Dear Councilmembers,

Please see below responses to questions from Councilmember Tanaka regarding Agenda Item 3A.

Respectfully,

--Ed

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Councilmember Tanaka’s questions below appear to be based on a misunderstanding of the way that paid administrative leave is used. The questions refer multiple times to “employees with 100% non-productive hours”; however, that does not apply to the City’s circumstances in this emergency. Of the full-time employees, the only individuals that did not work at all are a very small number of employees categorized by the Public Health Order as “high risk” due to underlying health conditions or age (over age 65). These high-risk employees were advised to avoid the workplace and remain at home. It is recommended that these employees remain in their paid status to avoid cancellation of their medical coverage, which given their risks could be devastating. All other full-time employees who used leave hours worked as much as possible but their hours were involuntarily reduced related to the shelter-in-place order. These impacted employees used an average of 17 hours per week to supplement their worked hours.

As discussed at last week’s Council meeting, as we enter the extension of shelter order, we are continuing redeployments and additional assignments that reduce paid administrative leave through the remainder of the order. Staff will elaborate on this during Monday’s COVID-19 update. The recommendation to continue payroll as currently budgeted must also be weighed against the cost to engage in a furlough or layoff process. As explained at Monday night’s meeting the City has a unionized workforce, which means furloughs and layoffs are quite different than in the private sector. A furlough or layoff requires engagement with unions, seniority lists, and “bumping” in some instances, which would result in unanticipated disruption to essential services during the emergency. In terms of cost-savings through layoffs, most represented full-time employees are covered by union provisions for a 30-day paid severance following their last day of employment, which follows the engagement process just described. That severance is fully-paid by the City. Another consideration is that the cost and time to hire and train employees after the emergency would negatively affect recovery efforts.

1) In the report, you write: “as a result of the COVID-19 emergency these costs represent non-productive hours.” Can you confirm that the total approximate amount after authorization for the City to spend on employees with 100% non-productive hours under this proposal is $3.4M of taxpayer dollars at a time when
many of our residents/businesses are in dire need and while the City faces a revenue shortfall of $15-$20M this fiscal year?

Based on page 4 of your memo (https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=73204.27&BlobID=76157), here is my math:

$700k per month of employees with 100% non-productive hours (without pensions contributions)
$700k + 40% (pensions) = $980k per month with pensions contributions but not including unfunded pension liabilities
$980k/30 days in a month = $33k per day

105 days with 100% non-productive hours from the shelter order on 3/17 to the consent item authorization end date 6/30

105 days * $33k/day = $3.4M (not including unfunded pension liabilities so the actual amount is much higher)

Basically, the city has already spent $872k (27 days= 3/17 to 4/12) of taxpayer dollars on employees with 100% non-productive hours and you are asking for Council to spend an additional $2.5M (78 days = 4/13 to 6/30) on employees with 100% non-productive hours?

This characterization is inaccurate as it assumes maximum expenditure of authorization, and implies that any hours used have no value. The term “100% non-productive” is misleading and inflammatory. As stated in the staff report, we will continue to ensure that maximum value is provided through staff work, including the continuity of essential services and other services. Specifically, Administrative Leave is a primary strategy to ensure the availability of staff to perform essential duties on an emergency and rotational basis, perform disaster service worker duties, and support the City's and Palo Alto community's ability to adjust to changing conditions.

2) Staff report says: "these totals ($3.4M) are included within the overall preliminary fiscal impact of the Coronavirus emergency for the Fiscal Year 2020", so where would the extra $15M to $20M dollars of cuts/transfers come from to close the revenue shortfall if this is approved? Given that the fiscal year-end is only a few months away I would assume staff has a plan to handle this gap?

As reported at the April 6, 2020 City Council meeting, staff recommended a two-part strategy for managing the costs associated with COVID-19: first managing through the state of emergency, and then addressing structural reductions necessary through the fiscal year 2020-2021 budget process that will be initiated next week, on April 20. Managing through the state of emergency has required immediate action on several fronts such as redeploying staff to handle State of Emergency duties, transitioning and realigning duties to remote work, and rotating week on/week off essential staff assignments to address social distancing and minimize potential exposure. This will be presented in more detail during the City Council’s COVID-19 Update on April 13.

3) If the plan is to make up the shortfall entirely from the Budget Stabilization Reserve which is at $44M, would that mean we could be using 45% ($20M) of the reserve to make it through one quarter of this fiscal year and only have 55% left for the four quarters of the entire FY2021 when the economy is likely to still be very weak?

That is not correct. First, the estimated expenses reflect all funds costs, whereas the projected gap in FY 2020 was specific to General Fund preliminary estimates. A significant portion of expenses related to this authority are related to enterprise operations (utilities and public works), the related special funds will bear much of the expenses in addition to the General Fund Budget Stabilization Reserve. In addition, the City will continue to seek federal and state assistance to defray some of the extraordinary costs of the City’s emergency response effort associated with this pandemic.

4) As part of the initial $2T Federal stimulus program, there were very generous unemployment benefits given to individuals but no funding for city governments. Some of the lower wage employees might find themselves to have little to no loss of income. Rather than Palo Alto shouldering the entire burden of this Depression,
couldn't we harness some of the federal dollars instead? If so, how many employees with 100% non-productive hours would be fully covered by the federal program and what would the average percentage of the wage coverage be for the average employee with 100% non-productive hours? Also, EDD has a collaborative unemployment program so that you can reduce hours and employees can request unemployment for the difference.

Staff is pursuing all avenues for federal and state program assistance, while recognizing that initially announced program expectations may not be met. Please see the above explanation for “100% non-productive hours” being an inappropriate term and misleading to the public.

5) Given that our reserves are of finite size and might run out in six months at the current burn rate ($20M/qtr), are we really protecting employees with 100% non-productive hours by doing this or are we displacing essential employees that we might really need later in the year with employees with 100% non-productive hours that we can’t use now? Many of our residents (i.e. our customers) have experienced personal financial hardships and all residents have suffered from significant service cuts. If we shift the resources, couldn’t we provide a better service level for our customers later in the calendar year while providing the same average level of employment for the calendar year?

The assumption of reserve drawdown is incorrect, as noted above. The fiscal year 2021 budget process beginning next week (referenced in response to question #2) will enable the City Council to set priorities that reflect a holistic understanding of choices beyond the current state of emergency. As stated, the term “100% non-productive hours” is inappropriate and not accurate as our workforce is delivering essential services during this emergency period and preparing our recovery effort so the City may quickly build out from this challenging time.

6) In order to come up with an estimate of the $15-$20M revenue shortfall this FY staff had to make certain assumptions and projections, can you please share what assumptions were made and what the breakdown is between the different revenue source drops?

This is an overall estimate based on prior economic downturns and staff professional experience. Also, to correct the mischaracterization above, this is a preliminary estimate of financial implications in the General Fund and not isolated to revenue loss.

7) I assume the 267 employees with 100% non-productive hours are not in essential categories (safety, utilities, etc.), so what categories are they in by percentage?

This assumption is incorrect. Please see the above explanation for “100% non-productive hours” being an inappropriate term. Please also note that the term “essential” is specifically defined by the goals and directives of the County of Santa Clara Public Health Order. This definition should not be used to circumvent the Palo Alto community’s ability to determine its values, nor priorities for services provided by the City in any other context.

8) Of the 267 employees with 100% non-productive hours what percentages fall in each of the listed situations:
- Quarantined, waiting for test results, or ill from COVID-19; (<5% of hours)
- Assigned to facilities that are closed and could not be immediately redeployed; (~40%)
- Working a reduced or rotational schedule from changes in operations; or (~50%)
- Unable to work due to lack of care for a child or children at home.” (<5%)

The assumption of “267 employees with 100% non-productive hours” is incorrect. We reported 267 employees with some (0 to 80) hours of Administrative Leave. Rough estimates are annotated above.
9) Does the City have the option of paying for an employees' health care even if they go on unemployment? We want to make sure our employees stay healthy.

Staff is continuing to evaluate available options and will report to the City Council as this information is available.

10) Who are the “Council Appointed Officers”? Are you referring to the CAO committee? Does that mean the city manager will only work with these council members? Or is this a term about something else (e.g. Ed, Molly)? The report does not identify or clarify the term and does not use it in the recommendation itself. If it is referring to the CAO committee, does that make sense since this is a finance issue so shouldn’t it be referred to the Finance committee instead?

The term Council Appointed Officers refers to the City Manager, City Attorney, City Clerk, and City Auditor. The reference to Council Appointed Officers in the staff report was intended to reflect that staff reporting to all Council Appointed Officers would be covered by council-approved leave policies. This is typical of all City personnel policies and is consistent with the language in the City’s Merit System Rules and Regulations.

11) Will staff calculate changes to revenue expectations between now and 6/30/20 at the conclusion of this authorization? This too will affect the budget stabilization reserve going into FY2021.

Updated revenue estimates will be provided to the City Council as available, in conjunction with the upcoming fiscal year 2020-21 budget approval process as discussed during last week’s Council meeting and staff report.