



Memorandum

TO: MAYOR LICCARDO

FROM: Councilmember Johnny Khamis

SUBJECT: BUDGET DOCUMENT

DATE: May 24, 2017

Approved

Date

5/24/17

RECOMMENDATION

Allow vendors who operate, program, and maintain City-owned recreational facilities to pay their employees market-rate wages and be exempt from the City's wage provisions, freeing up \$600,000 or more from the General Fund to be utilized for park maintenance.

Proposal

Program/Project Title: Reduce Golf Course Subsidies and Increase Park Maintenance Funding

Amount of City Funding Required: Net zero impact

Fund Type (i.e. General Fund, C&C funds, etc.): General Fund

This change is:

One-time Ongoing

Proposal Description, including anticipated outcomes (describe how change would affect services for San José residents, businesses, community groups, etc.):

For almost a decade, the City of San José has been struggling financially. Layoffs and budget cuts have left all departments considerably understaffed. Our remaining staff has adapted, modified, changed, and worked creatively in order to "do more with less." PRNS self-implemented Business Intelligence in an effort to help their employees to be as efficient as possible. At the same time, the long drought and resulting water rationing caused unforeseen problems in our parks. For example, the removal of turf in less-utilized areas has turned large portions of parks into menacing weed beds. Areas that were once easily maintained by driving a mower over them are now filled with weeds that are much more labor-intensive to remove. This combination of reduced staff and increased maintenance demands has caused our parks to fall below acceptable condition levels.

In a memo dated February 24, 2017, Councilmembers Rocha and Jimenez asked staff to find an additional \$3.5 million in this budget cycle that could be allocated to park maintenance and bring all parks up to the minimum condition level of 3.5 out of 5, on a 5-point scale. In the two short months they've had to develop ideas, in the midst of a busy budget process, City Staff has identified \$860,000 that they feel could potentially be shifted to park maintenance (per MBA #13) and PRNS has found some new ways to work with ESD that will improve efficiencies and better utilize funds. My proposal will help fill the maintenance gap recognized by my colleagues in their memo, and, given more time, Staff will undoubtedly come up with additional creative ways to generate savings and produce better outcomes for less money.

Budget constraints are forecasted to last for many more years, with double-digit deficits projected through 2022 and beyond. We must consider what more we can do to best benefit the public we serve, by preserving our assets, maximizing revenue generation, and providing more jobs.

Analysis:

In September 2015, the City Auditor published the report titled "Golf Courses: Loss of Customers and Revenues Requires A New Strategy." The audit confirmed that current Council policy on wages was costing the vendor an additional expense of \$370,000 per year at Los Lagos and that the same policy was in place at Rancho del Pueblo. At that time, both Rancho del Pueblo and Los Lagos each required General Fund subsidies of about \$300,000 per year – an amount that has grown since that report was issued. Allowing the vendor to pay market-rate wages could eliminate an estimated \$600,000 per year in General Fund expense, and potentially transform those facilities into revenue-generating assets. The General Fund savings can then be re-purposed to help achieve the goal of finding the additional monies sought by Councilmembers Rocha and Jimenez.

Unintended Consequences - Current requirement dissuades vendors and burdens staff:

According to the audit report, prevailing and living wages are not common in the golf industry. Arguably, they are not common in recreational facilities operations in general. Vendors will only respond to an RFP if they have a high degree of certainty and predictability in the risks and economic exposures they are assuming in their relationship with the City. The City's ability to increase the wages of vendor employees, and thus increase their operating costs, greatly reduces their certainty that their business will remain viable. As a result, the wage provision requirement is dissuading vendors from responding to our RFPs. For example, in August 2014, the City completed a Request for Proposals (RFP), Operation and Maintenance of the Proposed Citywide Softball Facility, to source an outside operator for the new softball complex. Twenty one in-state vendors were contacted to solicit interest. However, only one vendor submitted a proposal. According to the 2014-15 Status Report on the Parks and Recreation Bond Projects, dated November 16, 2015, the only responsive vendor requested a waiver of prevailing wages in their response.

In the 2017-18 Proposed Fees and Charges report, PRNS mentioned they are looking for one or two vendors to take over operations of the two aquatics programs that are currently run by City staff. Their search has proven unsuccessful as vendors are not bidding. The aquatics market is hot right now. Allowing vendors to pay market-rate wages would level the playing field and give us a fighting chance to attract potential vendors.

Of the eighteen services listed on the wage provision policy, only recreational facilities vendors provide services to the marketplace and are significantly affected by customer whims and demands. The other service providers on the list have the City as the primary customer, or are providing a service such as street sweeping or parking garage management that are not subject to competition and the market economy, in the same way that recreational facility operators are. Continuing to impose the City's wage provision

requirements on these vendors will continue to deter them from responding to our RFPs, and continue to burden PRNS staff and the General Fund.

Not reaching our stated goals:

The collective goals of the current policy are to: protect City jobs; provide superior quality of services; decrease poverty and the use of social services; and increase competition. While it is debatable whether these goals are generally being met under the current policy, it is clear that they are not being met when it comes to recreational facilities vendors.

Providing Jobs:

A critical Council goal is to increase jobs in San José. Staff and Council have been creative and flexible in efforts to attract business, yet our daytime population remains much lower than our nighttime population.

According to the Audit report discussed earlier, it is safe to say that allowing for market-rate wages would bring both golf courses closer to break-even. The \$600,000 in golf course savings alone could provide funding for eight to ten more gardeners. The projected subsidy in the Proposed 2017-18 Operating Budget is \$1.1M for both golf courses, which translates into fifteen to eighteen more gardener jobs. If other sports facilities vendors are operating at similar losses and requiring subsidies from the General Fund, we could be providing even more jobs for our residents.

We must also remember that employees of these vendors did not suffer through the ten percent pay cuts that City employees endured. In addition, market-rate wages will put them on equal footing with their peers at other properties managed by their employer. So while it may be a bit of a difficult transition for a few, they will, at the same time, have the opportunity to apply for the newly-available jobs offered by the City.

Other Goals:

For recreational facilities vendors, the current policy is contributing to a reduced quality of service. Both Los Lagos and Rancho del Pueblo are suffering from the same inadequate level of maintenance that all our other parks are facing. To address the issue of poverty, within the last two years Council has voted to increase the minimum wage, and to accelerate a higher minimum wage to \$15 per hour, and market-based wages for gardeners *already* exceed \$15 per hour. As for the hope of increased competition, with no bidders on our RFPs, it is clear that the current policy has had the opposite effect and has instead eliminated competition. It may also put small businesses at a disadvantage, further discouraging them from participating in the RFP process.

Conclusion:

Previous Councils chose, at their own discretion, to extend the wage policy beyond what State regulations require. This is another hold-over from the dot-com days when we were flush with money and never imagined the boom would end. But it did end, and so must our policy of keeping wages for a select few jobs artificially inflated at the expense of adequate staffing and adequate park maintenance. The Living Wage policy, however well-intended, has cost taxpayers millions of dollars, dissuaded vendors from responding to RFPs, limited job opportunities, put an undue burden on City staff providing services with fewer people, and contributed to the deterioration of our parks.

It is our duty to make decisions that best benefit the public. Allowing recreational facilities vendors to be exempt from the City's wage provision policy will provide the best benefit to the public and enable Staff and Council to be better stewards of our assets and revenues.

Funding Source

Essential Services Reserve (\$2 million)

Other (Program/Project/Fund): General Fund golf course subsidies <\$600,000>; Net effect to the General Fund is \$0; Savings to be allocated to park maintenance.

Department or Organization: City Auditor

Department or Organization Contact (list contact information for the individual that certified cost estimates contained within your recommendation):

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