



Policy and Services Committee MINUTES

Special Meeting
Tuesday, December 11, 2012

Chairperson Holman called the meeting to order at 6:17 P.M. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Holman (Chair), Espinosa, Klein, Schmid

Absent:

AGENDA ITEMS

1. Options for Revising the Boards and Commissions Application and Recruitment Process.

Ronna Gonsalves, Deputy City Clerk, the item was brought before the Policy & Services Committee (Committee) because the current process is inefficient and inconsistent. Staff requests an open dialogue and suggestions from the Committee on improvements to the process. The three key areas of impact consist of 1) generic applications; offering minimal customization per Commission, 2) outreach to potential applicants; surrounding cities have supplied input on their processes which included direct mailings, public events, and social media, and 3) the actual recruiting process occurs multiple times per year and could be more efficient with an annual recruitment. There would be exceptions if there were resignation received in the middle of the season.

Council Member Espinosa believed a coordinated recruitment was a positive step towards efficiency; however the resignations caused an issue. He did not wish to have a vacancy left open until the annual recruitment process. A critical solution would be the community fairs or open house scenario with the current Board and Commission members meeting the public. With the rebuilding of the website there were possibilities that could be developed into outreach to the community. The goal would be to create a well visible site with links on the main page to open recruitment any time of the year, 24 hours a day. The Art Center sends a newsletter to the art community and put a plug in for how to be notified if there was an interest in serving.

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Ms. Gonsalves reaching out electronically seems like a viable concept and the creation of an ongoing database would be simplified.

Council Member Klein asked what Staff had intended to improve the process.

Ms. Gonsalves desired a more efficient use of Council's time, Staff time and shortening the outreach to the public.

Council Member Klein agreed.

Ms. Gonsalves said her thought process was not to reduce the process but rather to increase the efficiencies in order to lessen the length the process takes to complete the steps.

Council Member Klein asked what Staff was requesting of the Committee.

Ms. Gonsalves stated to change the Municipal Code and recruit once a year.

Donna Grider, City Clerk, suggested Council form a Recruitment Committee to review the applicants and bring recommendations to Council.

Ms. Gonsalves noted a number of cities recruit in that manner.

Council Member Klein said he could not support an annual recruitment process.

Ms. Gonsalves mentioned there were a number of resignations received throughout the year which would precipitate special recruitment sessions. In general the recruitments were pre-determined expired terms.

Council Member Klein recommended scheduling a Study Session utilizing the comments and recommendation from the Committee to complete a Staff Report with specific recommendations. He agreed with the idea of a fair, somewhere in the middle of the year. Having the community be able to attend and hear a number of the Commissioners speak on behalf of their experience might encourage others to apply in the future. Each Board or Commission associate with organizations and those organizations should be added to the list of who to contact for recruiting assistance. He asked the number of applicants received in response to the newspaper advertisements.

Council Member Espinosa stated it was 29 out of 273.

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Council Member Klein stated that was less than a ten percent turnout. He asked for the average advertisement cost.

Ms. Grider said around \$300-400 per ad and with recruiting up to several times a month the cost has become wide-ranging. She believed requesting Ms. Gonsalves to attend the Board and Commission meetings to speak on behalf on the vacancies would be beneficial.

Council Member Klein suggested the community fair and recommended attendance by the members of the Boards and Commission members. He recalled Ms. Gonsalves mentioning some cities require their attendance at the outreach events.

Ms. Gonsalves said yes, it was part of their job description.

Council Member Klein suggested advertising a banner ad on Palo Alto Online rather than in the Palo Alto Weekly.

Ms. Gonsalves explained the cost would be a lot less.

Ms. Grider believed the basic paper ad was outdated in the age of electronics. The recruitment notifications should be eye catching and substantial.

Ms. Gonsalves noted the cost for advertising during 2011 was \$3,520. The best results received and the most response was an ad placed in the paper by the paper. The City did not request or pay for it.

Ms. Grider stated it was not the Palo Alto Weekly.

Ms. Gonsalves mentioned she had previously requested that type of ad be placed in the newspaper with no response. The response on that one ad was approximately 12 applicants.

Council Member Klein stated his issue with an annual recruitment was the overload of interviews for Council.

Ms. Gonsalves understood.

Council Member Klein could not recall an incident since 2006 where the Council did not interview all of the applicants. He understood the sensitivity

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of applicants not being selected for an interview; although, selecting to interview those with adequate qualifications would shorten the process time.

Ms. Gonsalves asked how the Committee felt about a subcommittee to review the applicants and recommend to Council those to be interviewed.

Council Member Klein did not support a subcommittee.

Ms. Gonsalves mentioned it was a function of some cities and she did not want to leave out possible options to be considered.

Council Member Klein asked when Staff would be returning for further discussion.

Ms. Gonsalves stated she could return in the March 2013 timeframe.

Council Member Schmid thought the positions held by the Boards and Commissions were an important part of the City government. The recruitment process should engender enthusiasm in the applicants. He supported the concept of a community fair or open house where the citizens meet and hear from the current Commissioners. Applicants should be advised what each Board or Commission required, what was expected of them and their time. He supported a biannual recruitment process.

Council Member Espinosa asked what the online application experience was for applicants.

Ms. Gonsalves stated the applications had been redesigned for online accessibility with fillable information and a submit button. The issue with the online application was the City requires a wet signature, so the applicant still needed to print and sign their application. Staff would agree to IT assistance with implementing a full electronic digital signature application process.

Council Member Espinosa believed close to 70 percent of all Board and Commission applications required the same information so an electronic process should be fairly simple. Once the applicant reached the bottom of the application where the Board or Commission was specific there could be a "Click Here" button to select the desired opportunity. The continued application would include the next five questions that were specific to the Commission.

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Council Member Klein asked if Staff required Council authority to make the suggested changes; fully electronic applications.

Ms. Gonsalves said Staff would verify the process with the City Attorney.

Ms. Grider stated the online application process would be a recommendation of the Staff Report upon returning to the Committee. She suggested working directly with the Commissions to select appropriate questions for prospective applicants.

Chair Holman mentioned the IT Staff needed to be involved.

Ms. Grider agreed and noted the Staff Liaisons would be of great assistance as well. She understood they had heavy workloads; although, during recruitment periods it would be beneficial to have a commitment.

Chair Holman supported a biannual recruitment period and the community fair. She noted there need to be a better manner of advertising to notify the entire community of the volunteer opportunities.

Ms. Gonsalves agreed.

Chair Holman stated the current application and the Municipal Code do not adequately describe what a commissioner does.

Ms. Gonsalves agreed and mentioned there was no link tying the application to the Municipal Code.

Chair Holman understood and suggested Staff reconciles the matter.

Ms. Gonsalves said during her research had found a number of cities reflected a solid description of the expectations and the purview the Commission had.

Chair Holman agreed the applications should be tailed to the expertise of the Board or Commission and a reference to the specific documentation each Board or Commission utilized in deliberations. She recommended the community fair have visual aids to available documentation of the past accomplishments available to show interested parties the importance of the commissioner. Council spends precious interview time asking questions they could have learned through provisions of examples in the application.

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Ms. Gonsalves agreed and would take the suggestions into account if the community fair comes to fruition.

Council Member Schmid said in October of 2012 the Council directed Staff to supply additional information on the Library Advisory Commission (LAC) and to move forward with their recruitment.

Ms. Gonsalves noted Staff was currently holding the recruitment.

Council Member Schmid asked how Staff intended to respond to the Council questions regarding the LAC.

Ms. Grider said the Library Director submitted an informational report to Council but if Council desires Staff will recruit again. She mentioned there were Council questions regarding the size of the LAC so she was not certain about re-recruiting before a conclusion.

Council Member Schmid understood.

Ms. Grider was concerned with recruiting a second time for the same Commission because she felt there was a lack of turn-around. The cost for the paper ad did not provide sufficient applicants.

Council Member Schmid believed the Council Motion was for Staff to advise them on forward motion with respect to the LAC. He asked if Staff had advice readily available.

Ms. Grider advised there were times when it was best to leave a vacancy. She did not feel it was within her purview to determine the number of seated commissioners.

Council Member Schmid was asking of the viability of the LAC.

Ms. Grider felt that was a policy question.

Council Member Schmid suggested making a recommendation to Council to direct the Policy & Services Committee to respond to the Staff on the recruitment practices. Council had an obligation to the LAC and the vacancy was now two months old.

Council Member Espinosa mentioned that item was not on the agenda.

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Chair Holman agreed the agenda did not allow for such a Motion although it could be presented in the comments of discussion.

Ms. Grider believed the Committee could direct Staff to return with the item on the agenda.

Council Member Klein felt the item should be directly on the Council agenda.

Ms. Grider agreed the original direction came from the City Council.

Council Member Klein said Council could refer the decision to the Policy & Services Committee but the choice should be theirs.

Ms. Grider stated according to the Council's original Motion; direct Staff to recruit for additional applications for the Library Advisory Commission, before starting the recruitment, to request Staff to advise Council on the viability of the Library Advisory Commission given the reduction in applicants, and the number of resignations prior to the completion of their terms. She recommended a brief cover letter with the Council's direction.

Chair Holman agreed.

Council Member Espinosa mentioned the idea of using video to educate the community was how you could use video to educate people moving forward.

Ms. Grider said there were video and written testimonials from current and previous Board and Commission members on the website.

Ms. Gonsalves said there were 3 or 4 completed; although, they were not interactive they were reasonably successful.

Sheila Tucker, Assistant to the City Manager, stated Boards and Commission members themselves can be very good resources in identifying individuals that share the same passion, concern, and interest.

Council Member Klein was concerned with not being able to complete the remainder of the agenda.

Chair Holman said Staff was available for both items and suggested changing the order to accommodate certain needs.

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James Keene, City Manager, asked whether the Committee felt they would require the remainder of the time for a single item.

Chair Holman felt Agenda Item Number 3 would not require ample time.

Mr. Keene asked if Agenda Item Number 2 was time sensitive. The recommendation was based on a Human Resources request and was more for a Committee understanding of the details.

Chair Holman did not believe Agenda Item number 2 was time sensitive nor did changing the order require a Motion.

Council Member Klein disagree, any change to the agenda required a Motion.

MOTION: Council Member Espinosa moved, seconded by Council Member Klein to move Agenda Item No. 3 before Agenda Item No. 2.

MOTION PASSED: 4-0

3. Recommendations for 2013 Council Priority Setting Process.

Sheila Tucker, Assistant to the City Manager, noted the Council had approved new priority setting guidelines in October 2012. Being consistent with the guidelines the City Manager's office sought input from Council Members prior to the December 2012 Policy & Services Committee (Committee) meeting. The City Clerk Staff requested input from the community on what should be considered for the 2013 priorities. The Staff Report was reflective of the comments received from the Council and the community. Staff requested the Policy & Services Committee (Committee) provide suggestions on the process the Council will use during the annual retreat in identifying the priorities for 2013.

James Keene, City Manager, noted the new process for identifying priorities for the retreat was working, with on time submittals from the Council well in advance of the retreat and the invitation to the public was sent out. The extent of the Council directive beyond what was mentioned by Ms. Tucker was for the Committee not to make decisions regarding the draft priorities submitted by the Council Members but to make recommendations to the City Council about the process that would be used to identify priorities at the retreat. Based on the Council direction the objective was to be as prepared as possible at the onset of the retreat to establish the priorities with as much clarity regarding the design, necessary steps, and the tasks. After a poll

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from the City Clerk's Office the tentative target date for the retreat was February 2, 2013. He believed there were two directions possible for the retreat; there were a minimum of three priorities which met the criteria established by the new process, definitions about the priorities that create a timeframe and were somewhat distinctive. Infrastructure in and of itself is a general topic the City dealt with on an annual basis. The goal would be to sharpen it to make it applicable to fit into one of the 1 to 3 year timeframe previously established. The second way to view the retreat was to consider expanding the retreat; establish the priorities and then move on to the question of how they were nested within the guiding principles set by the Council.

Council Member Klein asked if Guiding Principles was the same as Core Values.

Mr. Keene stated that was correct. He noted Environmental Sustainability was a Core Value of the City but if it was not on the priority list there needed to be a way to speak to the public that the issue had not disappeared. The third issue was a desire by the Council to have strategy sessions over the course of the year that dealt with bigger strategic issues. The question might be whether there was a connection between the priorities the Council identified and linkage to some larger strategic conversations that would also need to occur after the retreat. It appeared as though there may be a great deal to discuss in a single retreat but the goal would be to, at minimum; identify a process to work through the issues.

Council Member Schmid said the goal would be to talk about the process in order to be effective during the time allotted. It would be helpful to have nominated priorities, so they can be grouped together to determine the number of similar items. Once the nominated items were grouped there was a clear the downtown parking traffic was number one, infrastructure was close behind, walkable communal vibrant commercial areas was third, and tied for fourth would be technology and healthy communities. He believed the first hour of the retreat should be dedicated to defining the clusters and see how each of the nominated priorities fits in the Core Values. He believed a positive process would be for each Council Member to begin with two minutes to speak to each of their nominations but in a cluster of the Core Value. Within the two minutes they would be able to define why the item fit into the cluster and what the cluster might be named. The goal would be to have at least seven Members in agreement. At the end of the hour, if anyone wanted to change their vote, then they could take the top 4 or 5. The second hour could be used to define the groups and determining the goals, actions, and achievements of the clusters.

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Mr. Keene considered gathering a survey of ideas and possibly melding them together for a sense of what it would take to accomplish them.

Council Member Klein agreed in the general approach by Council Member Schmid. He calculated the majority of votes for the proposed ideas were infrastructure, downtown, and technology as the 3 main notions. He believed the Council could reach a consensus within 2 hours. His main goal from the new process was to be able to walk in to the Retreat prepared. A permanent item on the retreat Agenda has been the procedures. The item rarely took more than a few minutes; he hoped to expand on the topic and begin making changes. There needed to be a discussion of how to improve the efficiencies of the meetings and a discussion of Core Values. He asked if there was a mission statement.

Mr. Keene stated there was a mission statement although it was not utilized.

Council Member Klein felt the suggested Core Values from Council Member Burt; financial sustainability, environmental sustainability, emergency preparation, and youth wellbeing. He believed the matter deserved discussion. He suggested the establishment of a 2 member committee to work with City Manager's Office initiate the grouping of nominated priorities into categories. There would be a chart listing the major categories with the Council Member initials next to their ideas.

MOTION: Council Member Klein moved, seconded by Council Member Espinosa to recommend the City Council: A) establish a two member committee consisting of Council Members Klein and Schmid to work with the City Manager's office to group the Council Priority suggestions into categories for use at the Retreat, including information on items potentially actionable in 2013 in each category; B) during the first hour of the retreat each Council Member would have a chance to talk for six minutes advocating and clarifying his or her priorities and placing any of them in a different category if he/she so chooses, at the end of the hour Council Members would be free to change or delete any of their priorities; and C) during the second hour Council Members would work to refine each of the remaining categories and identify those specific actions that could be accomplished during the current year. At the end of the hour there would be a rank order voting with a goal to narrow to three priorities for 2013.

Council Member Espinosa appreciated the concept of narrowing the categories and grouping the priorities into more efficient subject matters. He asked what the process would be to achieve the three Council priorities.

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Mr. Keene agreed in prior years the Council would identify priorities which left Staff to identify how those priorities were expressed. The proposed process provided a great deal of focus, especially if there were three priorities. There should be an open forum for Council to express why they nominated their specific priority and why it was important to accomplish now. The infrastructure and bond measure items stood out because it had three components to it; timeframe, output, and a measure of success. The City needed a bond measure by 2014, which provided a date for the timeline and the measure of success would be determined by the voters.

Chair Holman had mixed feelings about a 2 member committee to create the clusters. She recalled a discussion of Council not prioritizing or judging the items; guidance on creating clusters could be construed as doing both. She questioned how other colleagues would perceive the 2 member selections. The Policy & Services Committee could provide guidance on how to create the clusters from the 27 nominations of Council and the public's.

Council Member Klein noted the Council was free to say no to the public's nominations.

Chair Holman understood but felt there should be consideration given to the ones provided by the public.

Council Member Klein clarified the Council appreciated having input from the public but if there were 100 submissions there would not be a workable discussion.

Chair Holman stated the Council Members had received public suggestions for review. She asked why their suggestions would not be included in the clusters if they fit.

Council Member Schmid clarified the goal of the present meeting was to make a recommendation to Council for the process.

Chair Holman understood but felt the advancement of the Council for the retreat did not exclude the comments from the public.

Molly Stump, City Attorney, believed the intent of the Motion was to take another organizing step to initiate the conversation of clustering.

Council Member Klein noted the line he was missing was 1d "the Clerk will provide time and notice for the public to submit proposed priorities by

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December 1st, the Policy & Services Committee shall recommend to the Council which suggestions if any should be considered at the City Council Retreat."

Council Member Espinosa suggested two steps of process to assist in identifying priorities. The first would be categorizing by main topics; infrastructure, parking, downtown, and technology. Ideally other subsections would be grouped into the main topics. The categorization was not as difficult as the exercise of identifying actionable items during the year. The second step in terms of process would occur during the meeting between the Policy and Services Committee and the City Manager's office to determine how the three actual priorities would be selected and accomplished. He did not feel the clustering was as important as the procedure of achieving the selected items.

Council Member Schmid suggested amending the Motion to include a 3 step process; A) to establish a two member committee, B) the first hour of the retreat would be spent with every person who nominated a proposed priority to define the group they should be in, speak to the priority and move it into the category they felt it belonged, there would be a chance to change their vote at end of the hour, C) the second hour would be open discussion to drill down to the level of why that item and what could be done to accomplish it, what type of action steps would it take to achieve the goals or targets and have them listed under the groupings. Then they could rank the voting after the end of the second hour.

AMENDMENT: Council Member Schmid moved to create three process steps A) to establish 2 member committee, B) first hour of the meeting would be spent with every person who has a nominated group to define the group speak to it and move it wherever they want, everyone would have a chance to change vote at end of that hour, C) second hour open discussion get down to level of why and what can be done, type of action steps to achieve goals or targets and have them listed under the groupings. Lastly, they would rank the voting

AMENDMENT FAILED DUE TO LACK OF SECOND

Council Member Klein agreed to the concept but requested the wording be adjusted. The first sentence should read; To group the Council priorities suggestions into categories for use at the retreat.

Council Member Schmid the second sentence would read; During the first hour of the retreat each Council Member would have an opportunity to speak

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for two-minutes on each of their nominated priority clarifying the definition and pacing it in the grouping they believed appropriate.

Council Member Klein asked for Council Member Espinosa's thought on the implementation of the various categories.

Council Member Espinosa stated between the first and second sentence would read; Council Members' would work with the City Manager to group the City Council priority suggestions into categories at the retreat; including information on actionable items the City anticipates in the groupings in the upcoming year. Some wording that captures the work. The items Council listed should be clear but there could be a section that the City had identified as project within the categories throughout the year.

Council Member Klein suggested the sentence read; Council Members' would work with the City Manager to group the City Council priority suggestions into categories at the retreat; including items potentially actionable in each category in the 2013 year.

Council Member Schmid maintained the importance of the timeframes. He recommended placing an A) under the first priority to establish a two person committee.

Council Member Klein asked for clarification on whether each Council Member would have two minutes to speak or six minutes.

Council Member Schmid stated B) would read Each Council Member would have a total of six minutes therefore providing them with two minutes to speak for each item. The third line should read defining his or her priorities. At the end of the hour Council Members would be free to change any of their priorities and move them under the most appropriate grouping.

Council Member Klein suggested the last sentence be changed to read; At the end of the hour Council Members would be free to change or delete their priorities and move them under the most appropriate grouping.

Council Member Schmid provided C) would read; During the second hour Council Members would work to re-define each of the remaining categories and to identify those specific actions that could be accomplished during the current year. At the end of the second hour there would be a ranked voting to select the top three priorities.

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Chair Holman noted the guidelines outlined a goal of three priorities. She asked if the last line of section C) could read with a goal of achieving or reducing to three because the priorities were not limited to three.

Council Member Espinosa suggested a ranked order with a goal of narrowing to three.

Chair Holman recommended changing the second line of C) would read; During the second hour Council Members would work to re-define she believed the verbiage should be to refine not re-define.

Council Member Klein agreed refine was a better term.

Council Member Schmid agreed to change the word from re-define to refine.

Council Member Espinosa noted the last line of C) should read; A ranked ordering, with a goal of narrowing to three.

Council Member Schmid mentioned adding voting to the sentence: A ranked order of voting, with a goal narrowing to three.

SUBSTITUTE MOTION: Chair Klein moved, seconded by Council Member Schmid to create three process steps A) under the first priority to establish a two person committee, B) Each Council Member would have a total of six minutes therefore providing them with two minutes to speak for each item, defining his or her priorities. At the end of the hour Council Members would be free to change any of their priorities and move them under the most appropriate grouping, C) Council Members' would work with the City Manager to group the City Council priority suggestions into categories at the retreat; including information on actionable items the City anticipates in the groupings in the upcoming year, and D) During the second hour Council Members would work to re-define each of the remaining categories and to identify those specific actions that could be accomplished during the current year. At the end of the second hour there would be a ranked ordering, with a goal of narrowing to three.

Mr. Keene asked for clarification under section B). The discussion was priorities in categories. The first effort of grouping was to cluster them in association with a pattern; some of the categories appeared to be clearer than others.

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Council Member Schmid clarified the goal of the first hour was to refine that specific item within those two minutes. The other Council Members would have the opportunity to agree and change their thoughts or disagree and make a suggestion.

Mr. Keene was clear on the timeline but was concerned there may be confusion on the separation of the category versus the priority themselves.

Council Member Schmid stated the category would be the definition of the priority.

Chair Holman believed the term category was not as clear as the term cluster. A cluster was seen as holding items within it opposed to a category which was a heading.

Mr. Keene clarified at the present time there were nine Council Members with three priorities each totaling 27 items. There would be 27 clusters or categories with any number of similar items. If there were a number of the same items that would in and of itself be a selected priority for discussion. The question was would that priority now disappear and become the cluster so Council would vote on the cluster.

Council Member Schmid stated yes.

Mr. Keene stated as long as that was clear than the option was to organize the priorities and combine different priorities into clusters.

Chair Holman noted the Council was not going to edit others priorities.

Council Member Klein the cluster would be a heading; Infrastructure, under the heading various suggestions would be listed by Council Members. The term cluster and category were the same to him.

Chair Holman noted the difference between cluster and category was how the items within a cluster or under a category were visually organized.

Mr. Keene understood the grouping aspect but was concerned when it came to voting, were they voting for a cluster or a priority.

Council Member Schmid stated the answer was in the second hour or C) in the Motion. The second hour was to refine a rich name for each cluster of priorities within the cluster.

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Council Member Espinosa attempted to clarify the exercise of looking at the categories that were sectioned out, list the 27 proposed priorities under one of the categories. The question was at the retreat were Council going to be voting on selecting their proposed priorities under the category as actual actionable items that could occur during the year or on the cluster of items under the category.

Council Member Klein said the second hour would be to define what was meant by infrastructure or technology. Using the term technology the efforts would be made to come up with A) a general plan for technology, and B) explore in-depth fiber to the premise, C) institute a 3-1-1 system. He noted implementations were not limited to three.

Council Member Schmid agreed with the scenario and mentioned it was possible a Council Member could add another subject. At the end of the discussion prior to the vote there would be four or five concrete examples of what the item was describing.

Mr. Keene clarified if technology was selected as a priority, underneath that title the actionable items would be listed. The actionable steps were not limited. He asked for clarity on a proposed priority as public/private partnerships. If that specific title did not fit under a selected priority cluster did it become its own.

Chair Holman agreed with the concern. Her thought was to take the 27 proposed priorities and place them inside a cluster that best describes the item. She believed placing them under specific titles there could be re pre-judgment limiting the factors. The Council as a whole should refine the heading of the grouping once all of the information had been placed in the grouping.

Council Member Espinosa said the clusters the 27 priorities would be placed into were for refinement, if they did not have heading how would Council Members know which priority to place in it.

Mr. Keene described the situation as 27 priorities of which many are similar while some were more outliers than others. The Motion would direct Staff and 2 Council Members would make a best effort to group the 27 priorities. There may be a few that were undecided as to which grouping they fit best in; they would be presented but not grouped. The concept of grouping was forming what a priority could be.

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Chair Holman stated she was mostly in agreement with the description but had issues with the first step of refinement.

Mr. Keene stated under section A) of the Motion would read; We would be working with the Committee and Staff including information on items potentially actionable in 2013 in each category. He asked if the thought process was Staff would attempt to do work in advance of the retreat to identify potentially actionable steps.

Council Member Espinosa clarified the process was through the work Staff performed with the Committee Members there would probably be clusters which would become clear. There may be the beginnings of actionable listings from the information already available from the Council Members.

Council Member Klein recommended rewriting the first sentence to read: During the first hour of the retreat each Council Member would have the opportunity to speak for six minutes. Change the term defining in the second sentence to Advocating or Clarifying his or her priorities and placing any of them in a different category if he or she so chooses.

Chair Holman asked if the first part of the Motion to establish a two-member Council Committee meant the two members would be selected from the Policy & Services Committee.

Council Member Klein felt the two members selected should be himself and Council Member Schmid and included it as part of the Motion to establish a Committee consisting of Council Members Schmid and Klein.

Council Member Schmid felt the Chair should have an option of being on the Committee.

Chair Holman stated she was comfortable with the selected Committee Members.

MOTION PASSED: 4-0

2. Audit of Employee Health Benefits Administration.

Jim Pelletier, City Auditor, provided a presentation on the Audit of Employee Health Benefits Administration. The objective of the audit was to determine whether the Human Resources Department had adequate controls over health benefits to ensure the health premiums and administrative fees were

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calculated and paid accurately for eligible, active, and retired employees. The Human Resources department had requested the assistance of the City Auditor to focus on the reimbursement process related to the health premiums.

Yuki Matsuura, Senior Performance Auditor, explained the City share of premiums for active SEIU and management employees. From April 2011 through to October 6, 2012 the employee paid ten percent of the premium. From October 6, 2012 to the present all active employee groups are paying the ten percent of the premium. Retiree health share costs were dependent upon their health plan and the tier they were in.

Council Member Klein asked if the City could request their Legislatures to carry out legislation to simplify the CalPERS billing/payment system.

James Keene, City Manager, clarified the audit defined the analysis of what the drivers were to issue and how the City could preventatively manage the impacts of the problem. The goal of the audit was to define future assessments on whether adequate systems were in place to grant such a variety of healthcare benefits. He acknowledged the fundamental issue was a CalPERS problem the City was trapped in as a client and there were adaptations necessary. He felt CalPERS had pulled back from previous commitments and were essentially requesting the cities to pay the bill.

Council Member Klein believed the State Legislatures needed to be involved. He asked how much the process was costing the City if they were in fact following the correct process compared to the cost if CalPERS was completing it correctly.

Kathy Shen, Chief People Officer, noted in 2011 CalPERS initiated a new Information Technology system which had a number of issues. Because of those issues CalPERS was only able to administer one type of reimbursement. Since Palo Alto was so aggressive with a number of tiers the thought was CalPERS would be able to administer the process and the City paid them an administration fee. CalPERS passed the administration task back to the City which became a struggle.

Council Member Klein recommended reducing the administrative fee paid to CalPERS until they were able to actually complete the administration. He asked the amount paid to CalPERS.

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Sandra Blanch, Human Resources Assistant Director, stated the fee was a fixed percentage that she did not have at the moment. She would research and provide and answer at a later time.

Council Member Klein said he was interested to see if other states had similar issues.

Ms. Matsuura reviewed the billing plans for retirees. CalPERS removed large sums of money from the retiree checks so the City increased the reimbursement amounts to the retirees to cover their losses.

Mr. Pelletier clarified CalPERS was taking healthcare premiums from retirees checks and then billing the City for their share while the City was providing reimbursement instructions to the outside vendor EBS who was sending the reimbursement checks to the retirees.

Ms. Matsuura noted more than half of the retirees were not recorded in the SAP system and those who were in the system were not actively maintained. There was a lack of reliable Human Resources records of payment. The billing data for active employees were not retained by the department and the analysis was limited to the June 2012 and the October 2012 billings for active employees. CalPERS was unable to provide retroactive transaction data so that portion was removed from the analysis. CalPERS billing, the SAP system, and the outside vendor EBS did not have a common data field to compare reimbursement reports. The first finding was the City had made overpayments of \$12,000 and underpayments of \$4,000 for retiree reimbursements. Retroactive reimbursements were not consistently documented or processed for accuracy or completeness. Based on research of the eligibility criteria for retirees, the information was not clearly defined or documented.

Mr. Keene noted there were 64 errors out of 822 retirees reviewed.

Mr. Pelletier noted the Comprehensive Annual Financial Report (CAFR) note was incorrect in 2011 and was not corrected for 2012.

Ms. Matsuura stated the health tier for each retiree was not accurately maintained by the department and were not applied to the reimbursement calculation. The tier for each retiree was determined based on their hire and retirement dates, the employee group recorded in SAP, and the comparison to the tier document in the SAP report. 150 records out of 822 were coded to an incorrect tier. Two were CalPERS billing and was not adequately

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monitored. There were two duplicate active employees where the City was being billed twice by CalPERS; as of October 2012 the overbilling was \$37,000.

Mr. Pelletier mentioned Human Resources had communicated two duplicate employees to CalPERS. One employee had been repaired but the other remained a duplicate.

Ms. Matsuura stated the CalPERS systems were not always updated when a change in an employee group was recorded in SAP. 85 active employees out of 812 were recorded to a different group. 36 retired employees out of 385 were recorded incorrectly. It was found that CalPERS did not have the correct formula to calculate the employer share; the total error was \$5,500 in a single month. The third finding was the Human Resources Department had not effectively implemented the outside vendor EBS contract and was paying for services the City was not receiving. Payment instructions to EBS were provided without adequate supporting documentation resulting in overpayment of \$2,148.

Mr. Pelletier mentioned the amount was not the concern as much of the risk of potential exposure. There was access to a great deal of City funds without sufficient oversight.

Ms. Matsuura stated the departments were not tracking the cashed checks nor following the proper procedures for stale dated checks.

Council Member Klein asked if the amount of 20 un-cashed checks in 2011 was an unusual amount.

Mr. Pelletier felt it was possibly a usual amount for un-cashed checks. Retirees move around without updating their addresses. The main issue was the City had a policy in place where stale checks were dealt with within a 6-month period and that had not been followed.

Council Member Klein asked the total amount of the 20 un-cashed checks.

Ms. Matsuura said she did not have the exact amount at the present time. This finding also reflected the 1099 tax forms received were not accurate or complete. Inadequate review of the EBS invoices revealed errors previously undetected; the City received a refund of \$2,000. The fourth finding showed 20 employees' files reviewed out of 31 had missing required documentation.

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Council Member Klein asked if there were people with dependents listed that were actually not eligible.

Ms. Matsuura said there were duplicate dependents located but they were not affecting the premium being paid by the City. Finding five showed personally identified information was not adequately protected or controlled.

Ms. Shen requested the audit after becoming aware CalPERS was deducting funds from retirees' and the City needing to reimburse the retirees. In 2012, if a retiree had Blue Shield medical coverage without any dependents, their health premium was \$711.10 monthly. CalPERS had stated they could not do more than credit the City with the minimum contribution which was \$106.40. Therefore, \$604.70 was deducted from the retiree's pension. Depending on the tier the retiree was in, the City would reimburse the retiree for the appropriate amount. The audit showed there were improvements needed and where checks and balances could be put into place. She assured the Policy & Services Committee (Committee) the Human Resources Department was committed to correcting the Auditor's findings.

Mr. Keene felt the audit recommendations did not have an adverse effect on the CalPERS billing and reimbursement systems. The recommendations would have been the same if the CalPERS issues did not exist. He acknowledged the problem for error was exacerbated by the fact the City had to pay. The general assumption was the City had a contract and relationship CalPERS to manage the retiree medical system and the audit proved the City could not rely solely on that assumption. There needed to be a parallel system to manage and be sure CalPERS was managing the items correctly.

Mr. Pelletier said with any contract the City had there was a responsibility to provide oversight.

Mr. Keene said there were 871 employees in the medical plan and each one received a reimbursement check from the City so they could ensure their retirement dollars were made whole because CalPERS deducted funds from their retirement check. That effort required Staff time checking and verifying each one of the 871 reimbursement checks was accurate.

Council Member Espinosa understood the action for the current item was to accept the report; although, he recommended agendaing an action item for the Council to consider what should occur on a broader basis. He asked if there were any liability concerns that the City Attorney may foresee a retiree confronting the City with mismanaging their funds.

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Molly Stump, City Attorney, was presently in discussions with Ms. Shen regarding the possibility of liability. The question the City needed to explore was whether there were incidents of over or under payments where the City could proactively reach out and make the adjustments.

Mr. Keene stated the correction was one of accuracy not in large sums of financial burden. The accuracy needed to be verified further than July 2011. Moving forward there needed to be a system in place to manage the risk given the gap between CalPERS and the City.

Ms. Shen said moving forward the City needed to work with CalPERS to get advanced information because the City had not been provided accurate data on why certain adjustments had been made on a month to month basis. Staff would have no knowledge of the difference in payment amount until or unless the retiree notified the Staff. Her goal was to locate a CalPERS staff member to coordinate with to verify inaccuracies as they occur rather than after the fact.

Council Member Espinosa asked if there had been discussions with CalPERS in a legal environment regarding addressing some of the issues that had been raised.

Ms. Stump noted the initial phase necessary to move forward with discussions was the completion of the detailed work by the Auditor's office. With the completion of the audit the focus had turned to what could be accomplished on a systemic basis. She mentioned CalPERS was a very large bureaucratic organization that was not a client service platform.

Council Member Espinosa questioned the differences between the City Auditor recommendations and the City Manager response to them. There did not seem to be a definitive agreement or disagreement between the City Manager and the Staff recommendations. He asked if the intent was to implement all of the recommendations.

Mr. Pelletier stated yes, the intent was to implement all of the recommendations.

Ms. Shen noted her department was planning to implement the recommended action plans; the written procedures, additional resources, process mapping, and the double checking. Some actions had already been put into place.

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Council Member Espinosa asked if there were other significant changes to the City's broader Human Resources practices that Ms. Shen felt were necessary to review or other areas of concern she believed should be reviewed.

Ms. Shen mentioned there was currently a reorganization occurring in the Human Resources Department to ensure Staff was better educated and had enhanced tools at their disposal to serve their customers. She did not feel an additional audit or review was necessary.

Mr. Keene stated the City did not currently have an integrated complete Human Resources information systems module and certainly not one that was compatible with the SAP system. The City needed to realize their relationship with CalPERS was a lifelong process and they needed to protect themselves with the parallel checking procedures.

Mr. Pelletier felt putting in specific solid monitoring controls was a step-up from monitoring a standard large contract. Once the up-front investment was implemented and the procedures were in place to complete the recommendations the process would be more efficient and smoother moving forward. He noted there would be a large investment on the side of Staff to complete the implementation.

Council Member Klein asked if January 20, 2011 was the date CalPERS began not paying the full amount of the medical insurance.

Mr. Keene stated it appeared to be a key date as it related to a large group of the retirees.

Ms. Shen clarified May of 2011 was when the 90/10 applications began which was when CalPERS informed the City they were not going to administer the multiple tier process.

Council Member Klein asked if there were other cities within the State of California with similar concerns.

Mr. Pelletier said Staff was uncertain of issues with other cities.

Ms. Matsuura stated CalPERS had mentioned there were other jurisdictions providing reimbursements.

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Council Member Klein said if Palo Alto was to pursue legislative action it would be beneficial to partner with other cities that were experiencing similar concerns.

Ms. Stump noted when the CalPERS system was rolled out there were tremendous issues. She believed there were a small number of other jurisdictions who experienced similar contribution issues.

Council Member Klein believed there were a number of cities who adopted the 90/10 system once Palo Alto had implemented it.

Ms. Blanch stated many agencies structure their health benefits differently than Palo Alto. While there were others' in similar situations they set-up a cafeteria plan and started out with the minimum contribution but paid above the minimum.

Council Member Klein asked if EBS would have been hired if not for the CalPERS issues.

Ms. Shen stated no, EBS was hired specifically to reconcile the reimbursement situation.

Ms. Blanch noted when the initial process began to distribute the checks it was too costly for the Administrative Services Department (ASD) to assist with the check writing process. A Request for Proposal (RFP) was conducted to hire a vendor, originally strictly to distribute checks. As the scope was being developed the intent was to establish a contract between CalPERS and the vendor to have the CalPERS invoices be sent directly to the vendor. In the research performed Staff was informed CalPERS could not connect with a third party vendor.

Council Member Klein asked the amount the City paid to EBS.

Ms. Blanch said it was an annual contract in the amount of \$36,000.

Council Member Klein said it seemed the City could perform all of the tasks correctly but there would remain issues because of the uncertainty of what CalPERS was doing.

Mr. Pelletier said if the City had an effective reconciliation process in place they could mitigate a significant portion of the at-risk errors. The data of

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what CalPERS was actually doing was sent to the City; Staff could see what they were doing and the errors being made.

Council Member Schmid stated the City was making Annual Required Contribution (ARC) payments to achieve a goal so the payments could be invested at the high rates of return. Eventually there would be a fund of monies that could pay for retiree benefits. If that was the model for the ARC he was concerned there were reimbursements ranging from \$2 million to \$5 million; implying the City was on a pay as you go basis for retiree health.

Mr. Pelletier stated the \$2 million in 2011 and the \$5.78 million in 2012 was representative of the City's share portion of the minimum contribution and the amount the City was responsible for reimbursing to the retirees.

Council Member Schmid was under the impression the City was making the City share ARC payments and some pre-payment for future retirees. The reason was to achieve investment return therefore making the final payment easier.

Mr. Keene clarified the current premium paid to CalPERS was \$6.2 million. That amount was not going to CalPERS in the same way as the billing was being presented from them. The City needed to backfill by directly reimbursing the retirees because of the current situation. The amount used to be a direct payment to CalPERS but now the amount shown was the amount to CalPERS inclusive of the amounts paid to the reimbursement of the retirees.

Council Member Klein said a combined cost from 2011 and 2012 was \$8.2 million.

Mr. Pelletier said the Staff redirected the same funds from 2011 to 2012 so rather than paying CalPERS directly; the City was now using the funds to reimburse the retirees directly.

Council Member Schmid understood the concept; however, in reviewing 2008 there was a pre-payment process with the CalPERS system to begin drawing interest for future retirees. As the Staff Report moved from 2008 to 2012 the pre-payment information disappeared. The City should be continuing to make the pre-payments annually to ease the burden on future retirees but instead the system chosen was to directly pay retirees.

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Mr. Keene confirmed the previous pre-payments were held in the Trust and were factored into the actuarial numbers that comprised the ARC. He was uncertain as to why there were no pre-payments in the 2012 year.

Council Member Klein suggested when the Council chose to make changes to the actuarial one of the changes was to not pay it down but to roll it over.

Council Member Schmid said part of the monies CalPERS was paying the retirees should reflect the earnings of the ARC down payment made. By CalPERS forcing the City to reimburse the share of funds they were paying out of the City's investment was being reduced annually.

Ms. Stump stated those were solid questions for the Actuarial John Bartel when he returned. She believed his response would be the City was paying the current bill for the retirees and were beginning in a small way to pre-fund the retirement funds of the current employees. The City had not pre-funded for the current retirees and therefore were on a pay as you go basis.

Council Member Schmid said on page 17 of the Staff Report there was a note on the CAFR. He asked if Staff was implying the Consultant who approved the CAFR numbers had problems.

Mr. Pelletier clarified the issues in the note disclosure to the CAFR was an explanation of the retirement tiers.

Council Member Schmid asked if the note was disclosing there were miscalculated numbers.

Mr. Pelletier stated no, the note did not impact the financial numbers in the report. It was information that supported the CAFR numbers.

Council Member Schmid asked if the table should be considered during the conversation regarding benefits.

Mr. Pelletier stated yes because there were errors located within the table itself.

Council Member Schmid said Staff Report page 23 referred to the second most expensive health care plan. The cost for each plan changed annually so noting the second most expensive plan for 2012 could be a different plan in 2013. He asked if that was a complicated factor where CalPERS needed to re-calculate each year.

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Ms. Shen said in theory it could be difficult but for many years Blue Shield had been the second most expensive plan.

Council Member Schmid asked what the highest plan was.

Ms. Shen stated PERS Care was the highest.

Council Member Schmid said Staff Report page 31 showed a table of the CalPERS billing summary for 2012. He questioned the retiree participant share and employer share. He believed the City had reached the 90/10 cost split but was uncertain how the numbers were reflective of that.

Mr. Keene clarified the 90/10 cost share was only effective for the retirees who retired after the 90/10 plan was implemented. The bulk of the retirees were not in the 90/10 plan.

Council Member Schmid said the participant share was around 35 percent, was that because they were receiving Medicare.

Ms. Matsuura stated the table on page 31 was based on the billing and the participant share was reflective of the amount CalPERS was deducting from the retirees' checks. It did not represent what the City intended for each retiree to pay.

Mr. Pelletier said the amounts may not accurately reflect the tiers the employees were in or the amount they should pay. The numbers were solely reflective of what CalPERS should pay including the errors.

Council Member Schmid clarified the participant share included the City's reimbursement.

Mr. Pelletier concurred.

MOTION: Council Member Espinosa moved, seconded by Council Member Schmid to recommend the City Council approve the Employee Health Benefits Administration Audit.

MOTION PASSED: 4-0

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Council Member Schmid said if there was anything the City Council could do to assist with CalPERS or the state in terms of a Resolution or a letter that could be helpful to let them know.

Ms. Shen said thank you, she would keep that in mind.

Sheila Tucker, Assistant to the City Manager, stated to her knowledge everything on the work plan had been accomplished for the 2012 year.

Council Member Espinosa felt the discussions during the meeting on the process highlighted how issues, ideas, and next steps were raised that would result in a much better process and state for the City.

ADJOURNMENT: The meeting was adjourned at 9:44 P.M.