to cut filled positions for budgetary reasons. When the City cuts a filled position (e.g. lays someone off), the person filling that position³ has the ability to move into a lateral or lesser position somewhere else in the organization and displace a different, less tenured City employee. This is commonly known as “bumping” as outlined in San José Municipal Code section 3.04.1180:

³ These rules only apply to full-time permanent employees. Part-time employees are not laid off according to civil service rules. Additionally, employees are laid off in the following order: provisional employees, probationary employees, and then full-time permanent employees in inverse order of seniority.

In the event of layoff, any employee so affected may elect to:

- A. *Accept a position in a lateral or lower class in which the employee has previously served, or a position in a lateral or lower class within the series containing the class from which the employee is being laid off, provided the employee is otherwise qualified and is more senior than the least senior employee in such lateral or lower class.*

- B. *Accept a vacant position in a lateral or lower class for which the employee has the necessary education, experience, and training as determined by the director.*

Employees who are ultimately laid off are placed on reinstatement lists which are retained for three years (two years for sworn firefighters), and are used to fill positions as they become available again throughout the City. Reinstatements are based on seniority, so laid-off employees with the most seniority are given the first opportunity to return to City service.

Employees receive at least 30 days notice of the City's intent to lay them off or bump them. In recent years the City has sent notices to many employees more than two months before the layoffs took effect. In some cases, employees had significantly more notice (through the budget process) that management was preparing to propose program eliminations, outsourcing, or other significant reductions in force. This provided some time for employees to conduct job searches and move on to other positions before layoffs took effect. As a result, many employees whose positions were eliminated show up in City records as having resigned or retired.

The City's Seniority-based Layoff, Bumping, and Reinstatement Procedures Are Typical of Government Employers

Seniority-based layoffs, bumping and reinstatements are typical in American government agencies. This model emerged from a priority that government agencies hire, promote and terminate employees in a systematic and objective manner. It was a reaction to the early years of government appointments at the federal level where politics played the largest role in determining who worked for the government, who was promoted and who lost their jobs. The federal government started making attempts to remove patronage for at least some federal positions in the mid-1800s and formalized it with the Civil Service Act of 1883. Since then, civil service systems have sought to ensure open, fair and competitive recruitments for hiring and promotion, as well as defining "just cause" for employee dismissal.

Civil service rules have also created position classification plans based on duties. The main purpose of these plans is to have criteria for which to judge applicants' abilities to meet job requirements. These classification specifications ("specs" as

they are often called) also imply that positions and employees are largely interchangeable; that is, any person holding a position in the same classification can do equally well in any other position in that same “spec.”

Through the City’s civil service system, when layoffs are necessary, seniority is the only criterion⁴ used to determine one employee’s value over another in a given job classification (save for specific positions approved for exemption).⁵ Seniority is seen as an objective means to identify those employees who would be displaced among a well qualified workforce. Furthermore, in addition to the objectivity of using seniority as a basis for layoffs, the system maximizes any benefits that may derive from retaining more senior employees.

Unintended Consequences

However, today’s workforce may have different assumptions about job stability:

“...civil services compensation systems were designed with the assumption that the relationship of one job to another could be determined, and its value assessed, apart from the job incumbent. Seniority and equity were valued as products of a stable working environment. Today the basic assumption of stability has been replaced by dynamism and change.”⁶

And the stability that seniority-based layoffs, bumping and reinstatements were thought to bring, have actually been *destabilizing* for both employees and managers in San José. The magnitude of the disruptions became clear after experiencing large numbers of lay-offs. The report sections below highlight some of the disruptions caused by the seniority-based layoffs, bumping, and reinstatements.

Bumping and Reinstatements Have Created Multiplying Ripple Effects Throughout the City

Laying-off classified employees presents multiplying ripple effects because they often involve bumping and reinstatements – often several rounds of bumping and reinstatements. Instead of occurring only in those work units identified for cuts, a single layoff can span several work units and departments.

⁴ When two or more employees have the exact same seniority in their classification, tie breakers are used. For instance, for police positions which require testing as part of the application process, test scores are used as the tie breaker. For all other positions, which do not use testing during the application process, other methods are used, such as coin flips.

⁵ In some cases, particular positions are excluded from the bumping process. These are positions for which the department can prove special skills or abilities are not held by the average incumbents in those classifications and that those skills or abilities cannot be learned by others in those classifications within six months. In these situations, managers can request layoff and bumping exemptions for the positions which are evaluated by HR and, if approved, lasts for one year. However, as the above criteria indicate, the threshold for meeting exemption standards is very high, so there are not a lot of positions that could be approved for exemption and in fact, most exemption requests are not approved.

⁶ *Public Personnel Management-Contexts and Strategies* by Donald E. Klinger and John Nalbandian (2002).

In one particularly disruptive bumping event as part of the FY 2011-12 budget cycle, the elimination of one Senior Analyst position in the Human Resources Department affected four positions, five employees, and four departments. The following outlines the details:

1. As part of budget cuts, a filled *Senior Analyst* position in **Human Resources** was eliminated.
2. However, the *Senior Analyst* in that position (Person 1) had rights to displace employees in the lower analyst series of *Analyst III*, so Person 1 bumped Person 2 out of an *Analyst II* position in the **Environmental Services Department**.
3. Person 2 had the least seniority among those holding the classification of *Analyst III*, but Person 2 had rights to the position of *Senior Supervisor Administration*, so Person 2 bumped Person 3 out of a *Senior Supervisor Administration* position in the **Information Technology Department**.
4. Person 3 had rights to the position of *Supervisor Administration*, so Person 3 bumped Person 4 out of a *Supervisor Administration* position in **Planning, Building, and Code Enforcement Department (PBCE)**.
5. Person 4 had the rights to the position of *Principal Office Specialist*, so Person 4 was scheduled to bump Person 5 out of a *Principal Office Specialist* position in **PBCE**.
6. Person 5 chose to **retire** in lieu of being bumped.

As this bumping event shows, multiple people, positions and departments can be impacted just by one position elimination.

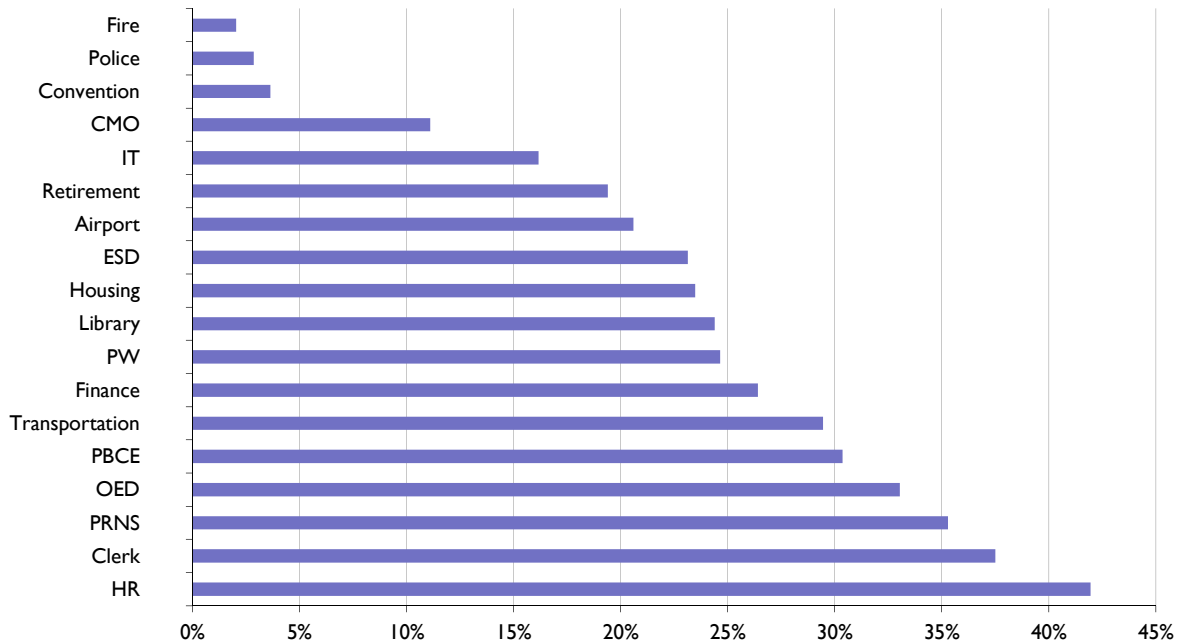
Layoffs, Bumping, and Reinstatements Have Been Particularly Disruptive to Some Employees, Positions, and Departments

Some departments are more susceptible to disruptions caused by the seniority-based layoffs, bumping and reinstatements. For instance, because the City's Fire and Police departments overwhelmingly consist of sworn positions that do not exist in other departments, they experienced less inter-departmental bumping than some other departments. HR, on the other hand, has taken deep staff reductions and, since many of its employees are in broadly defined classified positions including analysts and office specialists that are common throughout the City, many employees have bumped in and out of HR employment since 2008.

Exhibit 5 below shows how bumping and reinstatements have impacted the various City departments since 2008. This chart shows the cumulative number of employees bumped from City departments since 2008 as a percentage of

departments' average staffing levels. So, for example, in HR's case, 28 people have bumped out of HR over the last 5 years, during which time HR had an average of 67 budgeted positions.

Exhibit 5: Varying Bumping Rates Across the City Since 2008



Source: Peoplesoft personnel records. This chart divides the total number of employees bumped into a given department over the last four years by the average budgeted staffing level during that time period to give a sense of the magnitude of impact of bumping.

Inadequate Written Procedures Can Exacerbate Problems for Departments

As previous audits have shown, City work groups often lack up-to-date written policies and procedures for their responsibilities. This can pose a problem in high-bumping environments when new employees are moving in to unfamiliar programs. Along with keeping updated and complete written procedures, cross-training employees would help alleviate problems that arise when employees move into new roles. With cross-training, they might already be more familiar with some of the new tasks they would be expected to do. However, given the extent of position eliminations and bumping in some departments, even these measures would not prevent disruptions to service delivery.

Bumping Has Had a Disproportionate Impact on Some Positions

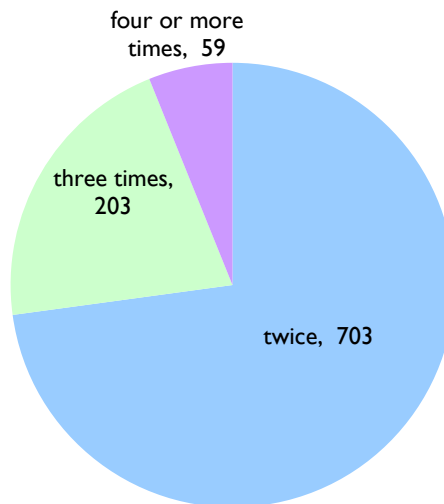
Some positions were heavily affected by bumping, with multiple people occupying positions for relatively short periods of time since 2008. Often this can occur because an employee is bumped or reinstated into a lower paying position, but then leaves that position once they become eligible for reinstatement into a higher paying position (sometimes, but not always, returning to the position from which they were originally bumped or laid off).

For example, one position was occupied by three employees over a period of nine months:

- The incumbent *Office Specialist* (Person 1) was bumped from the position in August 2010.
- The position remained vacant for 4 months.
- A different employee (Person 2) was reinstated into the position in February 2011.
- After 5 months in the position, Person 2 was laid off in July 2011 (because of their seniority status) when Person 3 bumped into the position from another department.

As shown in Exhibit 6, at least 965 positions were affected by bumping that resulted in multiple employees filling the same position. This included 703 positions that were affected once (meaning that two people held the job), 203 positions were affected twice (meaning that three people held that job), and 59 positions were affected four or more times (meaning that three or more employees held that job since 2008). This can take quite a toll on the workgroups around these positions -- with other employees in a never ending cycle of training newcomers, some of whom presumably did not have sufficient time to contribute fully to their new roles.

Exhibit 6: Positions Affected by Bumping Since 2008



Source: Peoplesoft personnel data. This chart represents all full-time and part-time positions in the City that were occupied by multiple displaced employees between 2008 and 2012. To develop this chart, we compiled all positions affected by bumping, layoffs and reinstatements since 2008, and counted those scenarios that resulted in more than one person occupying the same affected position. It does not include positions that were eliminated where the incumbent was laid off without any bumping or reinstatements.

Bumping Had a Disproportionate Impact on Some Employees

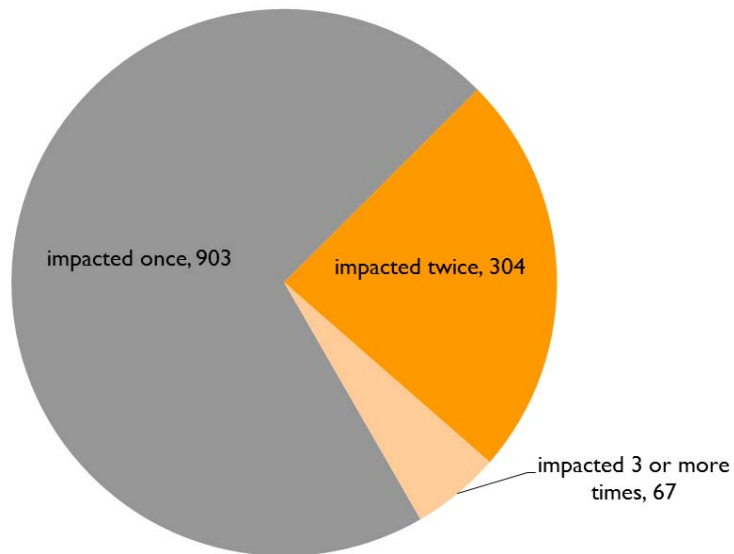
The disproportionate impact on specific employees is also remarkable. Because displaced employees tend to have lower seniority, some employees are laid off, bumped and reinstated multiple times. Though this certainly did not happen to everyone, for one particularly unfortunate employee the layoff and bumping process has been a roller coaster ride:

- In FY 2008-09, six months after taking an entry-level technical-professional full-time job with the City in PRNS, this employee was bumped from that position into an unbenefitted temporary position in the same department taking a significant cut in pay.
- Eight months later, this employee was moved back into permanent employment, but into a senior office administration type of position in a different department (ESD) and with a salary lower than in the original position.
- Seven months later, this employee was bumped back into PRNS, into a different division, in a mid-level office administration job, taking another pay cut.
- Eight months later, (now FY 2010-11), this employee was laid off.

- Two months later this employee was reinstated, into a mid-level office administration job in yet another PRNS division.
- Eight months later, this employee was bumped again, into a part-time office administration role in HR with significantly reduced pay and benefits.
- Three months later, this employee was reinstated into a senior office administration full-time job in the Police Department.
- Five months later (in FY 2011-12), this employee was reinstated again back into the entry-level technical-professional position from where she was originally bumped, only this time in PBCE. The employee is currently still in this role.

As Exhibit 7 shows, 1,274 employees were displaced during the layoff cycles between 2008 and 2012. This included 903 employees who were bumped once or laid off and not reinstated, and 371 others who were laid off, bumped, and/or reinstated (304 employees were impacted twice and 67 employees were repeatedly displaced).⁷

Exhibit 7: Employees Affected by Bumping, Layoff, and Reinstatement Since 2008



Source: Peoplesoft personnel records. This includes all employees (full-time and part-time) listed in Peoplesoft records as having been laid off, bumped or reinstated between January 2008 and April 2012.

⁷ Of the 1,274 full-time and part-time employees who were displaced, a total of 345 employees experienced a lay-off at some point (including the 337 full-time employees discussed earlier); 179 of these employees were laid off and not reinstated. Nearly half of them were later reinstated but not necessarily in their original positions or even in a similar position.

Minimizing the Disruption of Bumping

As shown in the examples above, managers and employees can be affected by layoffs and bumping **even when their particular work units are not being cut**. This is not the case in jobs outside of civil service protection, where managers and employees generally would only be affected by cuts to their particular work units.

Other governmental employers have recognized the disruption of bumping and have sought to eliminate the practice. Gwinnett County in Georgia – a large local government agency with approximately 4,800 full-time equivalent employees – ended the practice of bumping after a particularly disruptive cycle of layoffs and bumping in 2008-2009. At Gwinnett County, the county administration’s proposal to eliminate bumping met little resistance from policymakers and employee groups. However, similar efforts in the City & County of San Francisco and the City of New Orleans, met significant resistance by policymakers and employee groups.

Even among the government agencies that seem rooted in their seniority-based layoff, bumping and reinstatement processes, we found that some carried them out in ways that were less disruptive than the way the City of San José carries them out. For instance, the City of Los Angeles has similar bumping rules as San José, but seniority-based bumping occurs only within departments, thus limiting the effects to a single department. We also noted other governments limited the number of affected employees by allowing affected employees to only bump into positions that they have occupied, as opposed to San José where employees can bump into positions for which they are presumed qualified even if they have never actually held the positions.

The City’s Workforce May Be Getting More Specialized Which Presents Inherent Challenges to the City’s Bumping Process

Over time, the City’s workforce has become, on the whole, a more specialized, well-trained group. The most common positions in the City generally now require completion of some college, extensive on the job training, or both. Only three of the twenty most common City jobs require neither higher education nor significant job experience. Outsourcing and technological advancement have eliminated many more broadly accessible positions such as examination assistant and custodian.

The most common non-public safety positions in the City are now Analyst IIs -- a job which requires a bachelor’s degree and two years of relevant work experience.⁸ The Analyst series is also one of the job classifications that the City

⁸ According to City job specs, experience as a City of San José Staff Technician may be substituted for the education requirement on a year for year basis.

has “broadbanded” as part of an effort to increase flexibility in hiring for managers.⁹ As such, while every Analyst I in the City should have a bachelor’s degree, and every Analyst II in the City should have a bachelor’s degree and two years of work experience, the ideal candidate for a Housing Policy Analyst position could be very different than the ideal candidate for a Human Resources Benefits Analyst position.

Analyst Is and IIs are combined on the City’s seniority list; their positions (as described above) highlight the diversity of roles in a single classification or position type. For example, the following are some of the Analyst I or II positions that were subject to bumping in 2011. These roles are very diverse and moving between them would likely be difficult.

- Retirement Benefits Analyst: primarily responsible for counseling active and retired City beneficiaries on the benefits and services available through the retirement system
- Police Court Liaison Analyst: primarily responsible for receiving and routing cases to the appropriate investigative unit, and preparing and processing all other felony and misdemeanor cases generated from the Bureau of Field Operations patrol units
- HR Benefits Analyst: primarily responsible for maintaining the Benefits intranet site, maintaining back-end Peoplesoft Benefits module data and working with the Human Resource Information Systems team to ensure seamless integration of HR data with Payroll data
- Economic Development Grants Management Analyst: primarily responsible for grant management to maximize compliance and the achievement of successful grant performance measures and timely submission of grant reports
- Police Fiscal/Budget Analyst: primarily responsible for the development, monitoring, and analysis of the department’s General Fund budget as it relates to staffing and overtime.

⁹ Over the past ten years, HR has been working to modernize the City’s job classification structure. Broadbanding is a classification system that replaced the old City classification system by collapsing numerous classes with similar duties into broad occupational categories. Along with the broad categories, broad pay ranges were also created within this system. In essence, the Broadband system is a method of grouping like duties and pay while providing a high degree of flexibility to departments in order to meet their needs.

In Some Cases, Bumping and Reinstatements May Result in “Poor Matches” and Long Transition Periods

Employees bumping into positions are not always as successful or high performing as the previous position occupants. Even in job classes that seem homogenous there can be divergent skill sets needed. Not every position uses the same skills, procedures, and/or databases. In some cases, bumped employees who started as “exceptional” on their performance appraisals were later identified as “needing improvement” or worse in their new positions.

Even if they are ultimately successful, transitioning into new roles and learning new tasks often takes some time. For example, an Office Specialist who performed a programmatic function in one department bumped into another department where they were expected to maintain accounting information using the City’s Finance Management System (FMS). This employee had never worked with FMS before. Ironically, getting up to speed in the new role was particularly difficult because the City has recently eliminated all citywide trainings as a budget savings.

As described above, neither HR nor impacted departments and employees have much discretion in the placement process. However, it should be noted that when large numbers of employees are bumped in a single class (like happened to 19 Analysts I and II in FY 2010-11), HR actually has a little more flexibility in trying to place employees than when just one or two people are bumped in a given class. That is because HR and the impacted departments have the ability to place impacted employees in any of the positions that were vacated by the lowest seniority employees in that classification.

The Cost of Less Productive Labor and the Impact on Service Delivery

As described earlier, the City has a limited bumping and layoff exemption process. The City’s main criterion for exempting positions is that it would take a newly placed employee more than six months to become proficient at their new job. This implies that it is “OK” and allowable for a bumped employee to take up to six months to get up to speed.

This six-month learning period is time during which valuable services potentially are not delivered efficiently to City residents, merchants and employees. Even if we assume that only 25 percent of the employees who have bumped since 2008 took a full six months to become proficient at their new tasks and every other bumped employee was proficient from their first day, the cost of this unproductive labor was about \$2 million per year in each of the last five calendar years.

Recommendation #1: We recommend eliminating bumping from the City's civil service rules as it is not cohesive with the City's modernized broadband classification structure nor with the complex and specialized work that many City employees do. If elimination is not possible, we recommend: limiting bumping to intradepartmental bumping only, limiting the number of people who can bump into a given position over a given time period, limiting the number of bumps and reinstatements into a given work unit over a given time period, and/or lowering the threshold for meeting position exemption requirements.

Existing Bumping and Reinstatement Rules Undermine Management's Ability to Utilize the Right Person for the Job

Once the layoff ripples reach them, managers are powerless. An employee with bumping rights can bump an employee out of a work unit, with little to no input from the manager. And if a manager wants to fill a vacant position s/he must do so from the top of the position's reinstatement lists, if they are in effect,¹⁰ or else s/he cannot fill the vacancy.

Managers Have Some Discretion in Hiring

The powerlessness managers have in bumping and reinstatements contrasts with the broader powers given to managers when they are approved to hire for vacant positions. When hiring, during periods when reinstatement lists are not in effect, managers are able to fill positions based on their assessments of skills and abilities and the needs of the work unit. This authority is supplemented with direction from HR Employment Services on how to execute these processes fairly and objectively and specific rules for the hiring process to objectively consider all candidates' credentials.

Managers Have Little Discretion in Reinstatements

Since reinstatements are functionally similar to the hiring process, it seems reasonable that managers have similar authority in those rehiring decisions. However, San José's reinstatement rules allow little managerial choice – forcing managers to take the person with the most seniority at the top of the list, and not allowing managers to fill the position from any of the other employees on the reinstatement list.

¹⁰ Laid-off City employees are placed on a reinstatement list in reverse order of seniority, so employees with the most seniority are at the top of the list. For most employee groups, the lists stay in effect for three years from the date of layoff (two years for employees represented by IAFF 230). If positions in their classification open up while the list is active, the City must fill the position with the person at the top of the list.

Allowing Manager More Flexibility in the Reinstatement Process

The City of Seattle allows for some flexibility with reinstatements for some of its positions. There, for some represented employees, supervisors are not always required to fill vacancies from the top of the lists. Specifically, Seattle allows for “out-of-order reinstatement if the hiring department documents special operating needs, experience, or skills.”

In our opinion, the City should consider developing an exemption process for filling positions from the reinstatement lists. In Seattle, managers may seek approval from the Personnel Department to refuse to appoint an employee from reinstatement lists if they document employees are not qualified for available positions. There, managers and laid off employees can determine “good matches” because the reinstatement process includes informational interviews during which managers orient employees to the job duties, and employees present their skills, qualifications and experiences.

Existing Bumping and Reinstatement Rules Sometimes Force Employees to Choose Between Unsuitable Jobs or Joblessness

Reinstatement lists can be a boon to employees who would otherwise lose their jobs, but the inflexibility of which City jobs are offered to an impacted or laid-off employee can be problematic. When a laid-off employee is offered a reinstatement into City service, the employee must accept the first job offer they are given, otherwise they lose their reinstatement rights.¹¹

This is counter to the idea that people should accept only those jobs that are compatible to their individual skills, abilities, values and interests. For example, it is perfectly plausible that a laid off employee who dislikes cats and dogs could be offered a position working at the City’s Animal Care Center in constant contact with cats, dogs and other animals. Under existing rules, that employee would be forced to choose between earning a paycheck but dealing with animals all day, every day, or unemployment with no rehire prospects with the City.

Another issue arises when a known “problem” employee rises to the top of a list. Even when vacancies surface that managers want to fill, they may prefer to just hold the position vacant until the whole list expires, rather than fill the position with a “problem” employee from the top of the list. This not only hurts the problem employee, but it hurts every other laid-off employee lower down on the list who will never get the chance to move up the list and be rehired.

¹¹ An employee will be removed from the Reinstatement Eligible List unless that employee has reinstatement rights to a higher class than the one in which reinstatement is being refused.

Allowing Employees More Flexibility in the Reinstatement Process

We surveyed other public employers and found some with more flexible reinstatement processes. For example, the City of Los Angeles allows laid off employees to waive reinstatement opportunities without losing their place on reinstatement lists for up to five years. Seattle also allows employees to waive reinstatement offers if the open positions are not a good match with employee backgrounds and career goals, involves shifts that are not compatible to employees' lives, the work location that cannot be easily accessed, or if there are working conditions that "don't agree" with the employees. Such a waiver program may help prevent "poor matches" in the reinstatement process, while opening the door for "good matches" that may be lower on the reinstatement list.

Recommendation #2: Modify the reinstatement process to

- (a) Allow departments to choose the most qualified candidate on the City reinstatement lists when such lists are in effect, regardless of seniority.**
- (b) Develop an exemption process for managers who have compelling cases for not filling critical positions from reinstatement lists.**
- (c) Allow employees to waive reinstatement for a certain time period or a certain number of opportunities.**

Rules on Layoffs, Bumping and Reinstatements Do Not Consider Work Performance or Employee Conduct

Some aspects of the layoff, bumping and reinstatement rules belie the merit principle that lies at the core of civil service systems. While the City has in place guidelines for hiring and promoting employees on merit, merit is not a factor for layoff, bumping, or reinstatement. In our opinion, all of these personnel actions should consider job performance and employee conduct.¹²

The current seniority-based process has allowed low-performing employees to keep their jobs while high-performing employees in their same classifications were bumped or laid off. During our review, we noted instances where poor performers were protected from bumping or layoffs by their seniority even though they had recently received written reprimands, had been recently suspended, or had received a recent overall "Does Not Meet Standards"

¹² In May 2011, the City Auditor's Office reported on the *Key Drivers of Employee Compensation*, recommending that the City tie salary increases to performance and ensure that all employees received performance appraisals.

performance appraisal. We also noted instances where outstanding employees who had received overall “Outstanding” performance appraisals within the year, were bumped or laid off.

Other Jurisdictions Are Exploring Alternatives

Some government agencies use job performance and personal conduct history as factors in layoffs and bumping. For example, the State of Washington has created a framework for local jurisdictions to use that offers a number of systems that blend both performance and tenure into a rank (akin to the seniority-based rank that San José currently uses). Washington State lays out three options that blend seniority and performance in employment decisions: 1) awarding bonus “years of service” seniority credits for good performance, 2) creating ranked levels of staff and assigning seniority by rank (for example, the highest rank would be Outstanding and employees would be ranked by seniority within the Outstanding class, and 3) weighting seniority and performance by assigning points for both and then adding the two numbers to come up with a new “seniority points” number.¹³

Some governmental entities which mainly rely on seniority for layoffs, bumps and reinstatement use job performance as a tie-breaker when two employees in the same classification have the same amount of service credit. Some other government employers are exploring methods for factoring performance and disciplinary history in layoff decisions. Whether these are heavily weighted or only used as tie-breakers, any consideration of job performance and employee conduct would represent an improvement over the City’s status quo.¹⁴

The City Charter section that prescribes the seniority-based layoff process also emphasizes the value of a merit-based personnel management. Section 1100 states:

“All appointments and promotions to positions in the Classified Service shall be made on the basis of merit and fitness, demonstrated by examination and other evidence of competence, in accordance with Civil Service Rules adopted in the manner provided in this Charter.”

We recommend that the City adhere to the Charter’s emphasis on merit for layoffs, bumping, and reinstatements as well as appointments and promotions.

¹³ The details of these options can be seen at: <http://hr.wa.gov/SiteCollectionDocuments/Strategic%20HR/Performance%20Management%20Confirmation/PMC%20Considering%20Performance%20in%20Layoff.pdf>.

¹⁴ In some classifications in the City, such as Police Officer, employees’ entrance exam test results are used as tie-breakers when two employees in the same position have the same City seniority.

Recommendation #3: Pursue changes to the layoff, bumping and reinstatement rules that subordinate seniority and factor in applicable job skills, recent job performance and disciplinary records.

Administering Seniority-based Layoffs, Bumping, and Reinstatements Is Burdensome and Resource-Intensive

HR's Employment Division spends a lot of time maintaining seniority lists, determining who will be impacted by layoffs and bumping, reviewing exemption requests, helping displaced employees, and maintaining reinstatement lists. According to HR, in recent years, with all the layoffs that occurred, these processes consumed about 75 percent of the Employment Division's time between January and June. Even in years with few layoffs, HR estimates they spend about 15 percent of their time on seniority related issues. In FY 2011-2012, we estimate this accounted for about \$600,000 in staff resources. Appendix C contains a timeline used internally by HR to carry out seniority determination, layoffs and bumps and reinstatements. As is shown in the following chapter, these resources are desperately needed to address hiring and training needs.

Finding 2 The City Faces Continuing Workforce Challenges and Should Track and Monitor Trends in Employee Turnover

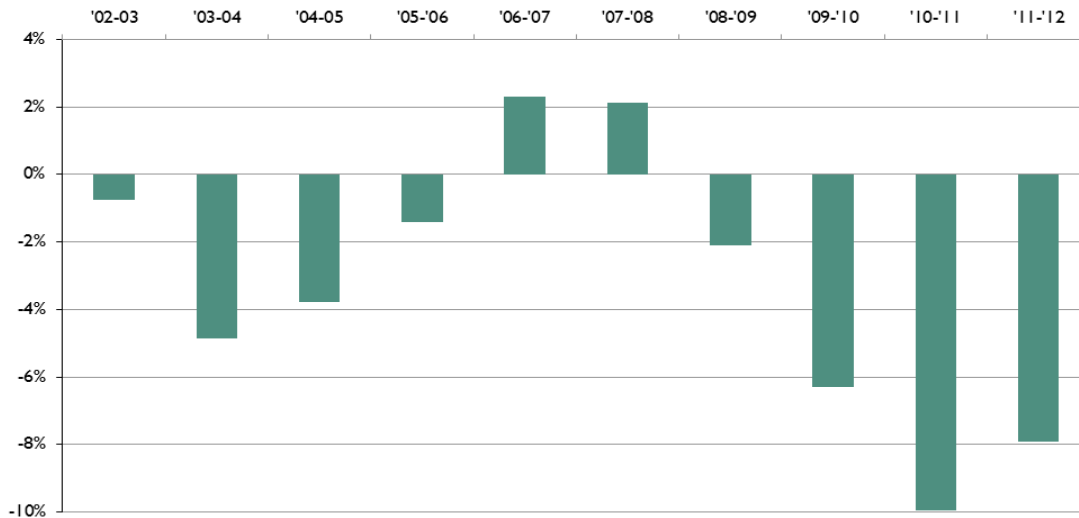
Summary

Over the last decade, faced with significant budget shortfalls, the City cut staff through attrition and layoffs. It now operates with 28 percent fewer staff than a decade ago, and the workforce looks different now than it did then. The workforce is older, with more years of service, and many employees are close to retirement “triggers.” With 11 percent of its employees currently eligible to retire and another 13 percent eligible to retire within the next three years, the City will continue to feel the impacts of employee departures. Salaries and benefits have been reduced, and the City faces resignation levels similar to those experienced during the “dot-com boom” era. With high vacancy rates and diminished staffing in the Human Resources Department, some vacancies may have to wait to be filled. Employee feedback tools, such as employee surveys and exit interviews could provide quantifiable, objective and actionable information that could help shape employee retention and recruitment policies. Moreover, as the City is able to replace employees, it will need to invest in training for new employees.

Faced with Significant Budget Shortfalls, the City Cut Staff Through Attrition and Layoffs

As described in the background section of this report, the City dramatically reduced its staffing over the last decade – cutting 1,100 positions in the last three fiscal years alone. It is currently operating with 28 percent fewer budgeted positions than it did a decade ago.

Exhibit 8: Percent Change in Budgeted Positions (Full-Time Equivalents)



Source: City of San José Operating Budgets

Employees Were Laid Off, Retired, or Resigned

The City eliminated budgeted positions over the last ten years mainly by eliminating positions as they became vacant.¹⁵ That is, when an employee retired or resigned to take a different job, the position they filled was “given up” as a budget savings measure. This either shifts the workload to remaining employees or causes managers to scale back work.

In addition to laying off 337 people over the last ten years (all but 6 were laid off in the last three years), the City saw the following separations:

- 2,444 full-time employees retired
- 1,507 full-time employees resigned
- 273 full-time employees were terminated
- 57 full-time employees died

As is discussed elsewhere in this report, a number of these people retired or resigned because their positions were being eliminated.

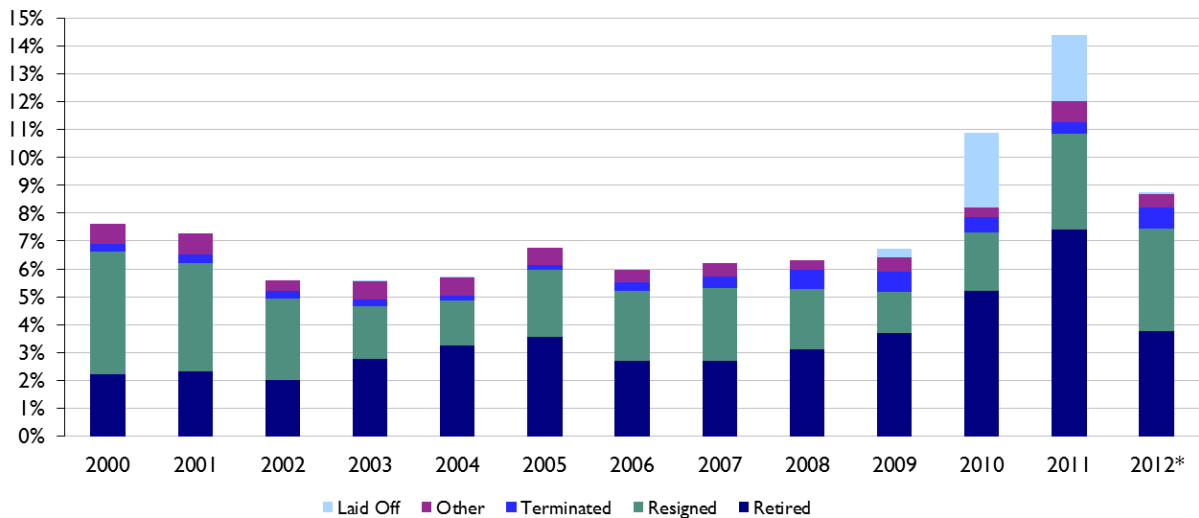
¹⁵ For more detailed analysis of changes in regular hours worked, staff compositions and departmental information, please see Appendix A.

Trends in Employee Turnover

In the aggregate, the annual turnover of full-time City employees (that is, the percentage of employees leaving City service) has historically hovered between 5 to 8 percent of budgeted staffing. As positions were reduced in the last few years, the turnover rate increased dramatically – spiking in calendar year 2011 at over 14 percent of budgeted staffing. The FY 2011-12 Operating Budget that was adopted in the middle of calendar year 2011, cut 8 percent of budgeted FTE.

Exhibit 9 below shows separations as a percentage of budgeted staffing. The spikes in all types of separations show that as budgeted positions were eliminated large numbers of employees lost or left their jobs. The City’s personnel database tracks employee departures by type (including layoffs), but does not track whether resignations or retirements were the result of pending position eliminations. At least some of the employees who resigned or retired during calendar years 2010 and 2011 did so in lieu of being laid off or perhaps because they perceived that their jobs were not secure; others may have left because of pay reductions and benefit changes. This spike also coincides with baby boomers hitting retirement age, which we will discuss later in this Finding.

Exhibit 9: Percentage of Full-Time Staff Leaving City Service by Type of Departure



Source: Peoplesoft personnel records and City Operating Budgets¹⁶

¹⁶ 2012 data is projected based on January through August 2012.

Turnover Varies by Department

The above chart displays employee departures for the City as a whole but department by department the data look different. We compiled the same data for each City department and have attached those charts to this report as Appendix A. Appendix A shows the number of budgeted positions, the number of separations by type, and the percent of separations by type on a department-by-department basis. The rate and type of employee departures vary considerably by department.

Turnover Rate Comparisons

As is shown above, the City's annual turnover rate has historically been between 5 to 8 percent, with calendar year 2012 on pace to exceed 8 percent. While a larger number of employee departures is problematic in terms of cost and service delivery, San José's turnover rate does not appear out of line with at least one recent survey of state and local government employee turnover. The Society for Human Resource Management (SHRM)¹⁷ has compared employee turnover across key industries. They found that the average annual government public sector (state and local) turnover in 2010 was 9 percent – which was lower than San José's rate for 2010, but higher than San José's rates over the last decade (5 to 8 percent). Comparatively, SHRM found that the state/local government sector was among the industries with the lowest turnover rates during 2010.

Because employee turnover has significant cost and service-delivery implications across all industry sectors, SHRM and others recommend organizations track employee turnover. SHRM summarizes why employee turnover is an important metric as follows:

Employee turnover is an important issue that poses a significant challenge for organizations. Since human capital is central to an organization's performance, workforce attrition can have a profound impact on an organization's performance, growth and general business outcomes...

Employee departures affect organizations in terms of measurable financial cost as well as intangible knowledge-based and productivity costs. According to a 2008 SHRM study, the cost to replace and hire new staff may be as high as 60% of an employee's annual salary, whereas total costs of replacement, including training and loss of productivity, can range from 90% to 200% of an employee's annual salary. Those expenditures can be difficult to absorb, whether an organization is a small company or a large global firm.

Loss of employee talent hinders the development of new products, disrupts client relationships and delays customer deliverables. These

¹⁷ The Society for Human Resource Management (SHRM) is the world's largest association devoted to human resource management.

production delays, along with replacement costs of employee turnover, negatively affect overall business performance and success.¹⁸

Trends in voluntary departures (both resignations and retirements) will be discussed in more detail below along with observations about the changes to the workforce as a result of recent position eliminations, layoffs, and bumping. Both are important reasons for why monitoring employee turnover will continue to be an important component of future workforce planning efforts.

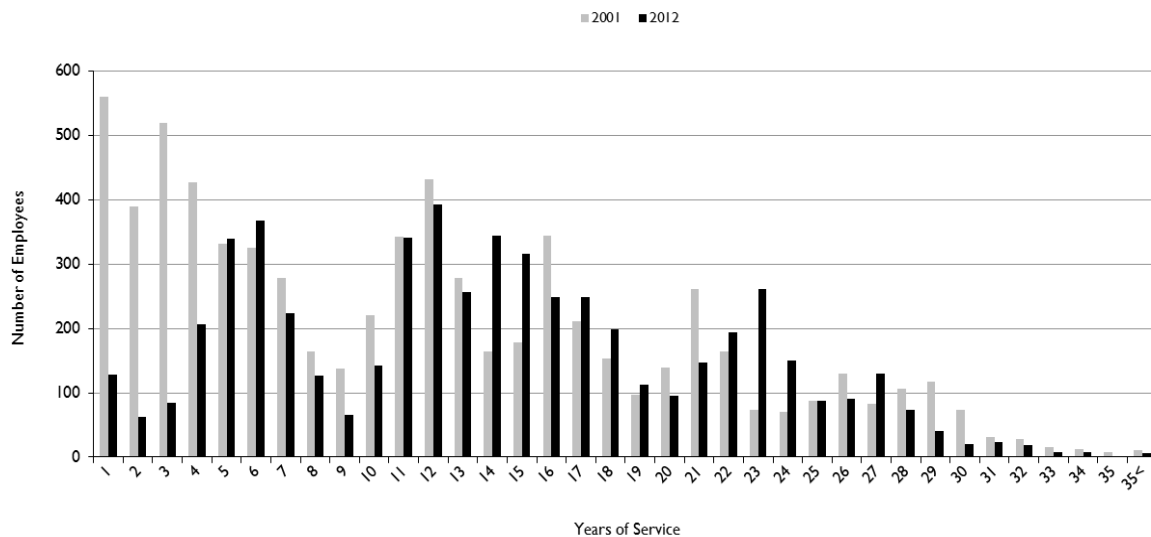
The Workforce Looks Different Now Than It Did Ten Years Ago

As described in the previous finding, seniority-based layoffs and bumping hit less-tenured employees the hardest. The City also dramatically reduced its hiring during that period.

The Median Tenure of Full-Time Employees Has Increased

In FY 2000-01, about 32 percent of the workforce had 5 or fewer years of City service, but by FY 2011-12, only about 15 percent of the workforce was in the same category. Exhibit 10 shows this shift.

Exhibit 10: Tenure Distribution Among Full-Time Permanent Employees

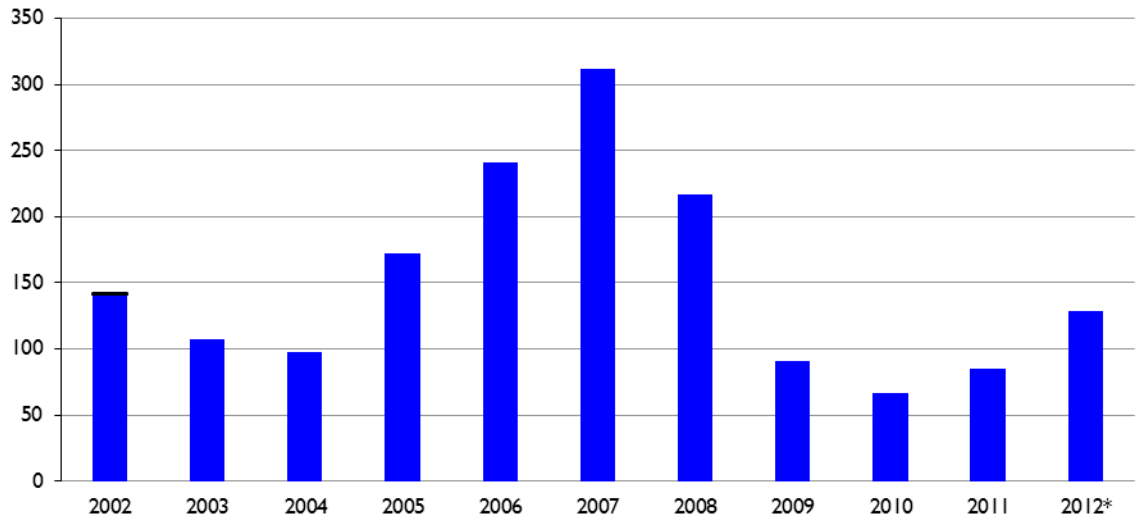


Source: Peoplesoft personnel data

¹⁸ SHRM's 2011 brief "Differences in Employee Turnover Across Key Industries" is online at http://www.shrm.org/research/benchmarks/documents/assessing%20employee%20turnover_final.pdf.

This trend was partly the result of seniority-based layoffs, but also the result of reduced hiring. As Exhibit II below shows, the City's hiring dipped to a low of 67 new full-time permanent employees in 2010. As of September 2012, the City hired about 130 new full-time permanent employees in calendar year 2012.

Exhibit II: The City Has Been Hiring, but in a Limited Fashion



Source: Peoplesoft personnel data.

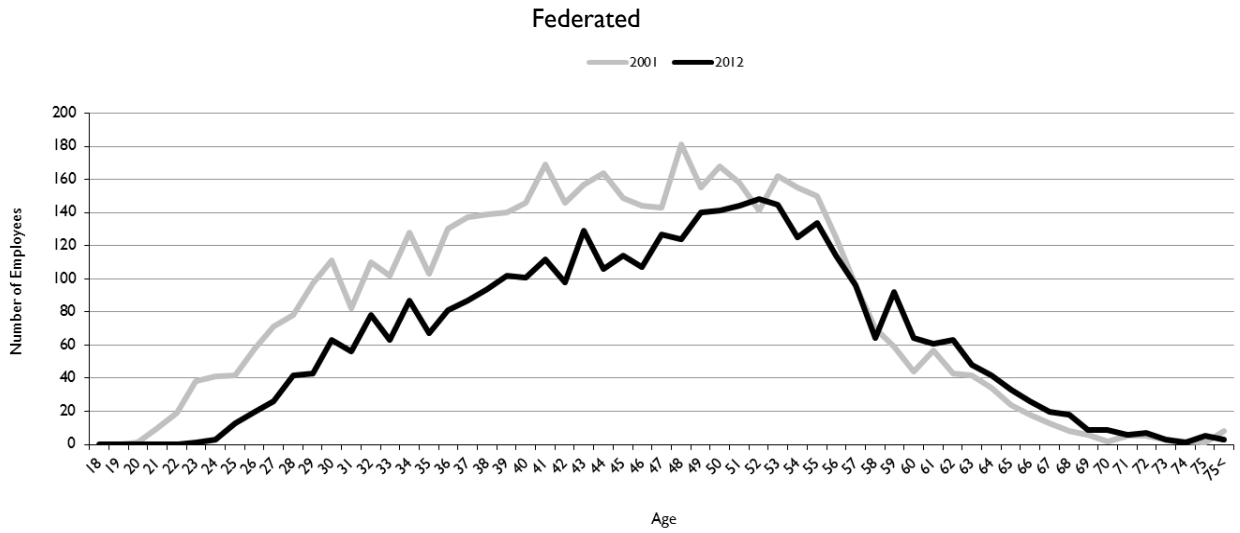
*Note: 2012 hiring totals include new hires between January 1 through September 7, 2012.

As a result of the combined impact of laying off less-tenured employees and the lack of hiring over the last few years, the median tenure of City employees has increased from 11 to 13 years. It is important to note however, that while City experience is rising, it does not necessarily mean that employees are staying in the same jobs throughout their tenures. Many employees, including those who were bumped and reinstated, have moved from role to role throughout the City in the last few years (as described earlier in this report).

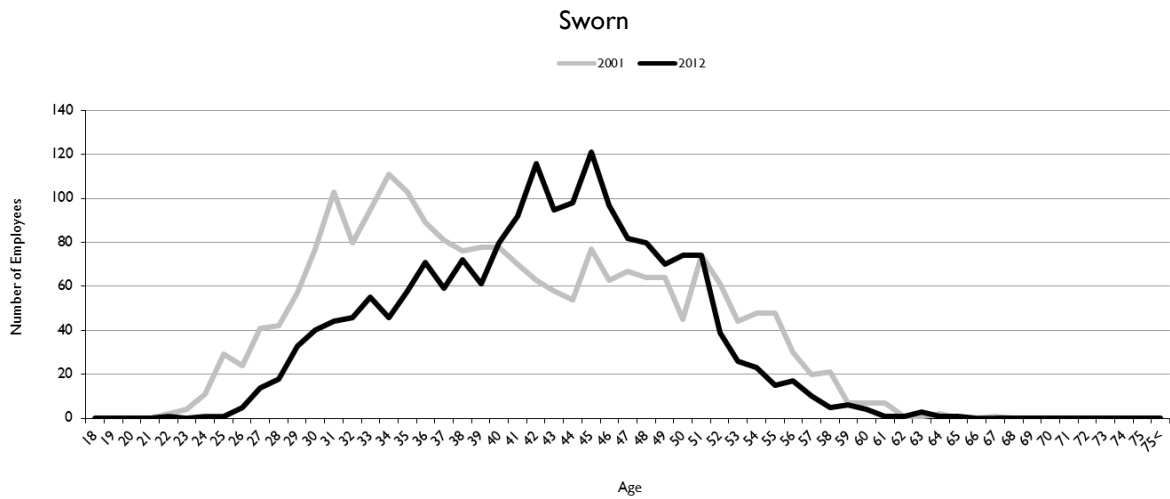
The Workforce Is Older and Has More Years of Service

In FY 2000-01, about 42 percent of the workforce was over 45. By FY 2011-12, that percentage had grown to 49 percent, and the median age of full-time permanent employees had risen about 3 years -- from about 42 years old in FY 2000-01, to 45 years in FY 2011-12. The following exhibits illustrate age distributions of full-time permanent employees in FY 2011-2012 as compared to FY 2000-2001. Although there are fewer employees overall, there is a notable shift in the age of the workforce -- particularly among sworn employees.

Exhibit 12: Age Distribution of Full-Time Permanent Employees



Source: Peoplesoft personnel data



Age Distribution Varies by Department

We should note that the age distribution varies significantly across the City's departments.

The Workforce as a Whole Is Closer to Retirement Triggers

As discussed later, employees are eligible to retire once they reach certain tenure and age milestones.¹⁹ While these tenure and age milestones do prompt many employees to retire, some employees decide to stay.²⁰ This remained true even during the most recent upheaval of employees in 2009 through 2012.

The following series of charts show the impact of each of these “milestones.” Specifically, they show how many full-time permanent employees reached particular milestones in a given year and the proportion of them that left City service in that same year.²¹

Typically Under 10 Percent of Pension-Vested Employees Have Separated Within the Year

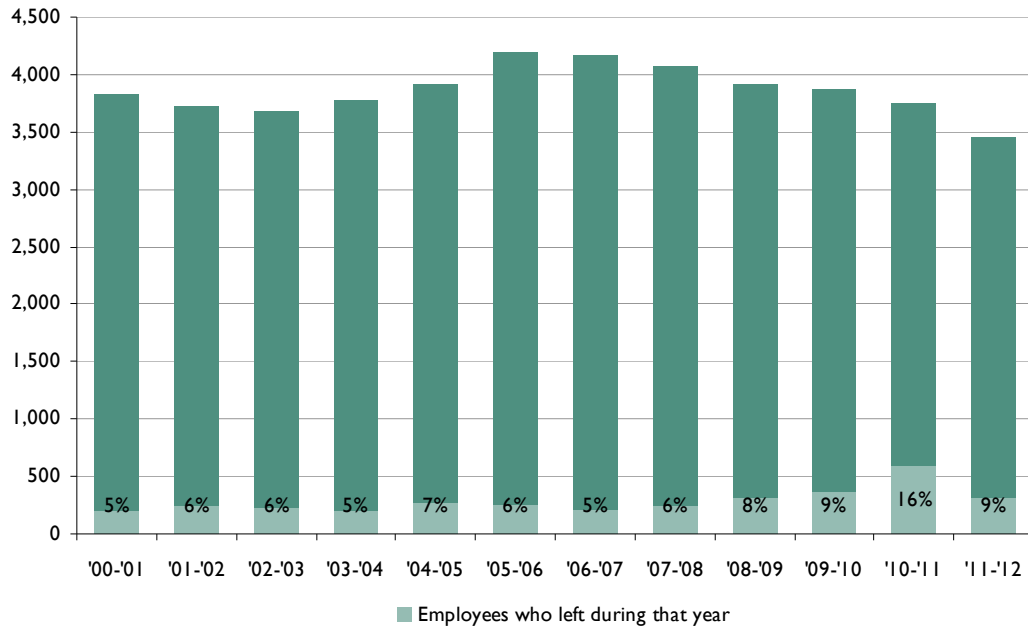
“Pension vested” employees have earned the right to pension payments that they will receive upon retirement. Generally, Federated employees reach the “pension vesting” milestone at 5 years of service and Police and Fire employees reach it at 20 years of service. Pension vesting is both a cost-containment and a retention tool. In compiling personnel data, we found that since FY 2000-2001, most employees have stayed beyond reaching this milestone, and the separation rate among employees reaching the pension-vesting milestone has been consistently below 10 percent (which means that 90 percent of employees stayed beyond this milestone), with the exception of FY 2010-11 when 16 percent of employees who reached this milestone separated within that year – a year in which the City eliminated 10 percent of its budgeted FTE (as shown earlier in Exhibit 8).

¹⁹ Major milestones for federated employees include qualifying for deferred vested pension benefits after five years of City service, deferred vested medical benefits at 15 years of service, and the highest pension benefits after 30 years of service. In addition, employees qualify to immediately begin drawing benefits upon reaching 55 years of age. Among the members of the Police and Fire Retirement plan, retirement milestones include qualifying for deferred vested pension benefits after 20 years of City service, deferred vested medical benefits at 20 years of service, and the highest pension benefits after 30 years of service. In addition, employees qualify to immediately begin drawing benefits upon reaching 55 years of age with 20 years of service and 50 years of age with 25 years of service.

²⁰ The largest reductions of full-time, permanent employees were found in employees with fewer than five years of City service. In 2000-01, 32 percent of employees had less than five years of service, compared to 15 percent of employees in 2011-12.

²¹ These charts should be considered estimates as they use start date with the City as their basis and do not account for employees who may leave City service and come back, work reduced work weeks for some period of time, take unpaid leaves, or other types of activities which decrease service hours and thus, tenure.

Exhibit 13: Pension-Vested Employees and the Percent Who Left That Year



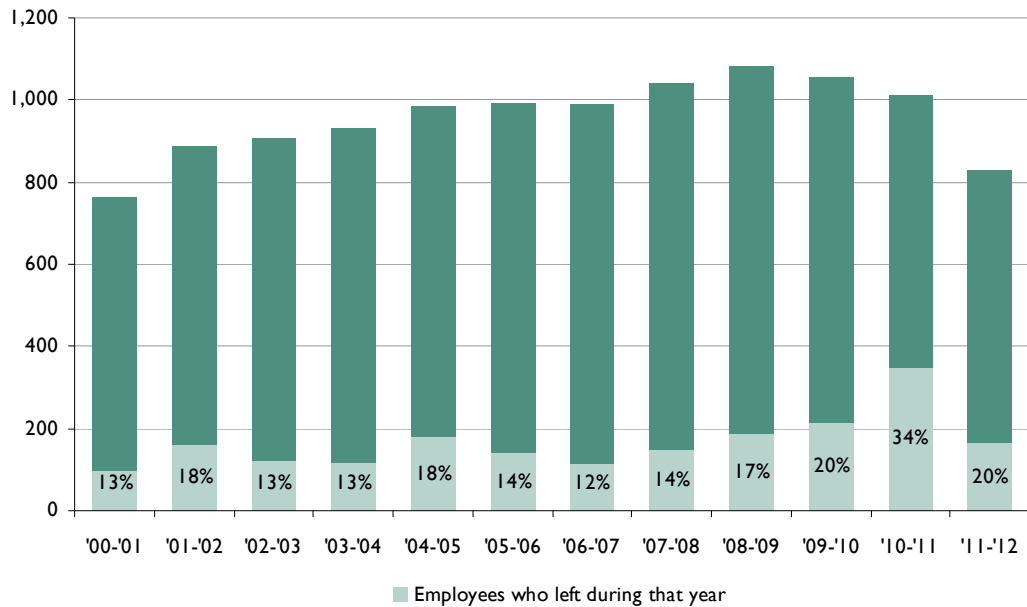
Source: Peoplesoft personnel records and Auditor’s estimation of pension vesting eligibility based on employees’ start dates (does not consider reciprocity benefits, and interruptions in service credit due to part-time status or leaves of absences).

Many Employees Continue City Service Upon Reaching 55

At the City, reaching 55 is an important milestone for retirement eligibility because at that age, all pension-vested employees are eligible to begin collecting payments. From our review of personnel records, we found most employees have left City service before reaching 55; however, among those who remain, the majority have opted to continue City service at least through the fiscal year in which they turned 55.

Consistent with the earlier discussion of the aging workforce, we found that the number of employees 55 and older grew throughout the years. The separation rate among employees 55 years and older has averaged around 17 percent (meaning that 83 percent stayed beyond this milestone) between 2000-01 and 2011-12. Over this period, the separation rates remained below 25 percent, with the exception of FY 2010-11 when 34 percent of employees 55 and over left within the fiscal year. As stated previously, while employees may have any number of reasons to separate from City service that year, the City eliminated 12 percent of budgeted FTE in FY 2010-11 (as shown earlier in Exhibit 8).

Exhibit 14: Full-Time Permanent Employees Aged 55 or Older and the Percent Who Left That Year



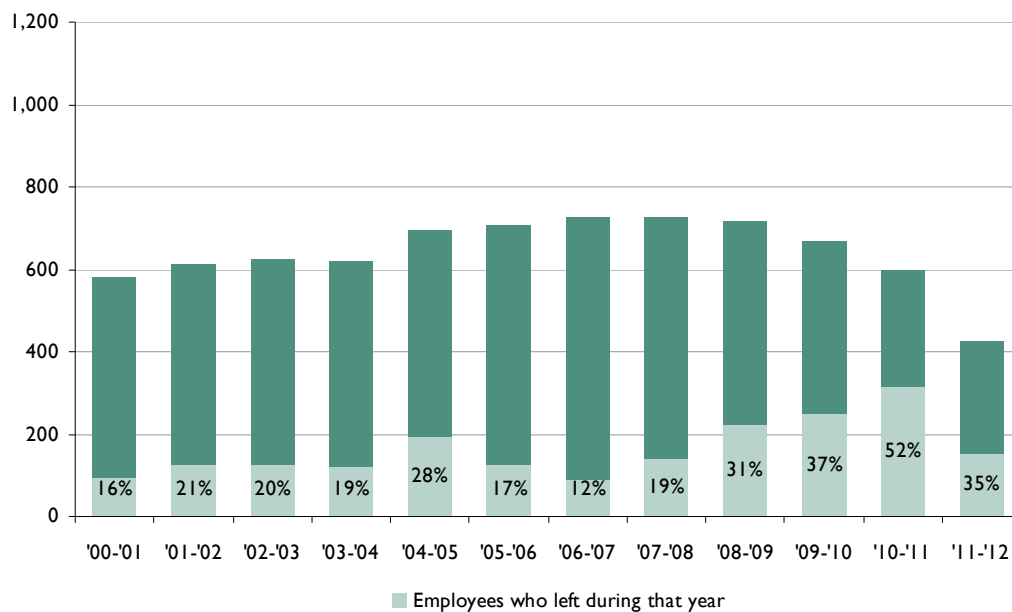
Source: Peoplesoft personnel records.

Over the Years Many Employees Continue City Service Upon Reaching Medical Retirement Eligibility

Federated members become eligible for lifetime medical benefits upon reaching 15 years of service; Police & Fire employees earn eligibility at 20 years.²² Achieving eligibility for retiree medical benefits is widely believed a popular goal for employees. Our review found that many employees leave City service before reaching retiree medical eligibility. However, among those who remain, most continue City service at least through the fiscal year in which they reached eligibility. The separation rates among employees reaching retiree medical eligibility varied considerably through the years, ranging from a low of 12 percent in FY 2006-07 (which means that 88 percent of employees stayed beyond this milestone) to a high of 52 percent in FY 2010-11. As stated earlier, employees may have had any number of reasons to separate from City employment that year, among them the fact that the City eliminated 10 percent of budgeted FTE that year.

²² City retirees can receive 100 percent of the lowest cost health care plan (family or individual) that is available to active City employees. If the retiree does not choose the lowest cost plan, the retiree pays the difference between that premium and the premium for the lowest cost plan. Federated City employees are eligible for this benefit once they reach 55 years of age and have 15 years of service. Police and Fire employees are eligible once they reach 50 years of age and have 20 years of service.

Exhibit 15: Employees Eligible for Retiree Medical Benefits and the Percent Who Left That Year

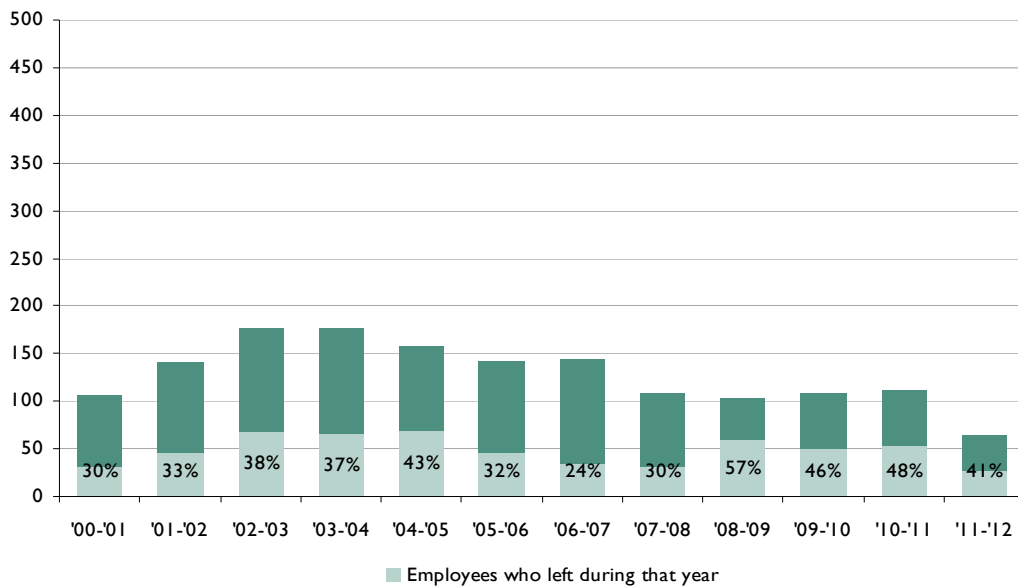


Source: Peoplesoft personnel records and Auditor’s estimation of retirement eligibility based on employees’ start dates (does not consider reciprocity benefits, and interruptions in service credit due to part-time status or leaves of absences).

In Typical Years Less Than Half of Employees Who Reach Full Service Retirement Eligibility Separate Within the Year

Federated employees who are at least 55 with 30 years of service become eligible for maximum pension payments. Police & Fire members become eligible at 50 with 25 years of service, 55 with 20 years, and any age with 30 years. Based on our review of personnel records, most employees leave City service before reaching this milestone. However, among those who remain, a majority have opted to continue City service at least through the fiscal year, with the exception of FY 2008-09, when 57 percent of these employees left City service within the year.

Exhibit 16: Employees Reaching Full Pension Eligibility and the Percent Who Left That Year



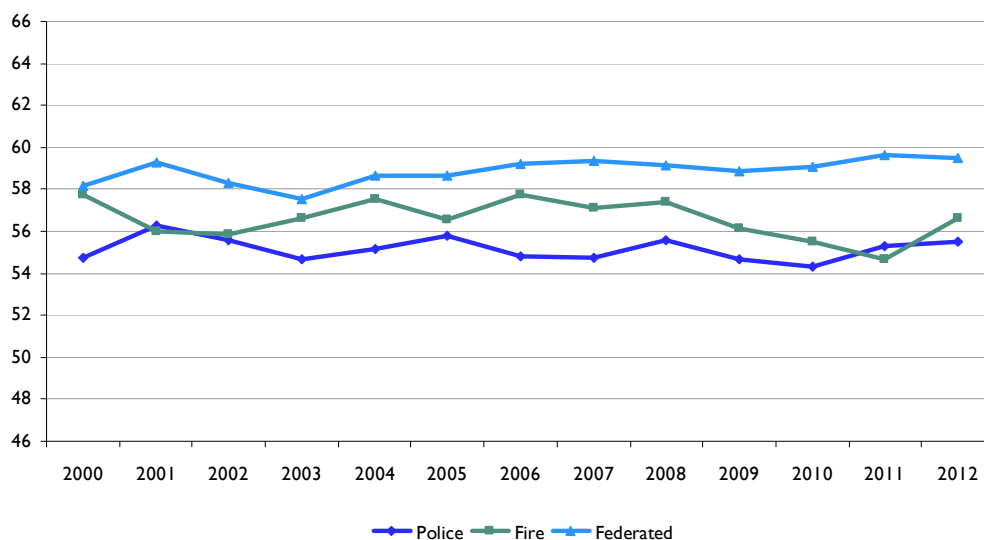
Source: Peoplesoft personnel records and Auditor’s estimation of full pension eligibility based on employees’ start dates (does not consider reciprocity benefits, and interruptions in service credit due to part-time status or leaves of absences).

Employees Are Retiring with Fewer Years of Service; However, the Average Service-Retirement Age Has Not Changed Dramatically

Our analysis of retirements shows that the average non-sworn employee retires from the City with about 20.75 years of service, down almost 2 years from the average 10 years ago. Sworn employees tend to retire with more City service, about 23 years of service, down from 28 years for Fire and 27.25 years for Police in 2000-01.

Exhibit 17 below shows that Federated employees generally retire around 59 years old, Police employees retire around 55, and Fire employees retire around 57. These numbers do not change much year by year, and do not appear to be trending in any particular direction.

Exhibit 17: Average Age at Time of Service Retirement



Source: Peoplesoft personnel data

Workforce Statistics Indicate Retirements Will Continue

Employee turnover rates vary by department (as shown in Appendix A) and can be influenced by a number of issues including comparative market positions (i.e. pay and benefits), but also by demographic factors including how close employees are to retirement “triggers,” the availability of alternative employment, employee engagement and morale, and other individual and personal choices.

Eleven Percent of Remaining Full-Time Permanent Employees Are Eligible to Retire

The International City/County Management Association (ICMA) and others have warned of a “boomer bubble” when baby boomers (currently aged 48 to 66 years old) retire. Public employers like San José have already begun to see the effects of the boomer bubble as employees typically retire earlier than the national average.

Although many employees do leave as they hit the retirement “triggers”, even the biggest driver (hitting 30 years of service) does not push everyone to immediately retire. This leads us to conclude that the “push-and-pull” factors that contribute to employees’ employment decisions may be more complex than conventional wisdom suggests.

Nonetheless, at the City where employees with as few years as 5 years of City service and some as young as 50 can retire, increasing tenures and ages can present challenges to the workforce and could indicate increasing turnover.

Staffing Reductions

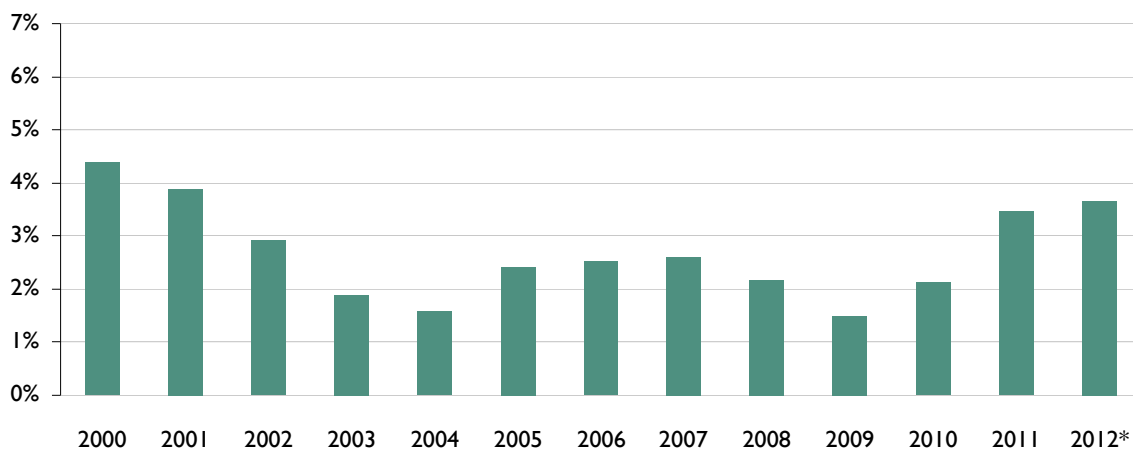
Many of San José's boomers have already hit the age requirement for retirement. San José has had high levels of retirement in the last few years. However, with 37 percent of the remaining full-time permanent workforce of baby boomer age or older -- including 11 percent of employees already eligible to retire as of September 2012 and another 13 percent eligible to retire with the next three years -- San José faces workforce challenges for some years ahead.

Resignations Have Increased

In addition to demographic challenges, some departments face retention issues. Employee pay has been reduced, pension benefits are changing, and the cost to employees for their benefits has increased. Jobs once thought to be secure may no longer feel that way. Employees have been laid off and bumping and reinstatements have caused turmoil in the organization, creating upset and feelings of insecurity (as described in Finding I). Like many other local jurisdictions, the City's financial outlook continues to be less than ideal -- with insufficient resources to fund what were once considered to be basic services. So long as this continues to be the case, the City will be challenged to address morale issues among its employees.

Employee resignations (that is, voluntary separations before electing to retire) currently are on pace to hit nearly 4 percent of budgeted staff in 2012. This is up from 2 percent from just two years ago. As shown in Exhibit 18, this is the highest point in the last ten years, but is not higher than during calendar years 2000 and 2001 (during the dot-com boom).

Exhibit 18: Percentage of Full-Time Staff Resigning Each Year



Source: Peoplesoft personnel records and City Operating Budgets²³

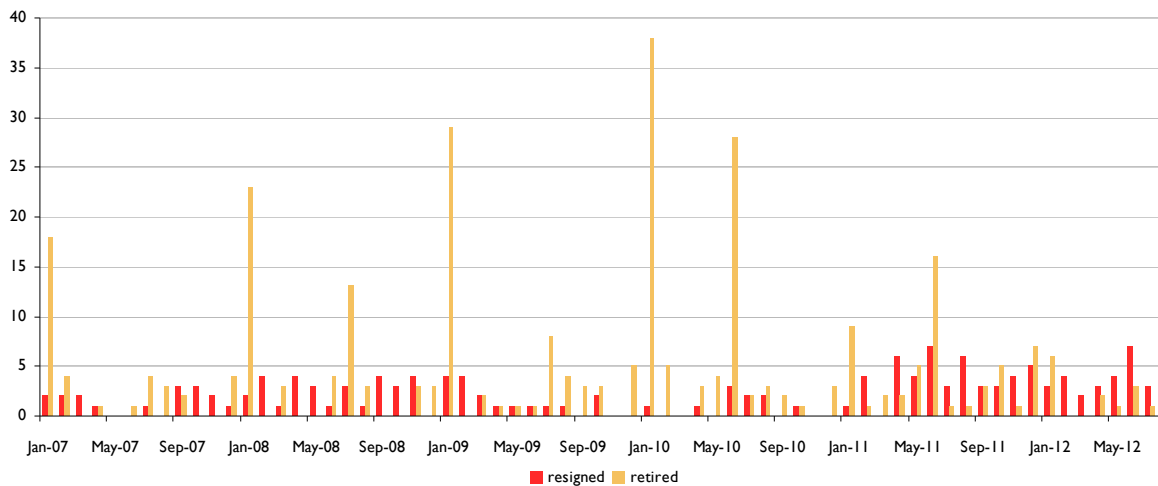
²³ 2012 data is projected based on January through August 2012.

Overall, the amount of City service that an employee has when resigning has also increased. Ten years ago, the average resigning non-sworn employee left with about 6.5 years of City service, or 3 years for sworn Police staff. Now, the average resigning City employee leaves with about 8.5 years of service, or just over 10 years for sworn Police staff.

However, without exit surveys we cannot determine what causes an employee to leave, or what could be done to incentivize them to stay. In our August 2012 audit of the Environmental Services Department, we found that certain units at the City’s Water Pollution Control Plant have experienced significant losses in specialized employees who left to take higher paying jobs in other water plants in the region.

Current trends in the Police Department show that resignations currently are trending higher than retirements, and higher than in the past. Exhibit 19 below shows an increase in resignations since February 2011, but it also shows that retirements are still a significant portion of sworn police separations.

Exhibit 19: Sworn Police Employee Monthly Separations, January 2007 – July 2012



Source: Peoplesoft personnel data

There is little doubt that job insecurity, pension, and salary changes are influencing turnover rates in some departments. However, as stated in the City Manager’s Fiscal Reform Plan (submitted in May 2011 as a Manager’s Budget Addenda to the City’s Operating Budget),

“it has been said that the City of San José will no longer be a competitive employer when we make changes to retirement benefits. Although the pension crisis and changes to retirement benefits are being discussed at a national level, we are at the forefront of making changes and as such, we must rethink what competitiveness means.”²⁴

²⁴City Manager’s Fiscal Reform Plan. May 2, 2011: <http://www.sanjoseca.gov/budget/FY1112/05MBA/MBA01-FiscalReformPlan.PDF>

While some or even many of the City's voluntary separations of late may be fueled by better job opportunities elsewhere, good data about the reasons for departures is not available – it is not something the City officially tracks. Given the organizational concern about this issue, we recommend the City begins tracking exit interview data, so that these types of concerns can be analyzed in an objective manner.

Retention Issues

San José is not unique in these issues. A 2011 Employee Job Satisfaction and Engagement Survey conducted by the Society for Human Resource Management found that respondents ranked job security the most important determinant of job satisfaction and employer financial stability the third most important. Respectively, 63 and 55 percent of respondents identified these issues as being of their top priorities. Also important to the majority of respondents were compensation and benefits, which were among the most highly valued by 54 and 53 percent of respondents. At the City of San José, all these areas – job security, financial stability, compensation and benefits – have been reduced.

Recognizing this, the City Manager has begun discussions about the possibility of performance-based compensation changes, stating:

It is important for the City to retain and attract a high quality workforce and reward high performing employees who are committed to San José. In the 2013-2017 Five-Year Forecast issued in February 2012, no general salary increases were incorporated into the cost projections for any year of the Forecast given the budgetary outlook at the time and the fiscal reforms underway. Consistent with the City Council's approval of the Mayor's 2012-2013 June Budget Message, the Administration will be working with our bargaining units in developing a performance-based system which will require additional funding to implement.”²⁵

Almost 13 Percent of Positions Are Vacant

This comes at a time when vacancy rates are already high. Historically, vacancy rates (the percentage of budgeted positions that are unfilled,) have hovered around six percent of budgeted positions. The City's current vacancy rate is much higher – almost thirteen percent. There are at least four reasons for this:

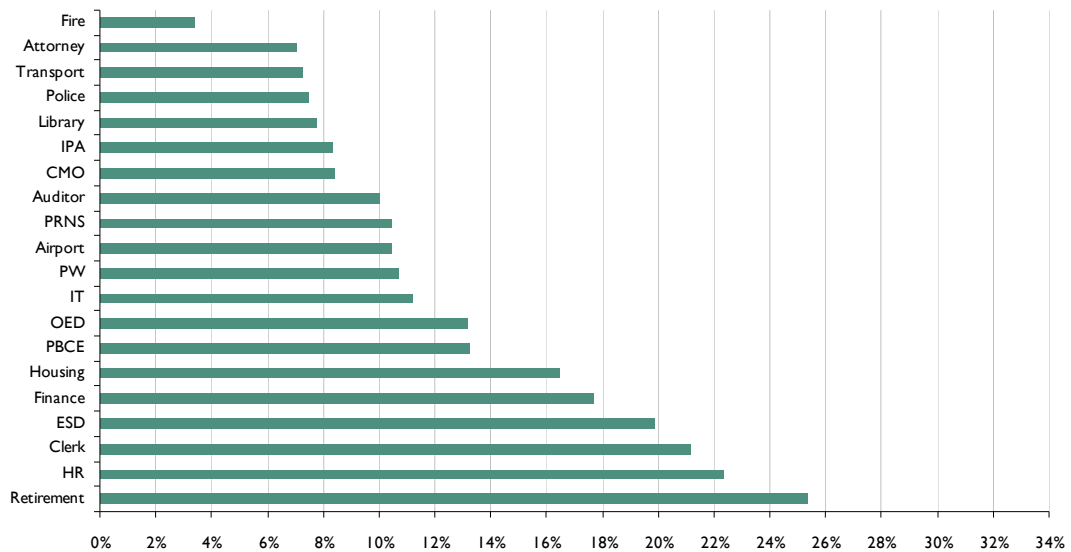
- 1) the City has been filling many vacancies (about half of them) through internal promotions, which means that while the City is hiring, it is not adding new employees into City service, so one position becomes filled and another (the old job) becomes vacant. This leads to a net zero impact on the vacancy rate,

²⁵ 2011-2012 City Manager's Annual Report of the Finances of the City of San José.

- 2) many of the vacant positions – nearly 40 percent of the 600 open positions are frozen – that is, managers are not authorized to fill them at the moment,
- 3) other departments do have authority to fill open positions but have not yet done so, and
- 4) others, including ESD as we reported in a recent audit, are having trouble filling open positions.

Whatever the reason, the vacancy rates point out how hard it currently is for the City to maintain its service levels—not only are staffing levels 28 percent lower than they were ten years ago, but there are also about 7 percent more unfilled positions across the City than there were in prior years. Exhibit 20 displays recent vacancy rates by department.

Exhibit 20: Vacancy Rates by Department at the End of FY 2011-12

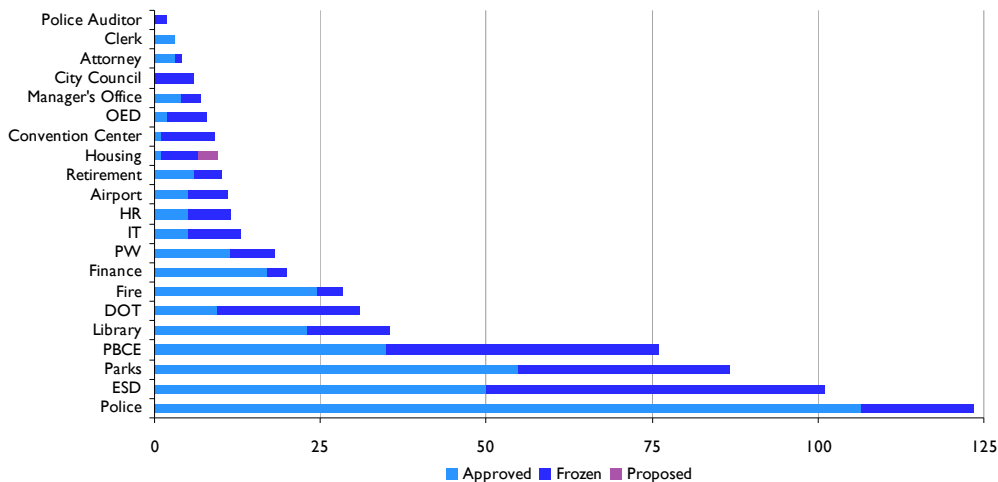


Source: Peoplesoft vacancy reports (This graph shows the average vacancy at four points in time between June and August 2012.)

Some Positions Are Still Frozen

Although the City’s budgetary situation for FY 2012-13 improved from recent years, a number of positions are still frozen. Frozen positions are those that are not required to be eliminated from a department but also not available to be filled. As of the end of August 2012, there were 367 full-time equivalent positions approved to be filled and another 245 positions that were frozen. Exhibit 21 below displays the count of open positions by department. The Police Department, Environmental Services Department and Parks, Recreation and Neighborhood Services (PRNS) Department had the most approved positions available to be filled.

Exhibit 21: Number of Full-Time Equivalent Vacancies by Department, August 2012



Source: Peoplesoft vacancy reports as of August 23, 2012

Vacancies Have a Workload Impact

To more fully describe how the vacancy rates relate to actual employees and service delivery, consider the Human Resources Department. Ten years ago, HR was budgeted for 74 full-time equivalent (FTE) positions. Today, HR is budgeted for 53 FTEs. However, HR has a vacancy rate of 21 percent, and is thus operating with about 42 FTEs. Given the administrative burdens of layoffs and bumping described earlier, these vacancy rates indicate that a lot of work is being shouldered by a significantly smaller workforce, and that some important work may not be performed at all.

Hiring at the Entry Level May Be More Desirable

Most of the City’s current vacancies are not entry-level, meaning that they require at least some experience in the field in which an applicant would like to work. Only about 31 percent of approved City vacancies were entry-level as of August 23, 2012 (in addition, 13 percent of the frozen positions were entry-level). It is also worth noting that 102 of the 130 approved *entry-level* full-time equivalent positions available at the end of August 2012 were positions in just three departments – Police, PRNS, and the Library. Those were positions to work as library pages and aides, police officers, public safety communications workers (911 call center,) and as community and recreation leaders. All the other open positions in the City required experience.

There are certainly many reasons why departments would want experienced applicants and this approach definitely cuts down on training needs, but we suggest that the City consider restructuring some of its job classifications and vacancies to allow for hiring more entry-level employees. Both the Auditor’s

Office and the Police Department have hired at the entry level and had great success with recruitments. Hiring entry-level employees increases training needs, but it also expands the pools of potential new applicants.

Recommendation #4: Where possible, Human Resources should update job classification specifications to reduce barriers to entry such as previous work experience, starting with open positions.

HR's Diminished Resources May Not Be Able to Handle the Volume of Hiring and Training that May Be Required

The Human Resources Employment Services Division is the group responsible for hiring employees, maintaining seniority lists, managing the layoff and bumping processes, and maintaining the City's classification and compensation systems. There are currently 15 full-time equivalent positions, (up from 11 in FY 2011-12) authorized for the division with a budget of approximately \$1.99 million for fiscal year 2012-13. Even with the increased anticipated staffing (new staff was not yet on board as of September 2012), the Employment Services Division Manager expects that they will be challenged to handle all the current and anticipated hiring.

Training Has Been Reduced

The Human Resources Department also formerly housed a division of Training and Development comprised of 3 full-time equivalent employees. This division was eliminated in 2011-12; its elimination impacted citywide efforts towards workforce planning, career mentoring, employee recognition, diversity programs, and citywide training classes for practical skills like FMS, Excel and Access. At its peak in fiscal year 2008-09, Training and Development Division courses served 3,000 attendees in a single year.

Today, employees not only do not have the benefit of citywide training programs offered by HR, but may also be less likely to benefit from department-provided training because of budget reductions. As the City adds new employees, especially at the entry-level, it will be important to provide training. This may require adding staff back to these areas, particularly for citywide trainings in hard skill areas like basic computer skills, accounting and the like.

Human Resources Staffing Has Been Reduced

"Catching up" to normal staffing will demand an adequately staffed Human Resources Department. Staffing resources will be even more important if retirement-eligible employees leave City service as discussed above.

It is difficult to precisely define the ideal size of a human resources function; however, the City's HR department may be understaffed – especially given added responsibilities during layoffs, bumpings and reinstatements. Over the years, the size of the City's HR department has decreased more than the City's workforce overall.

Recommendation #5: To address existing vacancies and future hiring and training needs, the City Manager should consider adding resources to the Human Resources Department.

Employee Feedback Can Be a Workforce Planning Tool

As described earlier, turnover is normal and separations are inevitable; employees retire and leave for a variety of personal reasons. However, turnover presents negative effects when highly valued employees leave. The City loses institutional memory and the unique bundle of skills and character traits that employees used in performing their jobs. In terms of monetary costs, according to SHRM, replacing mid-and high-level employees could far exceed the costs of retaining the departing employees. SHRM advises employers to ask themselves the question: "What are the factors affecting turnover?"

Employee Satisfaction Surveys Can Help Determine What Motivates Employees to Stay

After a five-year hiatus, the City conducted an employee survey in 2011. Some of the results offered some insight on employee morale. For instance, the survey found 58 percent of responding employees were satisfied with their jobs, a 22-point drop from 2006 when 80 percent of respondents were satisfied with their jobs. Given all that was happening, the results were not entirely unexpected.²⁶

The federal government conducts an annual survey that all federal agencies distribute to their employees, the U.S. Office of Personnel Management's (OPM) Employee Viewpoint Survey. Agencies track results over time, and develop action plans aimed at improving issues identified through the survey. The standardized survey asks questions that seem intent on gauging employees' feelings about specific programs and benefits. The survey also aims to learn about the stability of employees, by asking employees if and when they are planning to leave their agency. In Appendix B, we've attached a summary of a 2011 Employee Viewpoint Survey conducted by the federal General Services Administration. This Appendix gives the reader a sense of the breadth of questions that can be asked in employee surveys and what types of responses can be expected. We found similar surveying practices in large local governments such as the City governments of Denver and Minneapolis.

²⁶ The full results of the survey are online at <http://www.sanjoseca.gov/HumanResources/pdf/SanjoseEmployeeSurveyReport2011.pdf>.

Administering annual employee satisfaction surveys is an important undertaking. Beyond providing a potentially welcomed communication tools for employees, a carefully designed and implemented survey can confirm or reject assumptions about what motivates employees and can help focus resources on the most important issues to employees.

For example, take-home pay is clearly a very important motivator for retaining employees, and the City has unfortunately had to erode take-home pay for all of its employees over the last few years as a budget saving measure. Undoubtedly these pay decreases have contributed to employee turnover in some areas. However, a growing body of research indicates that other non-monetary factors can be very impactful on employee satisfaction and retention.

For example, the Center for Effective Organizations at the University of Southern California, studied a retention problem at a major accounting firm. The firm was having relatively high turnover of senior associates in their firm and thought they may be able to reduce turnover by increasing compensation. The firm decided to look for evidence as to whether increasing compensation would impact senior associates' decisions to leave. They surveyed current and former employees on their experiences at the firm and tracked career progressions for employees who had left. By using regression analysis to ensure that they were making apples-to-apples comparisons, they found that the biggest impact on whether employees stayed or left were work-life balance issues and concerns about career development and progression. As a result, the company was able to provide new tools for management to improve work-life balance and career development for their staff.

In addition, a recent Governing Institute State and Local Employee Engagement Benchmark Survey of more than 2,200 state and local government employees showed the importance of employee engagement as a key to employee retention. The study found that fully engaged workers are 2 times as likely to remain in their current job, and 2.5 times more likely to feel they can make a difference. While nearly all survey respondents indicated that employee morale and engagement had sharply declined in the last few years as a result of budget cuts and increased workloads, the study concluded that *"because engagement is key to retention, it's more important than ever for the public sector to keep employees connected, committed and loyal to their jobs, agencies, agency leadership and agency mission and goals."* As described earlier in this report, San José has experienced considerable upheaval as a result of budget cuts, pay reductions, layoffs, and bumping. Because of the impact of these types of factors on employee engagement and retention, the Governing study recommends public sector organizations establish a routine process for measuring and assessing employee engagement and turnover.²⁷

²⁷ For more information about the survey see http://nas.adpinfo.com/content/NAS_Employee_Engagement.

Exit Interviews Could Provide More Specific Information About Employee Separations

Standardized exit surveys provide another means for employers to identify and address issues that affect the productivity, morale and loyalty of their employees. If exit interviews had been the City's standard practice, we would now have valuable data on the reasons employees have left and where they went.

One of the added benefits of exit interviews is that interviewees may be more inclined to offer candid feedback than at other times during their employment. If the City notices trends in factors that incline employees to leave, the City can take steps to mitigate those issues, which ultimately could improve productivity.

We found other government employers that perform exit surveys including the City of Chesapeake, Virginia, the City of Dallas, and the City of Memphis. In fact, the City of Memphis requires them: *"When a regular, full-time employee of City of Memphis Government, with the exception of an appointed employee, separates from the City's payroll, regardless of the reason for separation, the Division of Human Resources will conduct an exit interview."* Some local governments and the federal government have developed guidelines for the format, content and execution of exit interviews.

In keeping with best practices, HR is currently developing a standardized exit interview process that they plan to implement soon.

Recommendation #6: To know why employees leave and what could motivate them to stay, we recommend Human Resources should:

- (a) Conduct annual or biennial employee surveys that provide the data necessary to understand what motivates City employees to stay or leave and develop action plans for questions that arise from survey results.**
- (b) Finish the process for developing exit surveys and begin conducting them for all employees leaving City service.**
- (c) Use the information obtained in employee surveys, exit surveys and other sources to shape recruitment and retention policies as well as training and development programs.**

The Importance of Workforce Analytics and Planning

It is trite but true that the City's employees represent its largest investment. In our recent audit of the Water Pollution Control Plant, we pointed out that a high proportion of water pollution control operators have left the City in recent years, which has left that division with fewer employees with less experience working more hours to operate and maintain the Plant. Other work units around the City may face similar challenges.

Employers everywhere recognize this – especially as the baby-boomers leave the workforce. In a 2007 report, the U.S. Government Accountability Office offered caution to federal agencies that were confronted by imminent workforce instability:

“Strategic human capital planning that is integrated with broader organizational strategic planning is critical to ensuring agencies have the talent they need for future challenges, especially as the federal government faces a retirement wave. Too often, agencies do not have the components of strategic human capital planning needed to address their current and emerging human capital challenges.”

The Society for Human Resource Management has identified workforce planning as an essential component to prudent personnel management and recommends managers commit to identifying upcoming separations. Such efforts are conducted for the federal workforce by the U.S. Office of Personnel Management, and even within the City of San José. For instance, to project the optimal sizes of its Police Academy classes, the Police Department analyzes trends in separations and retirement eligibility among its existing police force.

Regularly collecting and analyzing workforce demographics and trends is critical to workforce planning – including those presented in this report. How many employees are approaching retirement eligibility? Where is the age/experience distribution of employees troubling? In our opinion, the City should run regular demographic reports to identify those positions and work units that – based on tenure and age – may be particularly affected by imminent separations. This will allow departments to plan for potential holes in service delivery.

Recommendation #7: We recommend that the Human Resources Department dedicate staff time to ongoing human resources analytics. This will allow the City to better manage its human capital.

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Conclusion

San José has made major cuts to City staffing in recent years as it has faced ten years of budget shortfalls. In fact, San José has cut more than 2,000 positions. Most City employees are covered by civil service rules that require that layoff and subsequent bumping and reinstatement procedures are determined strictly by seniority. Because many City employees are in broad job classifications that are used by many departments, and layoffs, bumping and reinstatements are not limited to particular departments; even a few eliminated positions can have large impacts on other City employees and departments. Some City employees, position types and departments have been disproportionately affected by the City's recent layoff, bumping and reinstatement activities. Furthermore, much of the City's workforce is highly skilled and work in specialized jobs which are not conducive to bumping and sometimes lead to "poor matches" in new positions. Reinstatements can also be problematic as managers and laid-off employees have virtually no flexibility in who can work in newly refilled jobs. Finally, managing these processes is very time intensive on the part of the HR Employment Services Division.

We also found that the workforce looks different now than it did ten years ago. The workforce is older, with more years of service, and closer to retirement "triggers." With 11 percent of its employees currently eligible to retire and another 13 percent eligible to retire within the next three years, the City will continue to feel the impacts of employee departures. Salaries and benefits have been reduced and the City faces continuing retention and hiring issues. With already high vacancy rates and diminished staffing in the Human Resources Department, some vacancies may have to wait to be filled. Employee feedback tools, such as employee surveys and exit interviews could provide more answers as to what motivates San José's employees to stay or leave City service and could help shape employee retention and recruitment policies. Moreover, as the City is able to replace employees, it will need to invest in training for new employees.

RECOMMENDATIONS

Recommendation #1: We recommend eliminating bumping from the City's civil service rules as it is not cohesive with the City's modernized broadband classification structure nor with the complex and specialized work that many City employees do. If elimination is not possible, we recommend: limiting bumping to intradepartmental bumping only, limiting the number of people who can bump into a given position over a given time period, limiting the number of bumps and reinstatements into a given work unit over a given time period, and/or lowering the threshold for meeting position exemption requirements.

Staffing Reductions

Recommendation #2: Modify the reinstatement process to

- a. Allow departments to choose the most qualified candidate on the City reinstatement lists when such lists are in effect, regardless of seniority.
- b. Develop an exemption process for managers who have compelling cases for not filling critical positions from reinstatement lists.
- c. Allow employees to waive reinstatement for a certain time period or a certain number of opportunities.

Recommendation #3: Pursue changes to the layoff, bumping and reinstatement rules that subordinate seniority and factor in applicable job skills, recent job performance and disciplinary records.

Recommendation #4: Where possible, Human Resources should update job classification specifications to reduce barriers to entry such as previous work experience, starting with open positions.

Recommendation #5: To address existing vacancies and future hiring and training needs, the City Manager should consider adding resources to the Human Resources Department.

Recommendation #6: To know why employees leave and what could motivate them to stay, we recommend Human Resources should:

- a. Conduct annual or biennial employee surveys that provide the data necessary to understand what motivates City employees to stay or leave and develop action plans for questions that arise from survey results.
- b. Finish the process for developing exit surveys and begin conducting them for all employees leaving City service.
- c. Use the information obtained in employee surveys, exit surveys and other sources to shape recruitment and retention policies as well as training and development programs.

Recommendation #7: We recommend that the Human Resources Department dedicate staff time to ongoing human resources analytics. This will allow the City to better manage its human capital.

APPENDIX A

Departmental Staffing and Separation Trends

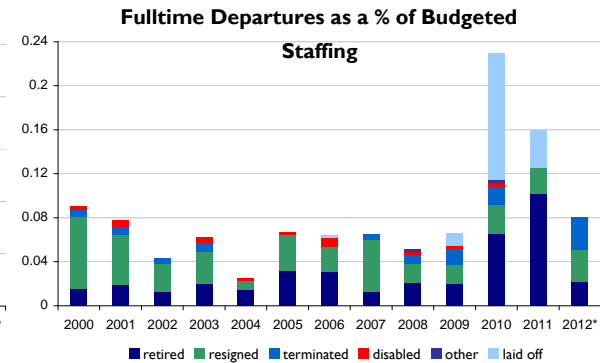
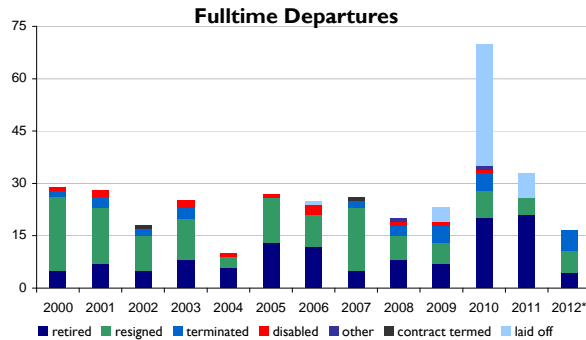
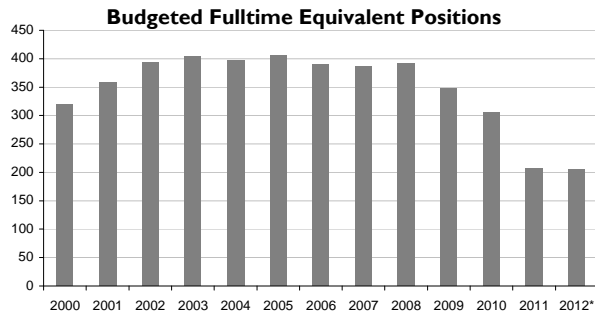
The series of charts presented here show that staffing and separation trends vary greatly by year and by department. The charts show separations of fulltime permanent employees on a calendar year basis. Budgeted staffing is shown on the fiscal year basis (e.g. “2012,” corresponds to the 2011-2012 Adopted Operating Budget). To estimate 2012 calendar year separation totals, we counted separations that occurred through September 2012, then projected separations for the remainder of the year.

The **left-most chart** shows budgeted fiscal year staffing levels in terms of fulltime equivalents (FTE) as presented in the City’s Adopted Operating Budgets. Note: “2012,” corresponds to the 2011-2012 Adopted Operating Budget.

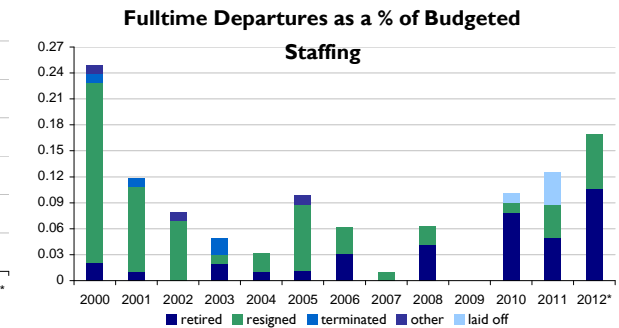
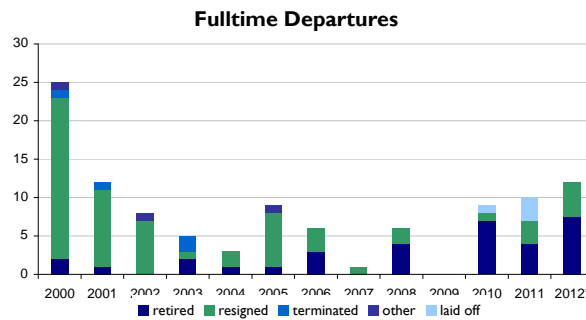
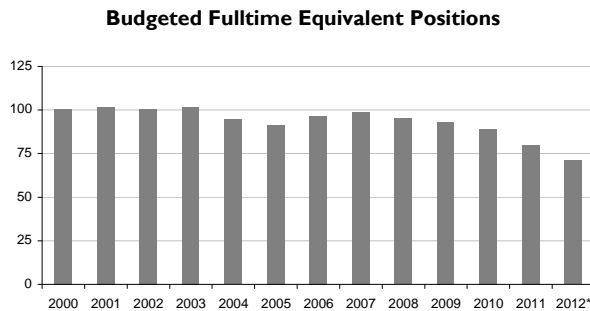
The **middle chart** provides a count of the separations among fulltime permanent employees within a given calendar year. It does not include separations among part-time and temporary City employees, nor does it consider employees who transfer or are bumped from departments. To estimate 2012 calendar year separation totals, we counted separations that occurred through September 2012, then projected separations for the remainder of the year.

The **right-most chart** shows the estimated percentage of budgeted staffing that left City service by calendar year. The calculation is based on budgeted staffing levels in full-time equivalents (or FTE) as shown in the City’s Adopted Operated Budgets, divided by the number of separations of fulltime permanent employees within a given calendar year. It excludes separations among part-time and temporary City employees, and does not consider employees who transfer or are bumped from departments.

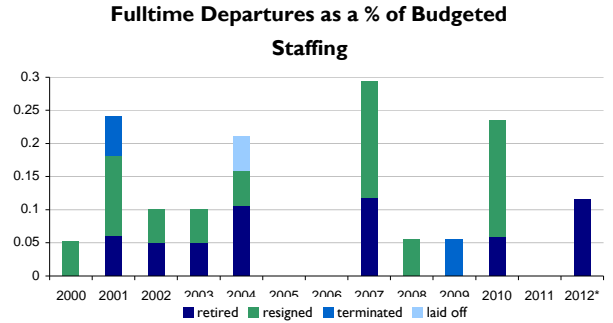
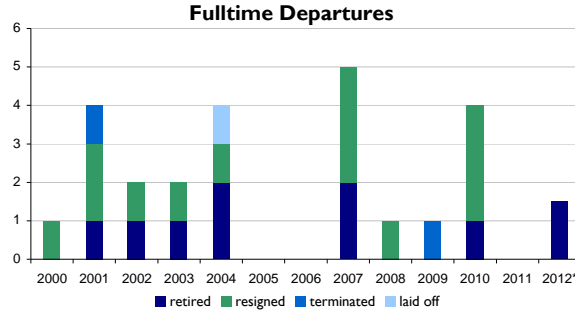
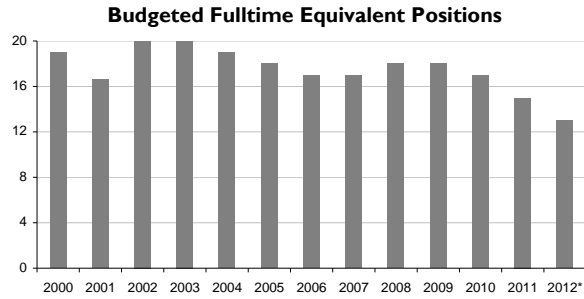
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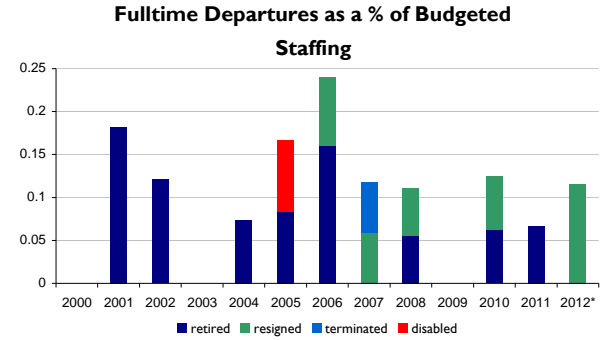
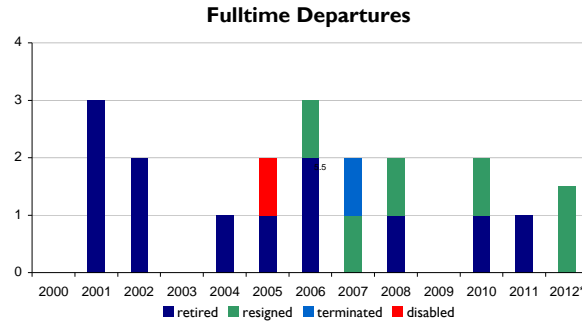
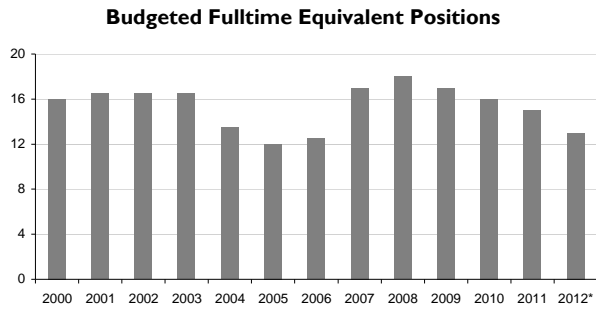
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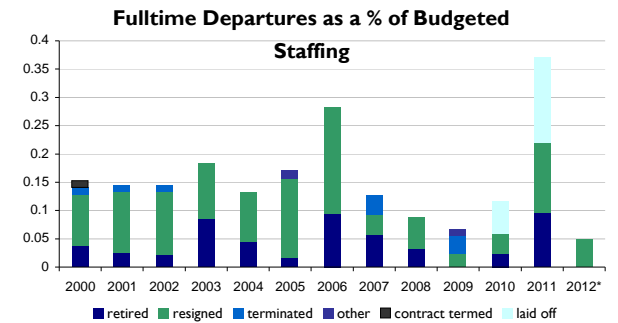
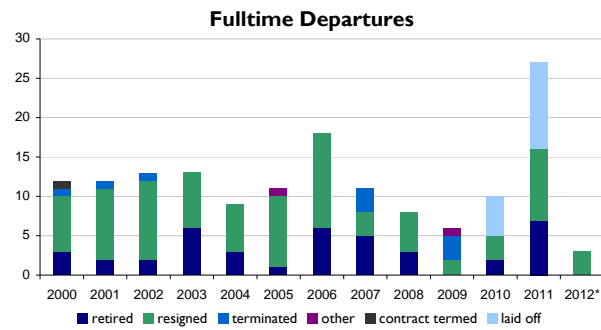
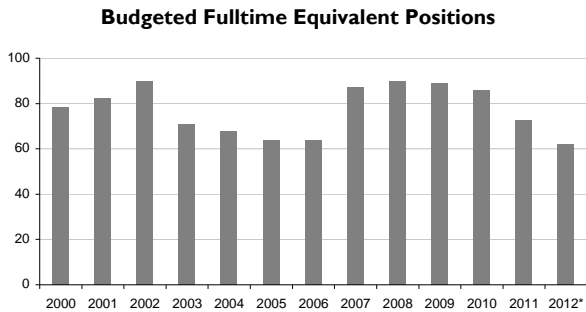
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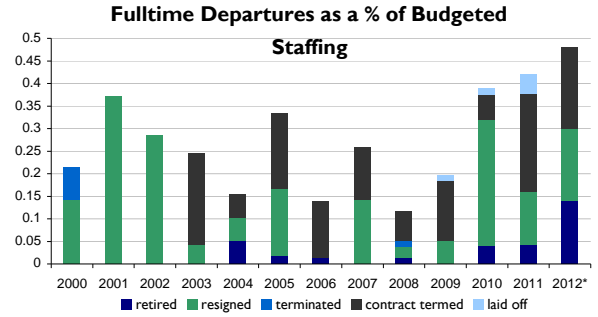
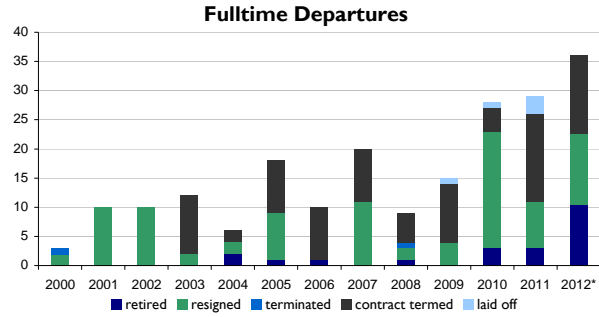
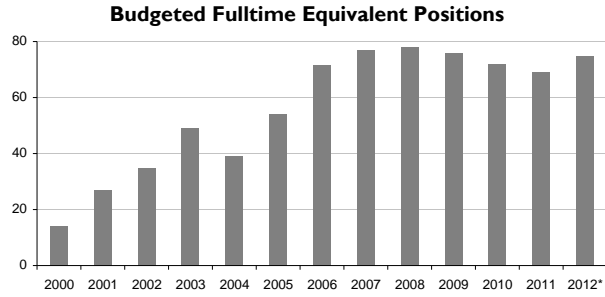
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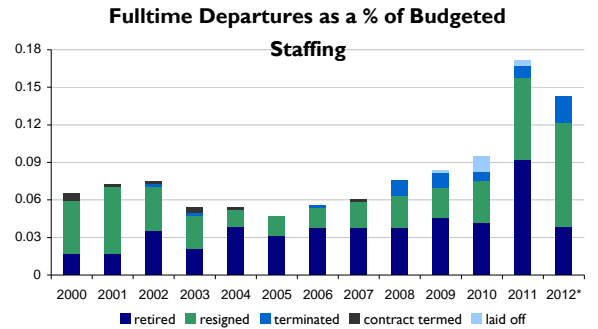
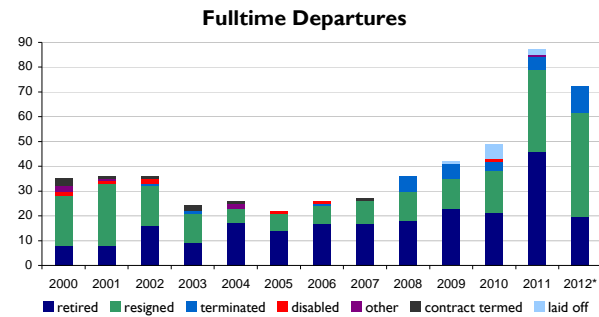
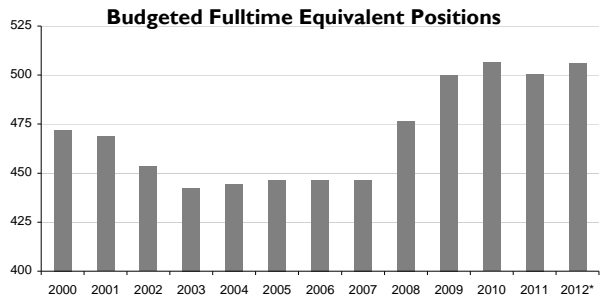
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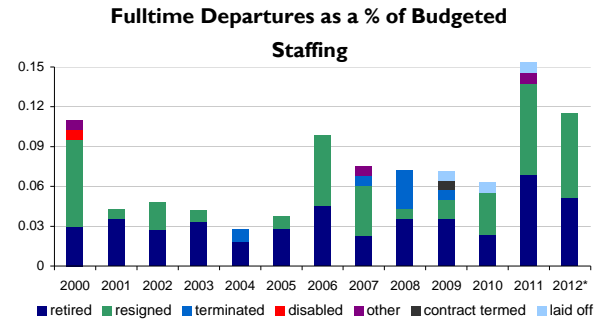
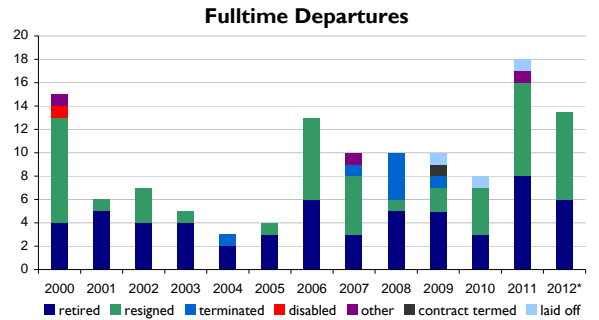
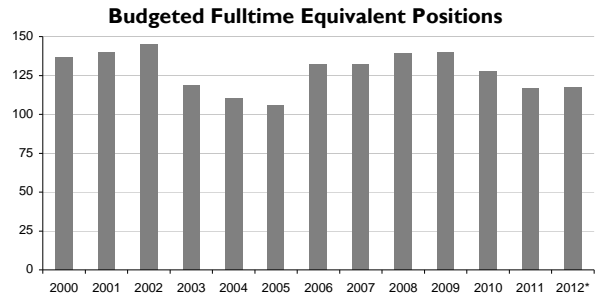
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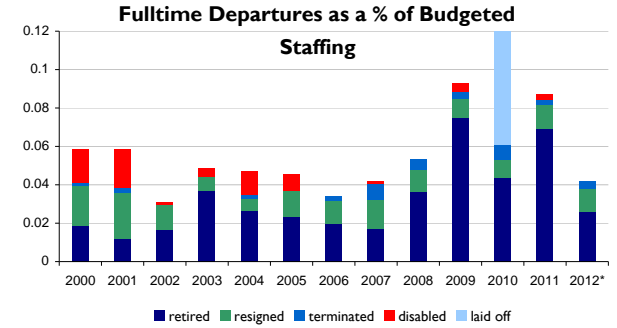
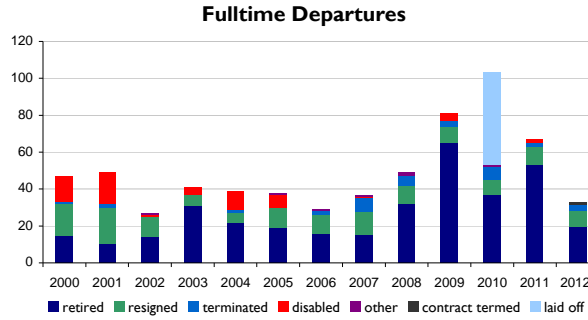
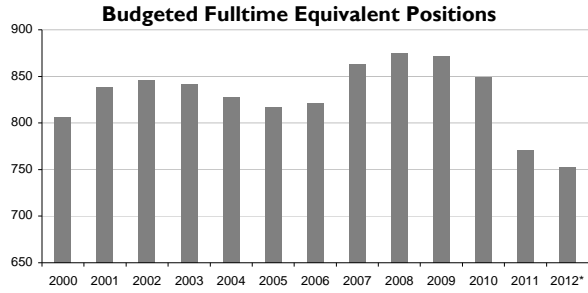
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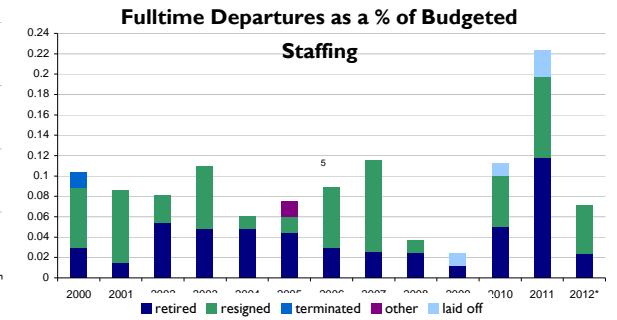
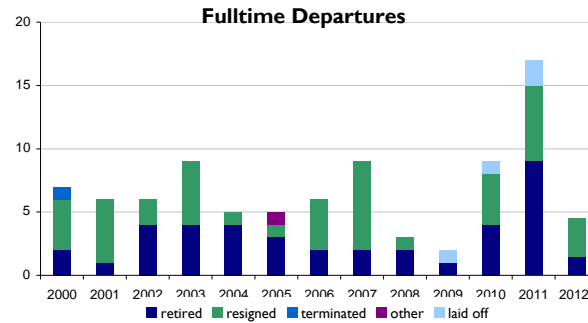
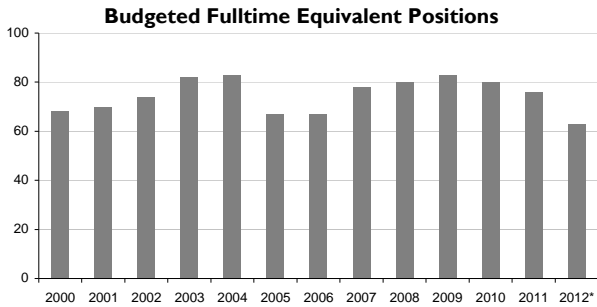
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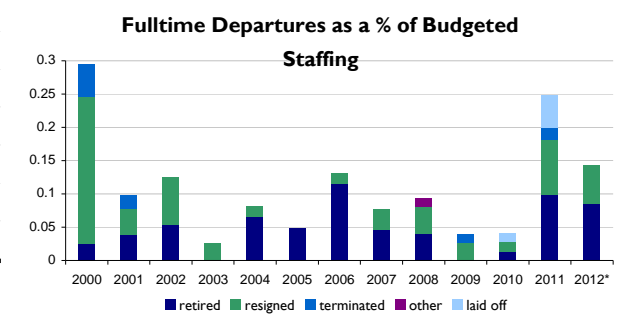
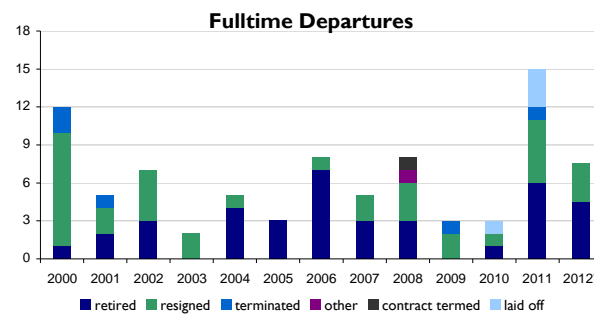
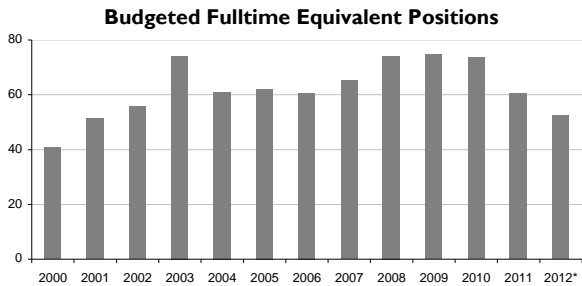
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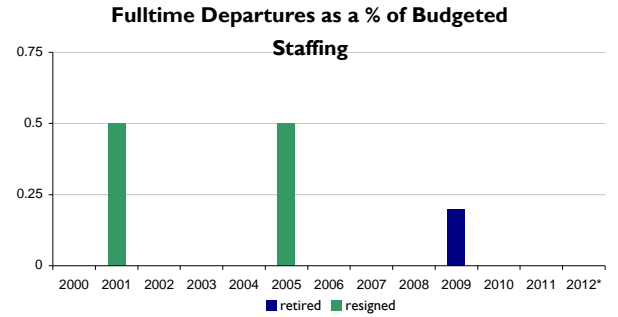
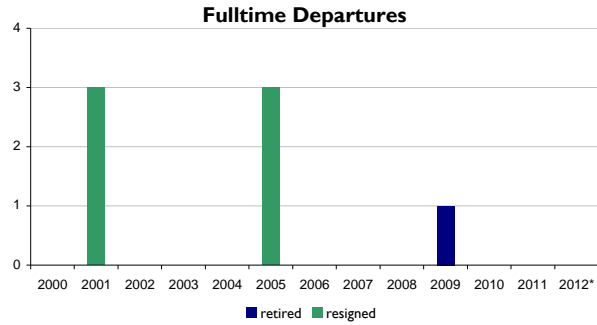
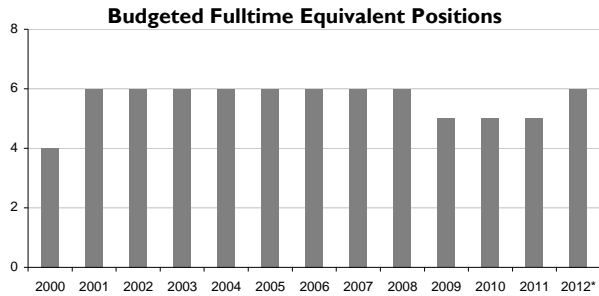
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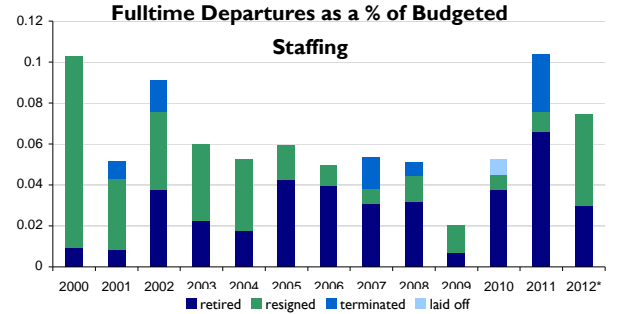
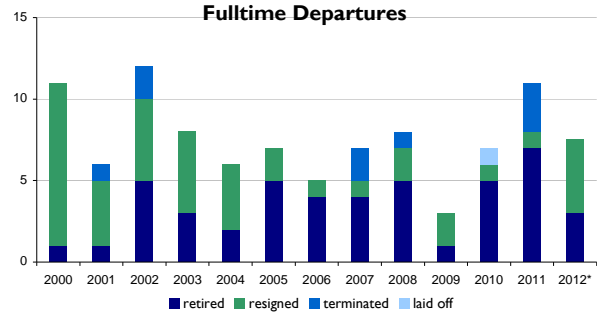
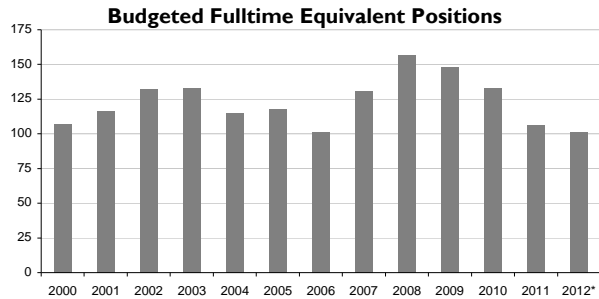
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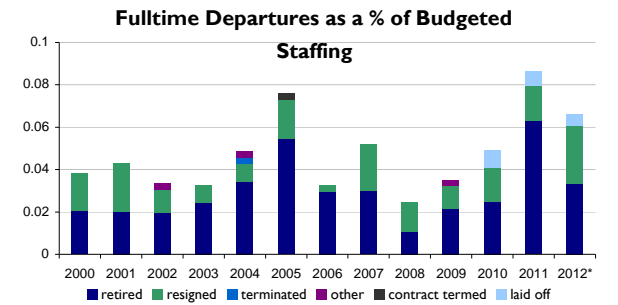
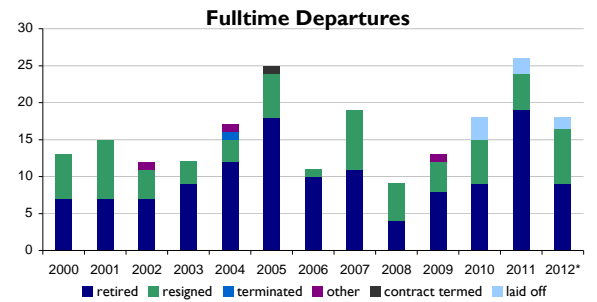
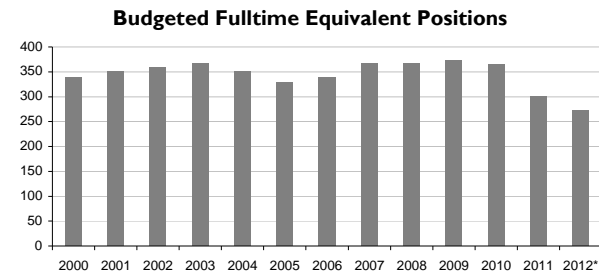
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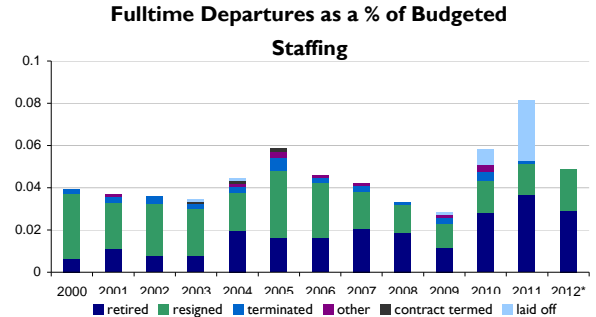
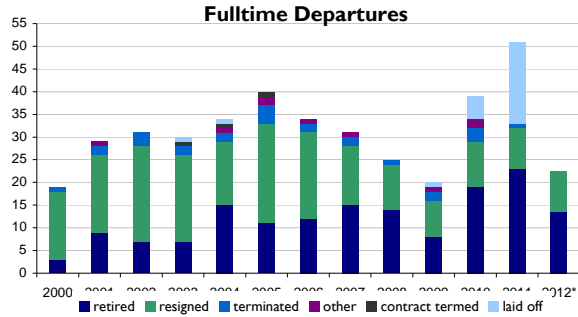
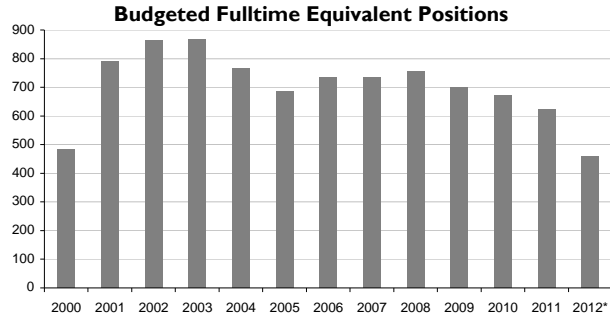
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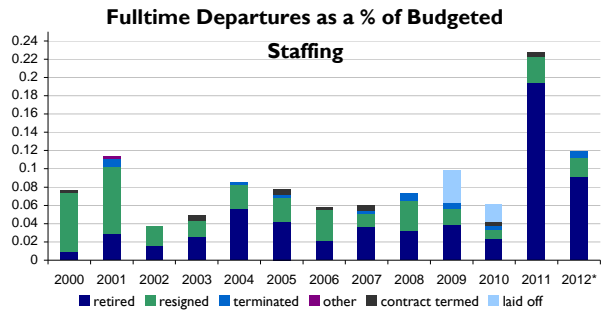
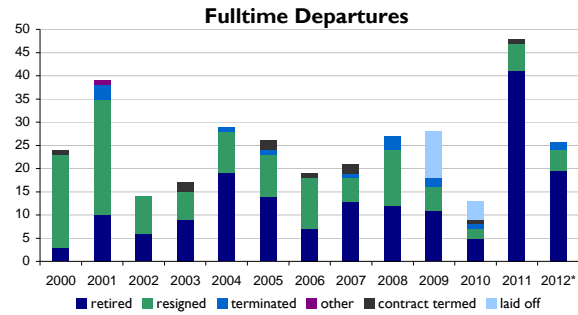
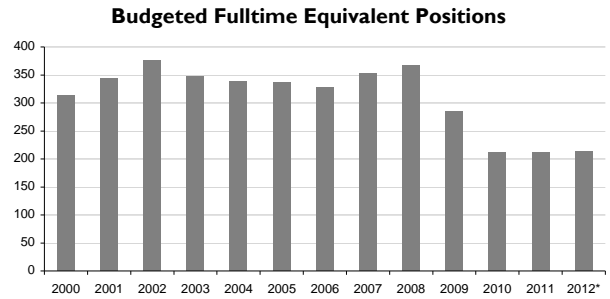
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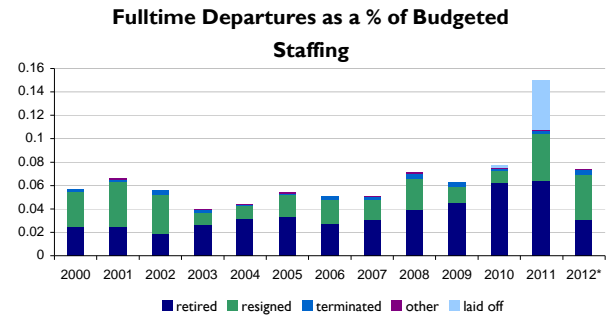
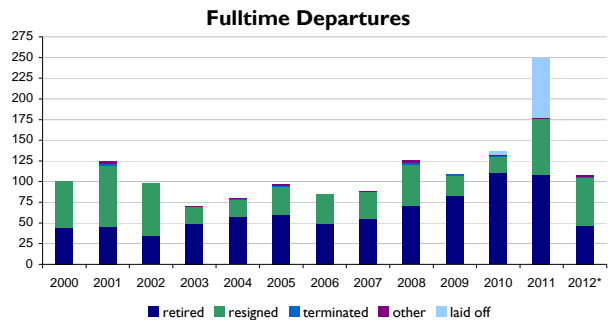
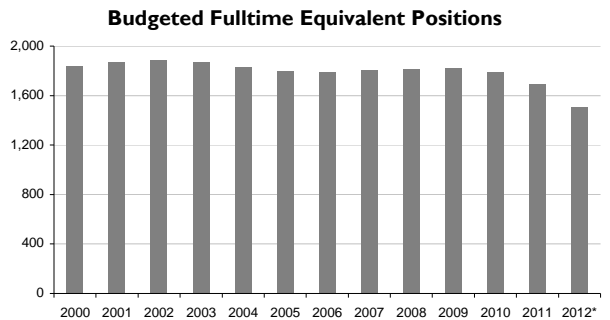
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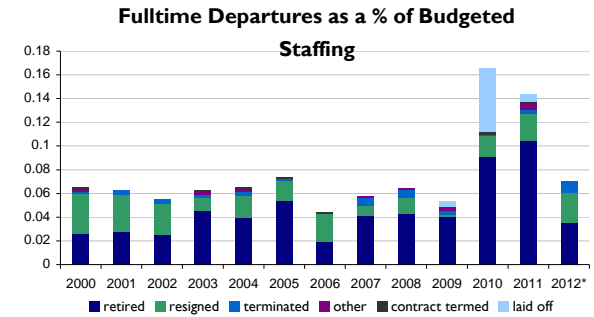
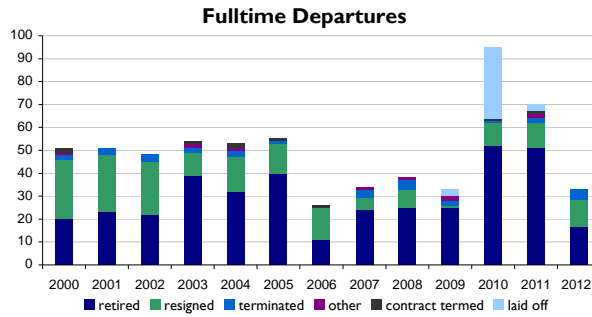
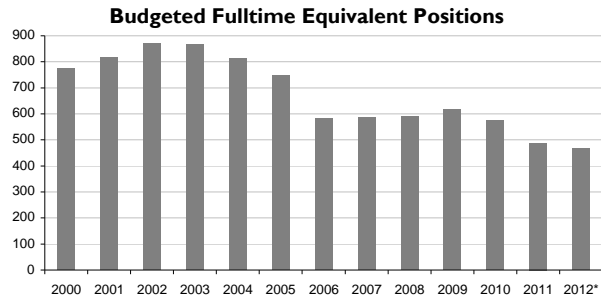
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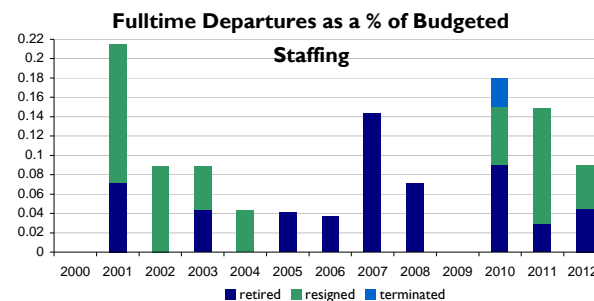
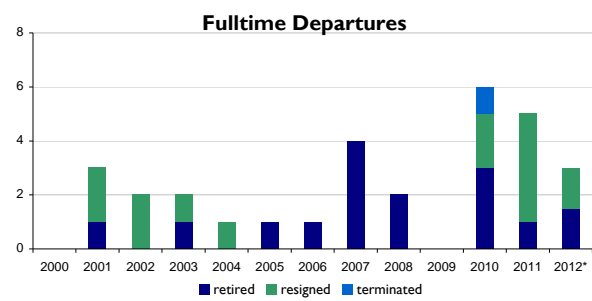
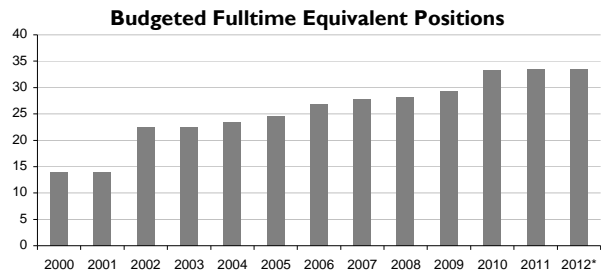
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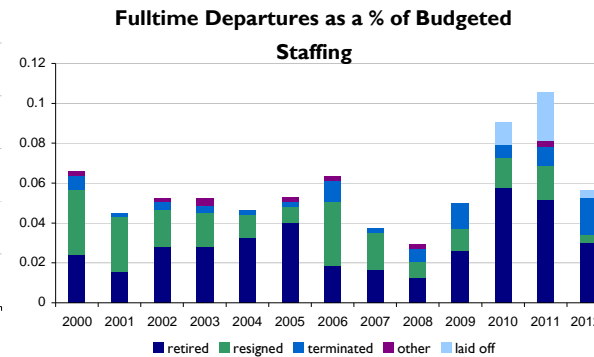
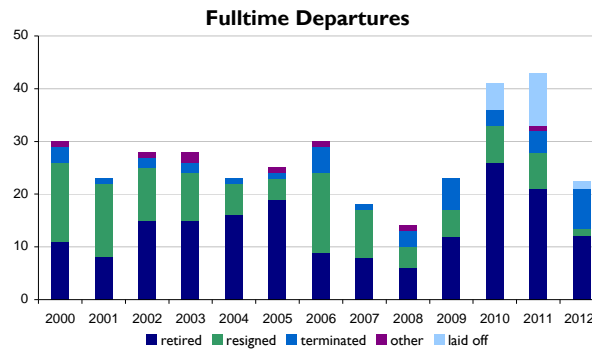
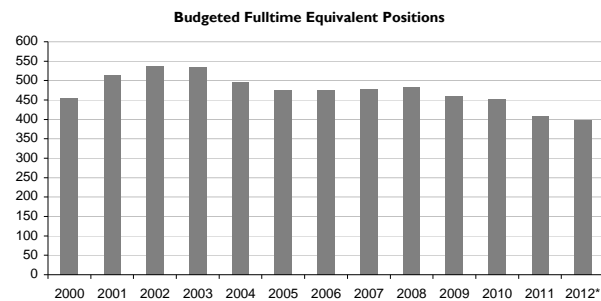
PUBLIC WORKS



RETIREMENT SERVICES



TRANSPORTATION



APPENDIX B

Questions Used in the Federal Employee Viewpoint Survey

The following 95 questions comprised the 2011 Federal Employee Viewpoint Survey as administered to employees of the federal General Services Administration between April 4, 2011 and April 22, 2011.

For questions 1 through 27, employees were offered the choices: “strongly agree,” “agree,” “neither agree nor disagree,” “disagree,” “strongly disagree,” or “do not know/no basis to judge.”

- 1 I am given a real opportunity to improve my skills in my organization.
- 2 I have enough information to do my job well.
- 3 I feel encouraged to come up with new and better ways of doing
- 4 My work gives me a feeling of personal accomplishment.
5. I like the kind of work I do.
- 6 I know what is expected of me on the job.
- 7 When needed I am willing to put in the extra effort to get a job
- 8 I am constantly looking for ways to do my job better.
- 9 I have sufficient resources (for example, people, materials, budget) to get my job done.
- 10 My workload is reasonable.
- 11 My talents are used well in the workplace.
- 12 I know how my work relates to the agency's goals and priorities.
- 13 The work I do is important.
- 14 Physical conditions (for example, noise level, temperature, lighting, cleanliness in the workplace) allow employees to perform their jobs well.
- 15 My performance appraisal is a fair reflection of my performance.
- 16 I am held accountable for achieving results.
- 17 I can disclose a suspected violation of any law, rule or regulation without fear of reprisal.
- 18 My training needs are assessed.
- 19 In my most recent performance appraisal, I understood what I had to do to be rated at different performance levels (for example, fully Successful, outstanding).
- 20 The people I work with cooperate to get the job done.
- 21 My work unit is able to recruit people with the right skills.
- 22 Promotions in my work unit are based on merit.
- 23 In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.
- 24 In my work unit, differences in performance are recognized in a meaningful way.
- 25 Awards in my work unit depend on how well employees perform their jobs.
- 26 Employees in my work unit share job knowledge with each other.
- 27 The skill level in my work unit has improved in the past year.

For question 28 employees were offered the choices: “very good,” “good,” “fair,” “poor,” “very poor,” or “do not know/no basis to judge.”

- 28 How would you rate the overall quality of work done by your work unit?

For questions 29 through 51 employees were offered the choices: “strongly agree,” “agree,” “neither agree nor disagree,” “disagree,” “strongly disagree,” or “do not know/no basis to judge.”

- 29 The workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals.
- 30 Employees have a feeling of personal empowerment with respect to work processes.
- 31 Employees are recognized for providing high quality products and services.
- 32 Creativity and innovation are rewarded.
- 33 Pay raises depend on how well employees perform their jobs.
- 34 Policies and programs promote diversity in the workplace (for example, recruiting minorities and women, training in awareness of diversity issues, mentoring).
- 35 Employees are protected from health and safety hazards on the job.
- 36 My organization has prepared employees for potential security threats.
- 37 Arbitrary action, personal favoritism and coercion for partisan political purposes are not tolerated.
- 38 Prohibited Personnel Practices (for example, illegally discriminating for or against any employee/applicant, obstructing a person's right to compete for employment, knowingly violating veterans' preference requirements) are not tolerated.
- 39 My agency is successful at accomplishing its mission.
- 40 I recommend my organization as a good place to work.
- 41 I believe the results of this survey will be used to make my agency.
- 42 My supervisor supports my need to balance work and other life issues.
- 43 My supervisor/team leader provides me with opportunities to demonstrate my leadership skills.
- 44 Discussions with my supervisor/team leader about my performance are worthwhile.
- 45 My supervisor/team leader is committed to a workforce representative of all segments of society.
- 46 My supervisor/team leader provides me with constructive suggestions to improve my job performance.
- 47 Supervisors/team leaders in my work unit support employee development.
- 48 My supervisor/team leader listens to what I have to say.
- 49 My supervisor/team leader treats me with respect.
- 50 In the last six months, my supervisor/team leader has talked with me about my performance.
- 51 I have trust and confidence in my supervisor.

For question 52 employees were offered the choices: “very good,” “good,” “fair,” “poor,” “very poor,” or “do not know/no basis to judge.”

- 52 Overall, how good a job do you feel is being done by your immediate supervisor/team leader?

For questions 53 through 59 employees were offered the choices: “strongly agree,” “agree,” “neither agree nor disagree,” “disagree,” “strongly disagree,” or “do not know/no basis to judge.”

- 53 In my organization, leaders generate high levels of motivation and commitment in the workforce.
- 54 My organization's leaders maintain high standards of honesty and integrity.
- 55 Managers/supervisors/team leaders work well with employees of different backgrounds.
- 56 Managers communicate the goals and priorities of the organization.
- 57 Managers review and evaluate the organization's progress toward meeting its goals and objectives.
- 58 Managers promote communication among different work units (for example, about projects, goals, needed resources).
- 59 Managers support collaboration across work units to accomplish work objectives.

For question 60 employees were offered the choices: “very good,” “good,” “fair,” “poor,” “very poor,” or “do not know/no basis to judge.”

- 60 Overall, how good a job do you feel is being done by the manager directly above your immediate supervisor/team leader?

For questions 61 through 62 employees were offered the choices: “strongly agree,” “agree,” “neither agree nor disagree,” “disagree,” “strongly disagree,” or “do not know/no basis to judge.”

- 61 I have a high level of respect for my organization's senior leaders.
- 62 Senior leaders demonstrate support for Work/Life programs.

For questions 63 through 71 employees were offered the choices: “very satisfied,” “satisfied,” “neither satisfied nor dissatisfied,” “dissatisfied,” “strongly dissatisfied,” or “do not know/no basis to judge.”

- 63 How satisfied are you with your involvement in decisions that affect your work?
- 64 How satisfied are you with the information you receive from management on what's going on in your organization?
- 65 How satisfied are you with the recognition you receive for doing a good job?
- 66 How satisfied are you with the policies and practices of your senior leaders?
- 67 How satisfied are you with your opportunity to get a better job in your organization?
- 68 How satisfied are you with the training you receive for your present job?
- 69 Considering everything, how satisfied are you with your job?
- 70 Considering everything, how satisfied are you with your pay?
- 71 Considering everything, how satisfied are you with your organization?
- 72 Have you been notified that you are eligible to telework? Telework means working at a location other than your official work site during your regular work hours (excludes travel).
 - yes
 - no
 - not sure

- 73 Please select the response below that BEST describes your current teleworking situation:
- I telework 3 or more days per week
 - I telework 1 or 2 days per week
 - I telework, but no more than 1 or 2 days per month.
 - I telework very infrequently, on an unscheduled or short-term basis.
 - I do not telework because I have to be physically present on the job (e.g., Law Enforcement Officers, Park Rangers, Security Personnel).
 - I do not telework because I have technical issues (e.g., connectivity, inadequate equipment) that prevent me from teleworking.
 - I do not telework because I did not receive approval to do so, even though I have the kind of job where I can telework
 - I do not telework because I choose not to telework

For questions 74 through 78, employees were offered the choices: “yes,” “no,” “not available to me.”

- 74 Do you participate in Alternative Work Schedules (AWS)?
- 75 Do you participate in Health and Wellness Programs (for example, exercise, medical screening, quit smoking programs)?
- 76 Do you participate in the Employee Assistance Program (EAP)?
- 77 Do you participate in Child Care Programs (for example, daycare, parenting classes, parenting support groups)?
- 78 Do you participate in Elder Care Programs (for example, support groups, speakers)?

For questions 79 through 84, employees were offered the choices: “very satisfied,” “satisfied,” “neither satisfied nor dissatisfied,” “dissatisfied,” “strongly dissatisfied,” or “do not know/no basis to judge.”

- 79 How satisfied are you with Telework?
- 80 How satisfied are you with Alternative Work Schedules?
- 81 How satisfied are you with Health and Wellness Programs (for example, exercise, medical screening, quit smoking programs)?
- 82 How satisfied are you with the Employee Assistance Program (EAP)?
- 83 How satisfied are you with Child Care Programs (for example, daycare, parenting classes, parenting support groups)?
- 84 How satisfied are you with Elder Care Programs (for example, support groups, speakers)?

For questions 85 through 95, employees were offered multiple choices from which to choose.

- 85 Where do you work?
- Headquarters
 - Field
- 86 What is your supervisory status?
- Non-Supervisor
 - Team Lead
 - Supervisor
 - Manager
 - Executive

- 87 Are you:
- Male
 - Female
- 88 Are you Hispanic or Latino?
- Yes
 - No
- 89 Please select the racial category or categories with which you most closely identify.
- American Indian or Alaska Native
 - Asian
 - Black or African American
 - Native Hawaiian or Other Pacific Islander
 - White
 - Two or more races
- 90 What is your age group?
- 25 and under
 - 26-29
 - 30-39
 - 40-49
 - 50-59
 - 60 or older
- 91 What is your pay category/grade?
- Federal Wage System
 - GS 1-6
 - GS 7-12
 - GS 13-15
 - Senior Executive Service
 - Senior Level (SL) or Scientific or Professional (ST)
 - Other
- 92 How long have you been with the Federal Government (excluding military service)?
- Less than 1 year
 - 1 to 3 years
 - 4 to 5 years
 - 6 to 10 years
 - 11 to 14 years
 - 15 to 20 years
 - More than 20 years
- 93 How long have you been with your current agency (for example, Department of Justice, Environmental Protection Agency)?
- Less than 1 year
 - 1 to 3 years
 - 4 to 5 years
 - 6 to 10 years
 - 11 to 20 years
 - More than 20 years
- 94 Are you considering leaving your organization within the next year, and if so, why?
- No
 - Yes, to retire
 - Yes, to another job within the Federal Government
 - Yes, to take another job outside the Federal Government
 - Yes, other
- 95 I am planning to retire:
- Within one year
 - Between one and three years
 - Between three and five years
 - Five or more years

APPENDIX C
Human Resources' 2011 Bumping Timelines and Workplan

Activity	Target Date	Responsible
Update seniority lists for city-wide classes	January - March	Employment
First Budget input (impacted classes)	WK after Super Friday (2/14)	Budget
Create additional lists as needed	March/April	Employment
Layoff rules/policy informational presentations	March/April	Employment
Publish seniority lists	March 4 - April 25	Employment
Mayor's first Budget message	March 11	Mayor
Department informational meetings	March/April	Depts
City Manager's Management Meeting	April	CMO/Training
Budget updates (Filled/vacant position detail)	April 4	Budget
Check-in re analysis assumptions		Employment/Budget
Create master worksheet & vacancy list	Week of April 4	Employment
Perform analysis	April 4 – April 18	
Generate additional seniority lists as needed	April 4 – April 18	
Notification list	April 4 – April 18	
Review and update letters	April 4 – April 18	
Department spreadsheets	April 4 – April 18	
Create training schedules	By April 18	Training
Coordinate with work2future		Training
Coordinate with MHN	By April 18	Benefits
Department spreadsheets distributed for review	Week of April 18	Employment
MHN trainings for mgrs. on communicating impact		Benefits
Dept. meetings with bargaining units		Depts
Depts review and return spreadsheets	April 22	Depts
Enter updates	April 22 - 25	Employment
Prepare final notification packets and deliver to Depts	April 25	
Overview to CMO	April 25	
Employee impact notification memos distributed	Week of April 25	Employment
Meet with individual employees	Week of April 25	Depts
Notify bargaining units	April 25	Employment
Exemption Request deadline	April 29	Employment
W2F training (Resume/Interview Skills, Job Search, etc.)	April 28 - July	Training
Budget Released	May 3	CMO
MHN group meeting with affected employees	April/May	Benefits
Begin placement coordination	Wk of May 2	Employment
Contact ees for resumes/interests	May 2 - 11	
Contact depts. for position descriptions	April 18 – May 11	
Post redevelopment opportunities	Wk of May 9	
Group Meetings	May 16 - 27	
Evaluate and communicate decisions	Week of May 30	
Mayor's second Budget message/Budget-updates	June 3	Mayor/CMO
Make adjustments as needed		Employment
Budget Adopted	June 22	Council
Redeployment Interview	June	Employment/Depts
W2F trainings (on-boarding, team building, managing transition)	July - September	Training/W2F
Separation Workshops	June	Benefits/Employment
Separations effective	June 25*	Employment
Transitions effective	June 26*	Employment

*Except Police sworn

TO: Sharon Erickson
City Auditor

FROM: Debra Figone

**SUBJECT: RESPONSE TO THE AUDIT
OF "TEN YEARS OF STAFFING
REDUCTIONS AT THE CITY OF
SAN JOSE"**

DATE: November 8, 2012

The Administration has reviewed the Audit of the "Ten Years of Staffing Reductions at the City of San José: Impacts and Lessons Learned" and is in general agreement with the recommendations identified in the report. The following are the Administration's response to each recommendation.

BACKGROUND

The Audit identifies how the City's elimination of budgeted positions and layoffs has impacted the organization over the past decade as a result of budget shortfalls. Specifically, the audit addresses the following issues:

- Many City employees are in broad job classifications that are used by many departments and layoffs, bumping and reinstatements are not limited to particular departments;
- Bumping and reinstatements can result in "poor matches" in new positions and may not provide flexibility when positions need to be filled again;
- The City faces continuing workforce challenges in employee turnover;
- The Human Resources Department lacks resources in training and employment.

Many of the recommendations require direction from the City Council and meeting and conferring with the City's bargaining units.

RECOMMENDATIONS AND RESPONSE

Recommendation #1: We recommend eliminating bumping from the City's civil service rules as it is not cohesive with the City's modernized broadband classification structure nor with the complex and specialized work that many City employees do. If elimination is not possible, we recommend: limiting bumping to intradepartmental bumping only, limiting the number of people who can bump into a given position over a given time period, limiting the number of bumps and reinstatements into a given work unit over a given time period, and/or lowering the threshold for meeting position exemption requirements.

Administration Response: The Administration agrees with this recommendation. The City's Civil Service Rules and seniority-based layoff and bumping process has existed for decades. An

underlying premise of the current system is that employees in the same classification can be moved to a different position in the same classification and can adequately perform the duties. However, the system has not yet evolved to adapt to the modernized broadband classification structure nor the complex and specialized work performed by our 21st century workforce. The bumping process has been disruptive and impacts the effective delivery of City services, particularly in an era of reduced staffing. Unfortunately, the impact of position reductions over the last ten years has created challenges for the organization when employees are placed in positions where they may not have the best skill set to be successful. Implementation of the recommended changes to the Civil Service rules will be subject to the meet and confer process.

Recommendation #2: Modify the reinstatement process to

- (a) Allow departments to choose the most qualified candidate on the City reinstatement lists when such lists are in effect, regardless of seniority.**
- (b) Develop an exemption process for managers who have compelling cases for not filling critical positions from reinstatement lists.**
- (c) Allow employees to waive reinstatement for a certain time period or a certain number of opportunities.**

Administration Response: The Administration is in agreement with the recommendation to modify Civil Service rules regarding reinstatement. Allowing departments to choose the most qualified candidate on the reinstatement lists, when such lists are in effect, would create the flexibility for hiring managers to select the best qualified candidates to fill positions. Developing an exemption process for managers who have compelling cases for not filling critical positions from reinstatement lists would result in a good job match with employee backgrounds and career goals. Additionally, allowing employees to waive reinstatement for a certain period or a certain number of opportunities would create flexibility as part of the reinstatement process. Implementation of the recommended changes to the Civil Service rules will be subject to the meet and confer process.

Recommendation #3: Pursue changes to the layoff, bumping and reinstatement rules that subordinate seniority and factor in applicable job skills, recent job performance and disciplinary records.

Administration Response: The Administration is in agreement with this recommendation. Implementation of the recommended changes to the Civil Service rules will be subject to the meet and confer process.

Recommendation #4: Where possible, Human Resources should update job classification specifications to reduce barriers to entry such as previous work experience, starting with open positions.

Administration Response: The Administration is in general agreement that there is a need to review and update classification specifications. Unfortunately, adequate resources have not been available in the Department of Human Resources to keep the City's classification system current, and most class specifications have not been updated in many years. However, the City has a standard policy of open recruitment for all positions from entry-level to senior management, professional, and technical positions. Requirements for prior work experience in filling mid to senior level positions are important in identifying qualified candidates who can continue to provide consistent service delivery. Where possible, the Human Resources

Department has sought to reduce barriers such as eliminating requiring prior City experience that would limit qualified external applicants. Through the annual budget process, the Administration will look for opportunities to add and/or redirect existing resources to ensure the Human Resources Department can modernize job specifications.

Recommendation #5: To address existing vacancies and future hiring and training needs, the City Manager should consider adding resources to the Human Resources Department.

Administration Response: The Administration is in agreement with the recommendation that resources should be added to the Human Resources Department, along with other important Strategic Support Departments. Unfortunately, departments in the Strategic Support City Service Area (CSA), including Human Resources, have taken significant staffing cuts over the last ten years of budget shortfalls. As the City's fiscal situation improves and the demand for hiring increases, meeting needs with existing resources is proving to be challenging. Through the annual budget process, the Administration will look for opportunities to add and/or redirect existing resources to ensure the Human Resources Department can provide support at the level needed to meet the organization's needs.

Recommendation #6: To know why employees leave and what could motivate them to stay, we recommend Human Resources should:

- (a) Conduct annual or biennial employee surveys that provide the data necessary to understand what motivates City employees to stay or leave and develop action plans for questions that arise from survey results.**
- (b) Finish the process for developing exit surveys and begin conducting them for all employees leaving City Service.**
- (c) Use the information obtained in employee surveys, exit surveys and other sources to shape recruitment and retention policies as well as training and development programs.**

Administration Response: The Administration is in agreement that surveying current employees is an important tool in understanding the factors that contribute to employees' job satisfaction and is committed to continuing the practice of biennial employee surveys. The survey process is under review to determine the most efficient and cost-effective methodology and to ensure that the design is appropriate to capture meaningful information. While exit surveys and interviews are currently conducted by City departments, the data has not been centralized. The Human Resources Department is exploring cost-effective methods to conduct exit surveys and capture information centrally so that information can be tracked and analyzed.

Recommendation #7: We recommend that the Human Resources department dedicate staff time to ongoing human resources analytics. This will allow the City to better manage its human capital.

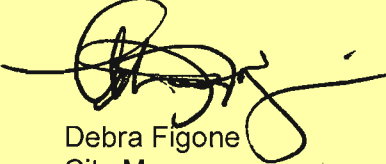
Administration Response: The Administration is in agreement with the need for additional staff resources to perform human resources analytics. Unfortunately, it has been a challenge to dedicate resources to this specific function while also meeting the demand for basic HR services. Through the annual Budget process, the Administration will look for opportunities to add and/or redirect resources in the Human Resources Department.

CONCLUSION

Unfortunately, because of the City's fiscal situation, the City Council has had to make the painful decisions to reduce our workforce from a high of 7,453 to approximately 5,400 today. Losing 2,000 jobs, approximately 1,600 in the last three years, has had a profound impact on our organization and our ability to deliver services to our community. As the Audit identifies, the existing civil service rules related to layoffs, bumping, and reinstatement has exacerbated the challenges of providing services with significantly reduced staffing.

This Audit makes valuable recommendations for addressing the impact of staffing reductions on service delivery and for ensuring that our Human Resources Department has the capacity to meet our organization's needs. The Administration will seek direction from City Council regarding the recommendations that require negotiations with the City's bargaining units.

The City Manager's Office thanks the City Auditor's Office for its informative review of the impacts of the City's staffing reductions.



Debra Figone
City Manager

For additional information on this report, contact Alex Gurza, Deputy City Manager, at 535-8155.