

STAFF REPORT

DATE: June 21, 2011

TO: City Council

FROM: Paul Navazio, Interim City Manager
Kelly Fletcher, Budget Manager

SUBJECT: Continuing Discussion of FY2011/12 Proposed Budget

Introduction

At its meeting of June 14th, the City Council continued its deliberations over the Proposed FY2011/12 budget. The Council provided specific direction related to development of additional personnel expenditure reductions that are anticipated to be needed to address several of the City's long-term structural budget concerns, as well as refinement of the Tier 1 and Tier 2 budget reductions proposed in the City Manager's Proposed Budget. Staff is in the process of preparing its initial response to the City Council's direction from the June 14th meeting, with additional information anticipated to be presented at the meeting of June 21st.

This preliminary report provides a summary of the direction provided via the City Council motion (Krovoza/Swanson), which was supported by the Council on a 5-0 vote. In addition, the report includes excerpts from the June 14th staff report specific to the framework for long-term fiscal stability – which also identified the need for additional budget reductions to address a) projected increases in personnel benefit costs, b) continued slow growth of General Fund revenues, c) erosion of State and Federal funding in support of transportation and social service programs, and d) an array of priority unfunded needs.

Staff also included a recommended process over the next 6-12 months that would significantly advance the City Council's goal of long-term fiscal stability via parallel track discussions to include a) resumption of negotiations with the City's employee groups, b) community-wide input related to service and funding priorities, and c) evaluation of the City's current tax-base in relation to the revenues required to meet ongoing community needs and service-level expectations. Significantly, the City Council's direction provided at the June 14th meeting calls for accelerating the process of addressing the issues underlying the city's long-term fiscal sustainability.

Attachments

Supplemental Information:

- a. Summary of City Council direction provided at June 14th Council meeting
- b. Long-Range Framework for Fiscal Stability (from 6/14/11 staff report)

City Council Budget Follow-up
Direction provided at June 14th City Council meeting related to FY2011/12 Budget

(A Supplemental Report is being prepared for the June 21st meeting related to each of these items)

- 1) Provide framework for implementing \$2.5 million in General Fund personnel cost savings:
 - a. Present options / impacts for staffing reductions totaling \$2.5 million by Sept 30th (Krovoza)
 - b. Half of proposed reductions target shall return to Council for ADOPTION by Sept 30th to apply to FY2011/12. To include consideration of recommendations from organizational studies related to Public Works and Fire Departments.
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 - d. Provide timeline to discuss budget process and impacts with the community
- 2) Assume FY2011/12 budget to be approved with Tier 1 and Tier 2 reductions, with exceptions of potential restorations proposed by Council:
 - a. Ombudsman (\$20,000)
 - b. Recreation programs (\$15,000)
 - c. Public Safety cuts
 - i. Police Department
 - ii. Fire Department
 - d. Other
- 3) Restore Transportation Funding to \$1 million level (Increasing General Fund contribution by \$850,000). Clarified that this funding support is intended to come from savings to be achieved through \$2.5 million in General Fund personnel cost savings.
- 4) Allocate funding (est. \$500,000) in anticipation of CalPERS rate increased (due to possible change in investment earnings assumptions from 7.75% to 7.50%), as early as FY2012/13. Clarified that each full 0.25% change in the CalPERS Interest Earnings Assumption equates to approximately \$1,000,000 on an ALL FUNDS Basis and \$600,000 on a General Fund basis.

(From June 14th Staff Report)

Framework for Fiscal Stability & Community Engagement Process

In considering the FY2011/12 budget, it is important to place the specific budget recommendations in the context of the City's overall framework for achieving long-term fiscal stability. Over the past several years, the City Council has consistently been presented with a general framework for advancing this critical City Council goal:

- Address Structural Budget Deficit – ensure that the annual operating budget is balanced so that ongoing costs are covered by ongoing revenues, and that the budget does not rely on one-time revenues or cost-savings, and maintains a 15% reserve.
- Address Priority Unfunded Needs – in recognition that the annual operating budget does not fully provide for the funding levels needed to support priority existing or emerging priority needs, strategies should be developed to provide additional budget flexibility through either new revenues or re-programming of existing resources to the highest priority needs.
- Address Renewal of Voter-Approved Tax Measures – the City's annual operating budget relies, in part, on two voter-approved tax measures for continued provision of city services. These include the ½-cent sales tax – first approved in 2004, and renewed in 2010 - which generates approximately \$3.0 million per year, and the Parks Maintenance Tax, which generates \$1.3 million per year. The Parks Tax was last re-approved by the voters in 2006, for an additional six-year period, and is thus subject to renewal in June 2012. As currently constituted, these tax measures require that, every two to four years, the City faces the possibility of significant service-level impacts from the loss of tax revenue.

A case can be made that the City has successfully managed two of these three elements, with perhaps only marginal progress on the third. The City has made significant budget reductions over the past three years in order to maintain a balanced-budget, without reliance on one-time savings measures, and without depleting its reserves. This has been no small challenge in the current economic climate.

In addition, the City has – thus far – been successful in renewing both tax measures. The Parks Tax was last re-authorized in 2006, with a 70% voter-approval, and the Sales Tax measure was recently re-authorized in June 2010 with 72% voter support.

The area that remains most challenging is identifying funding sources to address priority unmet needs, ranging from city infrastructure, enhanced public safety services, unfunded liabilities and several City Council goals, including aggressive implementation of the City's Climate Action Plan. Some progress has, however, been made over the past few years to provide additional funding of the City's OPEB Unfunded Liability as well as priority needs within the City's water and wastewater utilities.

Despite the actions taken to date to ensure long-term fiscal stability, the continuing economic climate and persistent budgetary pressures suggests that much work remains in developing a new business model for the ongoing provision of essential City services, within the limitations of the revenue sources available to support City operations.

As has been emphasized on a number of occasions, it is apparent that the City can no longer merely rely on annual, incremental budget reductions. Rather, it is incumbent on the City, and the community, to assess the overall capacity of current and future revenue sources in relation to the cost of city services, and advance a sustainable plan that focuses on 1) maintaining and expanding the revenue sources needed to support municipal services, 2) implementing appropriate policies and practices to manage cost of services that can be sustained within these funding sources, and 3) evaluating the extent to which the City can continue to provide programs beyond the basic core and essential municipal services.

To this end, it is useful to assess to multitude of factors that continue to threaten the City's ability to sustain current (or historical) service levels. While these have been identified and discussed in the context of our most recent budget workshops, it may prove beneficial to evaluate the extent to which specific actions are warranted in response to each component. The following is intended to provide a framework for a discussion of strategies that may be employed that, collectively, would advance the goal of long-term fiscal stability:

Personnel Costs

The major component of city program expenditures is represented by staff costs, to include salaries and benefits. While recent labor contracts have provided needed short-term budget-savings as well as a degree of structural changes, projected costs for health, pensions and retiree medical benefits are projected to increase by an average of 7% per/year over the next 5 years, and account for an estimated \$5.0 million in increased General Fund costs from FY2010/11 through FY2016/17. With current revenue projected to grow at a rate of 2.0% to 2.5% per year, in order to ensure that personnel costs do not increase as an overall percent of the City's operating budget, benefit costs borne by the City would need to be reduced by \$1.8 million to \$2.0 million over the next 5 years. Additional benefit cost savings would be required in order to support cost-of-living adjustments and or future retirement cost increases that could result from a reduction in the investment earnings assumptions used by CalPERS to calculate retirement plan contribution rates.

Suggested Policy Framework:

- Ensure that City expenditures are sustainable by managing overall personnel costs within historical levels, as measured by ratio of personnel costs to overall operating budget.
- Limit increases in overall a personnel costs to projected rate of revenue growth and/or annual inflation rate.

Next Steps:

- Continue work on developing elements of a long-term sustainable compensation structure

- Commence next round of collective bargaining process with represented employee groups as early as possible, with the goal of reaching agreements on successor labor contracts as early as December 31, 2011, but no later than June 30, 2012.

Decline Growth of General Fund Revenues

The City's General Fund revenues experienced significant growth for over the period preceding FY2008/09. General Fund revenues peaked in FY2007/08 at \$39.0 million. Estimates for current year General Fund revenues stand at \$37.3 million, and the FY2011/12 budget assumes revenues at \$37.7 million. Under the current assumptions used in the five-year forecast, revenues are not expected to return to the level realized in FY2007/08 until FY2013/14. Moreover, the forecast suggests that over the nine year period from the peak of FY2007/08 through FY2016/17, General Fund revenue growth is limited to \$3.5 million, or just over 1.0% per year. By comparison, over the nine-year period from FY1998-99 through FY2007/08, General Fund revenues grew by \$16.8 million, or an average annual rate of 6.4%. Overall, economic conditions impacting the City's General Fund tax base have resulted in reduced revenues in support of municipal services. Had revenues merely kept track with general inflation between FY2007/08 and FY2011/12, projected revenues for the FY2011/12 budget-year would be \$6.2 million higher than currently projected. In many respects, this level of revenue shortfall has been largely addressed through budget reductions over the past four years, to include the reduction levels proposed for FY2011/12.

Suggested Policy Framework –

- For planning purposes, maintain conservative revenue projections in the range of 2.0% - 3.0% per year.
- In years when revenues exceed projected levels, surplus revenues should be allocated toward draw-down of unfunded liabilities and/or one-time capital infrastructure commitments.
- In years when revenues fall below the budget projections, reserves should be employed to mitigate short-term impacts (consistent with the City's current reserve policy), with structural budget adjustments – in the form of programmatic budget reductions – to be implement to re-balance the subsequent budget.

Next Steps –

- The City should develop a comprehensive strategy of program priorities should the need arise to implement further reductions. The goal should be to establish what core services are to be preserved, and what program areas are to be provided contingent upon available funding.
- The City should review its current General Fund reserve policy to assess with the current reserve level of 15% remains appropriate.

Reduction in State/Federal Funding

Over the past decade, funding from the State and Federal government have been greatly reduced as a percent of the overall City budget. In addition to property tax shifts (ERAF) implemented in the early 1990's local governments have continued to be impacted by reduced levels of dedicated funding for public safety (Prop 172), transportation (Gas Tax, TDA and Federal Transit), and funding for social services (Childcare, CDBG). Over the past three years, for example, annual State transportation funding for non-transit programs has fallen by nearly \$1 million. In addition, local revenues derived by the state's Gas Tax have fallen by approximately \$500,000 per year. The impacts of these reductions have been somewhat mitigated by the availability of one-time funding, to include \$1 million in Proposition 1B bond funds as well as \$1.3 million in street and bikepath allocation for Federal Stimulus funding. As the one-time sources of funding are exhausted, the City will need to develop a strategy for replacing lost transportation funding, in addition to the need to identify a source of local funding to augment funding levels historically supported by State and Federal Transportation funds.

Structural Under-funding of City Infrastructure

Compounding the negative budgetary impacts of the above referenced issues, the City has identified additional areas of structural under-funding that must be addressed as part of the framework for long-term fiscal stability. These areas include, deferred maintenance and replacement needs for roadways, sidewalks, bike paths, parks, greenbelts and city facilities. Over the past several budgets, a degree of incremental funding has been provided for city facilities, with additional funding proposed in the FY2011/12 budget. Parks facilities have been largely under-funded in this respect, and the City needs to identify a source to augment the level of funding provided for replacement costs of park facilities, including the City's extensive irrigation systems, wherein no funding is currently allocated on an annual basis for this purpose.

Suggested Policy Framework

- The City should update and maintain a comprehensive maintenance and replacement schedule for all city and park facilities.
- The annual operating budget should strive to include adequate funding in order to provide for the timely and cost-effective replacement of city facilities.
- Cost of operations, maintenance AND replacement costs should be fully-reflected in the annual program budgets, consistent with the desire to reflect full-costs of programs.
- Programs and services for which user fees are charged should ensure that such fees include the appropriate level of cost-recovery – consistent with applicable cost-recovery policies – based on the full-cost of programs, including operations, maintenance and replacement costs.

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Introduction

This SUPPLEMENTAL staff report provides information in response to the direction provided by the City Council at its most recent budget discussion held on June 14th.

Specifically, this report includes a preliminary presentation of options for realizing \$2.5 million in General Fund personnel savings requested by the City Council. These savings could, in turn, be allocated to a) addressing ongoing structural budget gaps, b) supplementing funding for priority unmet needs – such as the \$850,000 in incremental General Fund support sought for street maintenance, and c) providing a significant buffer against potential further increases in the City's costs for employee pensions, assuming a reduction in the interest earnings assumptions used by CalPERS to calculate annual employer contribution rates. The City Council has directed the City Manager to present, no later than September 30th, specific recommendations to reduce General Fund personnel costs by \$2.5 million.

In addition, this report provides the City Council with summary of potential amendments to the FY2011/12 budget-balancing plan, as proposed by the City Manager. Over the course of its deliberations on the budget, the City Council has requested options for restoration of proposed budget reductions across a number of program areas. Staff has prepared a summary of potential amendments to the FY2011/12 budget-balancing plan for Council's consideration at tonight's meeting. Staff is hopeful that the City Council can provide specific direction related to amendments to the budget-balancing plan in order to facilitate preparation of formal budget adoption actions and documents for the Council meeting of June 28th.

Attachments - Re: Summary of City Council direction provided at June 14th Council meeting

- A.) Options for implementing \$2.5 million in General Fund personnel cost savings
- B.) Proposed Amendments to Tier 1 and Tier 2 Budget Reduction Recommendations
- C.) Recommendation related to increasing funding for Transportation Division from \$350,000 to \$1.25 million
- D.) Recommendation related to setting-aside savings in anticipation of a reduction in the CalPERS Actuarial assumptions related to annual rate of return.

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1) Provide framework for implementing \$2.5 million in General Fund personnel cost savings:

The City Council has requested the preparation of options for implementing \$2.5 million in General Fund cost-savings, for consideration no later than September 30th (end of first quarter of FY2011/12). This section provides a summary of the personnel reductions that would be required to meet this target as well as a discussion of several of the approaches that will be evaluated in order to provide the City Council with maximum flexibility to realize the desired level of savings.

Feedback from the City Council will assist staff in developing specific recommendations as well as the range of options to be presented for Council consideration.

The \$2.5 million target for General Fund personnel savings represents slightly over 8% of current General Fund payroll, and is equivalent to a reduction of approximately 20 full-time equivalent (FTE) positions. On an all-funds basis, an 8% reduction in personnel costs represents savings of just over \$4.0 million, representing the equivalent of approximately 33 positions.

The following tables illustrate the impact that an “across-the-board” staffing reduction would have across city departments and each of the city’s employee bargaining groups:

By Department	Personnel Costs		Savings Target		Budgeted FTE	FTE	
	All Funds	General Fund	All Funds	General Fund		Reduction (Est.)	
CMO / Council	\$ 4,913,558	3,439,491	\$ (397,537)	\$ (278,276)	41.75	(3.38)	(2.4)
CDS	3,365,425	1,177,899	(272,284)	(95,299)	25.5	(2.06)	(0.7)
CSD	8,990,356	6,023,539	(727,375)	(487,341)	88.75	(7.18)	(4.8)
Police	12,293,280	12,170,347	(994,602)	(984,656)	93.5	(7.56)	(7.5)
Fire	7,868,748	7,790,061	(636,630)	(630,264)	51.75	(4.19)	(4.1)
Public Works	12,969,465	259,389	(1,049,309)	(20,986)	108	(8.74)	(0.2)
	\$ 50,400,832	\$ 30,860,725	\$ (4,077,737)	\$ (2,496,822)	409.25	(33.11)	(19.7)
By Bargaining Group							
DH	\$ 1,569,000	\$ 784,500	(126,942)	(63,471)	7.00	(0.57)	(0.3)
Mgmt	8,159,000	3,263,600	(660,113)	(264,045)	46.00	(3.72)	(1.5)
PASEA	10,422,000	4,168,800	(843,204)	(337,282)	109.50	(8.86)	(3.5)
DCEA	11,703,000	4,684,711	(946,845)	(379,022)	108.25	(8.76)	(3.5)
Police	10,559,000	10,242,230	(854,288)	(828,659)	84.50	(6.84)	(6.6)
Fire	7,018,000	6,807,460	(567,799)	(550,765)	46.00	(3.72)	(3.6)
Police Mgmt	780,000	756,600	(63,107)	(61,214)	8.00	(0.65)	(0.6)
Other (P/T - Temp)	190,832	152,824		(12,364)			
	50,400,832	30,860,725	(4,062,298)	(2,496,822)	409.25	(33.11)	(19.7)

However, in developing specific recommendations to achieve this level of savings, it is unlikely that across-the-board reductions would be advised. While all City departments and bargaining groups would likely be impacted by personnel reductions of this magnitude, achieving the desired level of cost-savings necessitates a systematic review of city operations and program priorities. It is anticipated that reductions in personnel costs will best be achieved through a combination of measures, including a) re-organization of city operations, b) implementation of alternative service

delivery models, c) targeted program reductions based on funding priorities and community expectations, and d) positions vacated through attrition.

The following table summarizes the range of options likely to be considered in developing specific recommendations for achieving \$2.5 million in General Fund personnel reductions:

	<i>Range of Savings (estimates)</i>	<i>FTE Positions (estimates)</i>
<i>Re-organization / Consolidation of City Operations:</i>		
<u>Fire Department</u> – study underway; recommendations expected Aug/Sept.	\$300,000 - \$500,000 (General Fund)	3.0 – 4.0
<u>Public Works Department</u> – study nearing completion; final report and recommendations anticipated by July	\$0 – up to \$500,000 (Non-General Fund)	3.0 – 6.0
Community Services	<i>To Be Determined</i> Target: \$200,000 - \$500,000 (General Fund)	TBD
Community Development & Sustainability		
Police		
City Manager’s Office / General Government		
<i>Alternative Service Delivery</i> - Evaluation of options for more cost-effective service delivery to include contracting-out and public/private partnerships. Examples may include: Park / Greenbelt / Tree Maintenance Pool Maintenance Streetlight / Traffic Signal Maintenance Fire Hydrant Maintenance Fleet Services Specialized Recreations Programs (i.e. Swimming / Gymnastics)		

Program Priorities / Service Reductions – Prioritization of City services based on:

- I) Essential/Mandated Municipal Services
- II) Core Municipal Services – deemed critical to maintaining quality of life in Davis
- III) Discretionary/Optional Services – services that could be reduced or eliminated with minimal community-wide impacts

The City’s Department Heads have initiated an internal review of all city programs and services, and have prioritized services within each department. The exercise now requires evaluation of program priorities across city departments in order to develop the management team’s overall assessment of funding priorities. Staff envisions that community and commission input be sought through a series of Town Hall meetings, tentatively targeted for early-fall.

The goal of this overall exercise is to identify those programs that would be recommended for elimination or reduced funding should the City have the need to implement additional budget reductions in the next 1-2 years, and/or identify areas of the budget where funding is being allocated to lower-priority needs than selected needs that are not adequately provided for in the annual budget.

Essential Services – Need to maintain; appropriate to evaluate current service levels in relation to funding and staffing requirements. May also be candidates for funding augmentations.

Core Municipal Services – Focus to be on cost-effective service-delivery; to what extent can services be provided at less cost? Could impact of funding reductions be mitigated so as to minimize impact on direct service delivery?

Discretionary Services - Services deemed “optional” or with limited community-wide benefit; likely candidates for funding reductions and/or complete elimination.

Targeted Position Reductions – Some position reductions could be informed by a comprehensive review of existing departmental staffing levels and structure. Focus will be on a review of “specialized” positions (single, specific job classifications), span of control and normalizing scope of reporting relationships across City departments. Likely to focus on management and supervisory positions, with the goal of reducing overall overhead costs and maintaining an efficient ratio of management/supervisory staffing to front-line programmatic staffing.

Attrition / Early-Retirement Incentives – The City currently has over 100 employees – representing nearly 25% of the full-time, permanent workforce - that are currently eligible to retire. Staff will be evaluating the extent to which normal attrition and/or a retirement incentive program could be employed as a tool for facilitating overall workforce reductions.

Potential Savings Through Labor Contract Negotiations –

Another means of achieving personnel cost savings is through the City’s collective bargaining process. The majority of the City’s all-funds operating budget – and over 83% of the City’s General Fund budget – represents personnel costs to include salaries and benefits. Moreover, a significant factor underlying the City’s long-term fiscal outlook is the recent increases in costs for benefits such as health insurance and pensions, with additional funding commitments anticipated over the next 2-3 years specifically to address pension costs and full-funding of the City’s retiree medical benefit program.

The following table summarizes the City’s \$50 million personnel budget across each of the city’s employee bargaining groups:

FY2011/12	MGMT	PASEA	DCEA	DFFA	DPOA	LIEUT	DEPT HEADS	TOTALS
Salary	\$ 5,099,162	\$ 6,036,779	\$ 6,406,416	\$ 4,148,589	\$ 5,984,030	\$ 454,624	\$ 1,000,378	\$ 29,129,978
Benefits	3,059,408	4,385,587	5,296,320	2,869,208	4,574,860	325,844	568,984	21,080,211
Total	\$ 8,158,570	\$ 10,422,366	\$ 11,702,736	\$ 7,017,797	\$ 10,558,890	\$ 780,468	\$ 1,569,362	\$ 50,210,189
<i>One-Percent</i>	81,586	104,224	117,027	70,178	105,589	7,805	15,694	502,102
GF %	40%	40%	40%	99%	99%	99%	50%	62%
GF \$	32,634	41,689	46,811	69,476	104,533	7,727	7,847	310,717

The following tables summarize potential savings attributable to changes in the City’s salary and benefit structure, and serves to highlight some of the options that are likely to be discussed with the employee bargaining groups.

<i>Salaries & Wages</i>	All Funds	General Fund
-1.0%	\$ (466,955)	\$ (289,512)
-5.0%	(2,334,774)	(1,447,560)
-6.0%	(2,801,729)	(1,737,072)
-7.0%	(3,268,683)	(2,026,584)
-8.0%	(3,735,638)	(2,316,096)
-9.0%	(4,202,593)	(2,605,608)
-10.0%	(4,669,548)	(2,895,119)

- In order to realize General Fund savings of \$2.5 million (and roughly \$4.0 million on an all-funds basis, across-the-board salary reductions of between 8% and 9% would be required.

<i>Employee Pick-up CalPERS EMPLOYEE Contribution (Non-Safety)</i>	All Funds	General Fund
3.0%	\$ (200,000)	\$ (80,000)
4.0%	(400,000)	(160,000)
5.0%	(600,000)	(240,000)
6.0%	(800,000)	(320,000)
7.0%	(1,000,000)	(400,000)
8.0%	(1,200,000)	(480,000)

- Currently, the City pays for the majority of the employee’s share of retirement contributions for non-safety employees. If employees were required to pay the full-share of the statutory employee contribution rate (8.0%), this would result in all-fund savings of \$1.2 million, including \$480,000 in General Fund savings.

<i>Employee Pick-Up of CalPERS EMPLOYER Contributions (All)</i>			
	All Funds		General Fund
1.0%	\$	(300,000)	\$ (186,000)
2.0%		(600,000)	(372,000)
3.0%		(900,000)	(558,000)
4.0%		(1,200,000)	(744,000)
5.0%		(1,500,000)	(930,000)
6.0%		(1,800,000)	(1,116,000)

- The City's CalPERS employer contribution rates are expected to increase over the next 2-3 years for two primary reasons. These include a) the impact of the rate-smoothing methodology adopted by CalPERS to buffer the impacts of recent investment losses, and b) the potential for the CalPERS Board to reduce the annual investment earnings assumption (currently 7.75%) used to develop annual required contribution rates.
- Rate smoothing is expected to result in increases in 2%-3% for non-safety plans and 4%-5% for safety plans. These increases have been accounted for in the City's most recent five-year forecast.
- Should CalPERS adopt a lower investment earnings assumption, additional rate increases in the range of 3% (non-safety) to 6% (safety) could be anticipated.

<i>Capping Cafeteria Cap \$500 - CURRENT Employees</i>		
	All Funds	General Fund
	\$ 2,700,000	\$ 1,674,000

- The City provides health insurance benefits through a cafeteria benefits program, which includes a provisions whereby employees who demonstrate proof of health insurance coverage can opt to receive a cash-out of the unused cafeteria benefit. In the most recent contract negotiations, the City and employee groups agreed to cap the amount of the monthly cash-out at \$500 / month. The cash-out cap for existing employees, in general, was capped at the FY2009/10 amount of roughly \$1,400 / month.
- If the City were to negotiate for an across-the-board cap of the cafeteria cash-out at the level of \$500 / month for all employees, the City could realizes savings of \$2.7 million per year on an all-funds basis, and nearly \$1.7 million per year in General Fund savings.

TIMELINE FOR COORDINATING PUBLIC PROCESS:						
Long-Term Fiscal Stability						
		Employee Compensation	Budget Priorities	Revenues / Economic Develop.	City Council Strategic Goals	Budget Process
June	1					
	2					
	3					
	4			DRAFT ED Strategy /CC		Adopt FY11/12 Budget
July	1					
	2	Labor/Mgmt Mtg			CC Retreat / Status	
	3	CC - Closed Session III	Staff Framework for			
	4		City Service Priorities			
August	1					
	2	Labor/Mgmt Mtg				
	3					
	4					
Sept	1					
	2	Labor/Mgmt Mtg	Review with FBC	Joint Meeting FBC/BEDC		
	3	Employee Comp WKSHP		Review City Revenues		BUDGET REDUCTION OPTIONS
	4					
October	1	CC - Closed Session IV				
	2		Community Town Hall #1	Review Parks Tax Options		
	3					
	4		Community Town Hall #2			
November	1	CC - Closed Session V				1st Qtr Budget Update
	2		Community Town Hall #3			
	3					
	4					
December	1	CC-Closed Session VI	Prelim Community	Prelim Recomm.		
	2		Feedback / Results	Parks Tax Renewal		
	3					POTENTIAL ADOPTION
	4	Successor MOU's (Target)				FY2012/13 Budget Plan
January	1					
	2		Commission Review /		CC Retreat:	
	3		Refinement	CC Action: Parks Tax	GOALS Update	
	4					
Feb	1					
	2					Mid-Year Update
	3					
	4					
March	1					
	2					WKSHP - Dept Budget
	3					Presentations
	4					
April	1					
	2					Council Budget
	3					Priorities
	4					
May	1					
	2					Proposed FY12/13
	3					
	4					
June	1					
	2			ELECTION DAY		
	3					
	4	Current MOU's Expire				Adoption FY12/13

2) Assume FY2011/12 budget to be approved with Tier 1 and Tier 2 reductions, with exceptions of potential restorations proposed by Council:

Based on the feedback provided by the City Council since the presentation of the Proposed Budget on May 17th, staff has identified the following as potential budget flexibility that could be applied to addressing restoration of proposed reductions.

The revised reductions proposed through implementation of Tier 1 and 2 recommendations would result in an estimated \$44,000 in savings over-and-above the levels needed to close the budget deficit and fund the level of funding augmentation recommended via Tier 2 reductions. In addition, \$20,000 of revenues is anticipated as a result of the pending contract with UCD to consolidate fire dispatch services. These revenues have not been included in the baseline revenue projections for FY2011/12.

Consideration of Potential Budget Amendments

	FY2010/11 Budget	City Manager's Proposed Budget		City Council Amendments		Comments
		Tier 1	Tier 2	Sources	Restore	
Original Balancing Plan - Net						
Updated Reduction Proposals CDS				44,000		
UCD Revenues - Fire Dispatch				20,000		
WDCWA JPA Reimbursements				15,000		
Revised Balancing Plan - Net				(79,000)		
Partial Restoration COPS Grant				(95,000)		
City Manager's Office						
Police Ombudsman	50,000	(10,000)	(10,000)		20,000	
International House	15,000	(15,000)				
Convention / Visitors Bureau	30,000	(5,000)		(25,000)		
Downtown BID - Admin Cost	16,000			(16,000)		
Community Services						
Recreation Programs		(36,000)			15,000	
Community Pool Closure	140,000		(140,000)		18,000	Provides funding for extended operations at Manor Pool (Sep-Nov)
Community Dev. & Sustainability						
Reduce GF Supprt Econ Development		(28,000)	(28,000)			Reduction of 0.40 Planner
Police						
Police Records Specialist	16,934	(16,934)			16,934	Partial Restoration of COPS Grant
Police Records Specialist	36,934	(36,934)			36,934	Partial Restoration of COPS Grant
Police Officer	135,473	(135,473)				Anticipated vacancy - recommend "freezing" position; review at Q1
Fire Department						
Firefighter	129,627	(129,627)				Vacant position
Fire Chief Cost-Sharing w/ UCD	100,000		(100,000)			Assumes ongoing consolidation of Fire Management w/ UCD
Available Funding / (Surplus)		(412,968)	(278,000)	(215,000)	106,868	(108,132)

- *Police Department Reductions:*

The primary factor for the level of reductions proposed in the FY2011/12 budget for the Police Department is the loss of State funding, due to expire June 30, 2011. The Governor and the Legislature are actively pursuing means to extend COPS Grant funding through various means. Should funding be extended, an estimated \$190,000 in additional General Fund budget flexibility would be restored to the FY2011/12 budget.

In the event that COPS funding is indeed restored, either prior to June 30, or after the start of the fiscal year, it is recommended that the City Council consider restoration of up to \$190,000 in reductions being proposed in the Police Department, to include:

<u>Reduction</u>	<u>FTE</u>	<u>\$</u>
Restore Police Officer	1.0	\$135,473
Police Records Spec.	0.5 TPT	16,934
Police Records Spec.	0.5	<u>37,593</u>
		\$ 190,000

UPDATE: Last week, the Legislature passed a State budget that was then vetoed by the Governor. Included in the Legislature’s budget was partial restoration (60%) of the funding for the COPS Grant program. The Governor vetoed the budget, in large part due to his continued interest in seeking an extension to various tax measures (Sales Tax and Vehicle License Fees) that would provide for the full restoration of the COPS Grant program. Staff believes that it is likely that the State will ultimately include funding for a portion (60%) or all of the COPS Grant program in its final budget.

As a result, the City Manager is recommending restoring the reduction in Police Records Specialist positions at this time, with the funding for the Police Officer position to remain “frozen” pending final outcome of the State Budget as well as alternative reduction options that will be presented to the City Council by September 30th.

- *Closure of Manor Pool* – The Proposed Budget includes a proposal to close Community Pool as of September 1st – shortening the program for this season by 3 months. The pool would then be “moth-balled” pending a review of community-wide aquatic needs and options for addressing these needs under a three-pool model.

Based upon feedback received from the community groups that rely on the Community Pool facility, staff would recommend that funding be provided in the FY2011/12 budget to extent the months of operation of Manor Pool until November so as to mitigate some of the impacts of the Community Pool Closure.

In addition, staff would highlight that among the reasons for the recommendation to close Community Pool is the need for major capital infrastructure improvements at the pool facility. When combined with the anticipated capital costs of improvements to the Civic Center pool facility, staff recommends assessing the need to maintain the current system of four public pools. Ultimately, it may be possible to redesign and renovate the pool at Community Park so that it can

provide for a broader range of aquatic program needs, up to and including the ability to relocate the uses at Civic Center pool. If this were feasible, staff envisions meeting the maximum number of the community's aquatic needs by effective coordination of resources at Manor, Arroyo, and a newly renovated and upgrades pool facility at Community Park.

It should also be noted that the closure of Community Pool has been proposed as a Tier 2 reduction. This list of reductions is specifically recommended in order to re-allocate existing funding to higher priority needs related to roadway, park and facility infrastructure. It is the shortfall in these areas that begs the question as to whether the community can support four pools – while not allowing for the full cost of their maintenance and replacement needs.

Given the context for the recommended closure of Community Pool, the City Council could consider a number of options:

- 1) Approve the closure of Community Pool as originally recommended (savings of \$140,00)
- 2) Approve the closure of Community Pool with the inclusion of supplemental funding to extend the season at Manor Pool (cost \$18,000)
- 3) Identify other funding sources and/or reductions to restore the \$140,000 in savings proposed from the closure of Community Pool
- 4) Reduce the level of funding being allocated to Tier 2 so as to negate the need to close Community Pool at this time. This would result in reducing the amount of funding being reallocated via Tier 2 budget reductions by \$140,000.

Regardless of the decision by the City Council related to the closure of Community Pool, staff recommends that direction be provided to staff to engage the community in an assessment of the adequacy of the City's existing pools, and develop a long-term plan for transitioning to a three-pool system of pools, which could include a major renovation and redesign of Community Pool and the eventual closure of Civic Center pool.

3) Restore Transportation Funding to \$1 million level (Increasing General Fund contribution by \$850,000). Clarified that this funding support is intended to come from savings to be achieved through \$2.5 million in General Fund personnel cost savings.

Transportation Funding

Tier 2 Cuts - General Fund	150,000
Roadway Impact Fees	200,000
Total Street Maintenance Funding (FY2011/12)	\$350,000

Additional Sources - OPTIONS

Re-Program Tier 2 Savings to Transportation	\$100,000
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Additional Funding

Construction Tax	\$500,000	One-Time FY2011/12
Roadway Impact Fees	\$200,000	
Supplemental Funding from Tier 1 & 2	\$100,000	

Additional Reductions (by Sept 2011) Range of \$500,000 - \$700,000 Recurring

4) Allocate funding (est. \$500,000) in anticipation of CalPERS rate increased (due to possible change in investment earnings assumptions from 7.75% to 7.50%), as early as FY2012/13. Clarified that each full 0.25% change in the CalPERS Interest Earnings Assumption equates to approximately \$1,000,000 on an ALL FUNDS Basis and \$600,000 on a General Fund basis

The City Council has requested that potential General Fund reductions be developed in order to off-set the projected increase in CalPERS retirement contribution rates in the event that interest earnings assumptions are revised down-ward by the CalPERS board.

The following tables are being re-produced from our January City Council workshop related to CalPERS and OPEB benefit funding status and liabilities.

CaIPERS RETIREMENT CONTRIBUTIONS
Impact of FY2011/12 Employer Contribution Rates

	FY2008/09	FY2009/10	FY2010/11	FY2011/12 (Est.)	Change
Miscellaneous Plan (2.5% @ 55)					
Employer Rate	12.09%	12.54%	13.50%	18.02%	4.52%
Contribution (\$)	\$ 2,599,451	\$ 2,727,543	2,575,746	3,557,662	981,916
Employee Rate	8.0%	8.0%	8.0%	8.0%	
Contribution (\$)	\$ 1,728,099	\$ 1,748,234	\$ 1,526,933	\$ 1,579,063	\$ 52,130
Safety Plan (3% @ 50)					
Employer Rate	22.47%	22.76%	22.85%	25.91%	3.06%
Contribution (\$)	\$ 2,287,587	\$ 2,385,920	2,281,177	2,680,727	399,550
Employee Rate	9.0%	9.0%	9.0%	9.0%	
Contribution (\$)	n/a	n/a	n/a	n/a	
Total City Contributions	\$ 6,615,137	\$ 6,861,697	\$ 6,383,856	\$ 7,817,452	\$ 1,433,596

CaIPERS RETIREMENT CONTRIBUTIONS
Impact of FY2011/12 Employer Contribution Rates - NET OF EMPLOYEE PICK-UP (MOU)

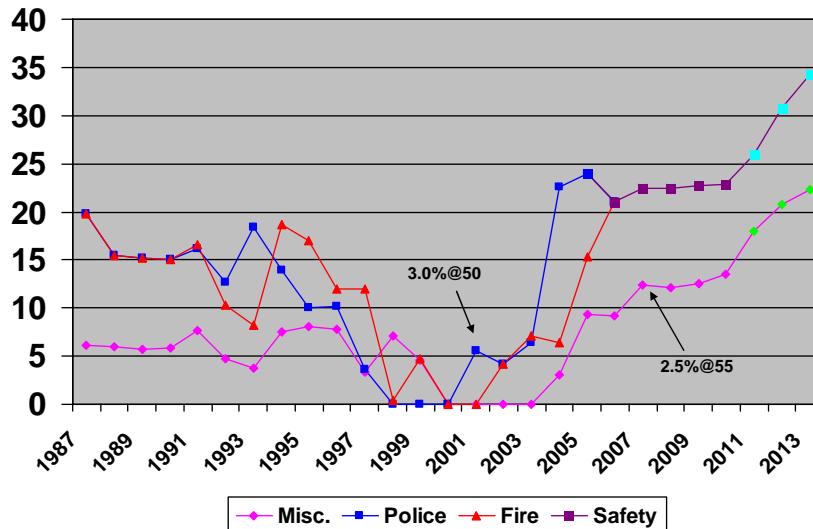
	FY2008/09	FY2009/10	FY2010/11 est	FY2011/12 est.	Change
Miscellaneous Plan (2.5% @ 55)					
Employer Rate	12.09%	12.54%	13.50%	15.09%	1.60%
Contribution (\$)	\$ 2,599,451	\$ 2,727,543	2,575,746	2,979,527	403,782
Employee Rate	8.0%	8.0%	8.0%	8.0%	
Contribution (\$)	\$ 1,728,099	\$ 1,748,234	\$ 1,526,933	\$ 1,579,063	\$ 52,130
Safety Plan (3% @ 50)					
Employer Rate	22.47%	22.76%	22.85%	22.91%	0.06%
Contribution (\$)	\$ 2,287,587	\$ 2,385,920	2,281,177	2,287,168	5,991
Employee Rate	9.0%	9.0%	9.0%	9.0%	
Contribution (\$)	n/a	n/a	n/a	n/a	
Total City Contributions	\$ 6,615,137	\$ 6,861,697	\$ 6,383,856	\$ 6,845,758	\$ 461,902

CALPERS RETIREMENT PLANS

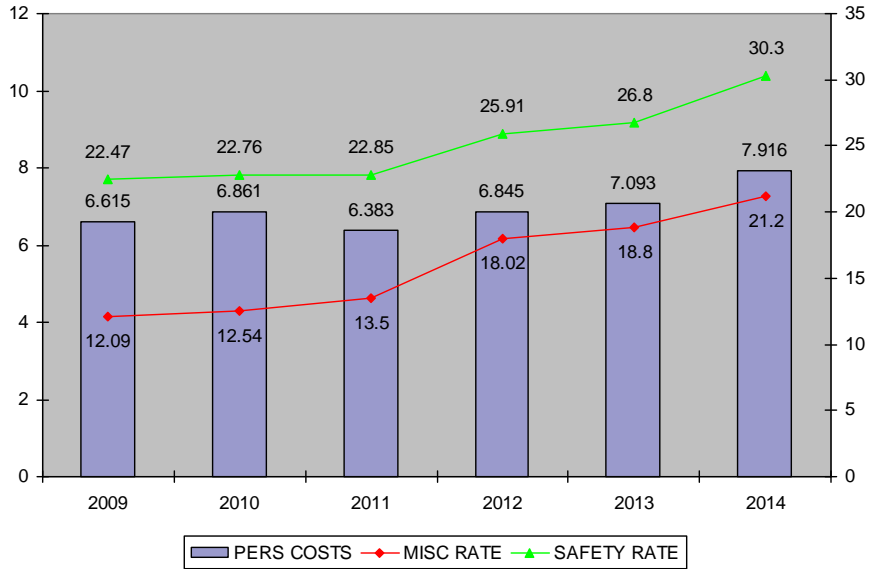
MICELLANEOUS (% of PAYROLL)						
	Assumptions		Investment Loss		TOTALS	
RANGE	Low	High	Low	High	Low	High
2011-12	0.5%	2.5%	0.4	0.6	0.9	3.1
2012-13			0.4	0.5	1.9	3.5
2013-14			1.5	2.2	1.5	2.2
2014-15			0.3	0.4	0.3	0.4
	0.5%	2.5%	2.6%	3.7%	4.6%	9.2%

SAFETY (% of PAYROLL)						
	Assumptions		Investment Loss		TOTALS	
RANGE	Low	High	Low	High	Low	High
2011-12	2.0%	3.0%	0.9%	1.1%	2.9%	4.1%
2012-13			0.7%	0.9%	3.7%	5.9%
2013-14			2.9%	3.7%	2.9%	3.7%
2014-15			0.5%	0.9%	0.5%	0.9%
	2.0%	3.0%	5.0%	6.3%	10.0%	14.3%

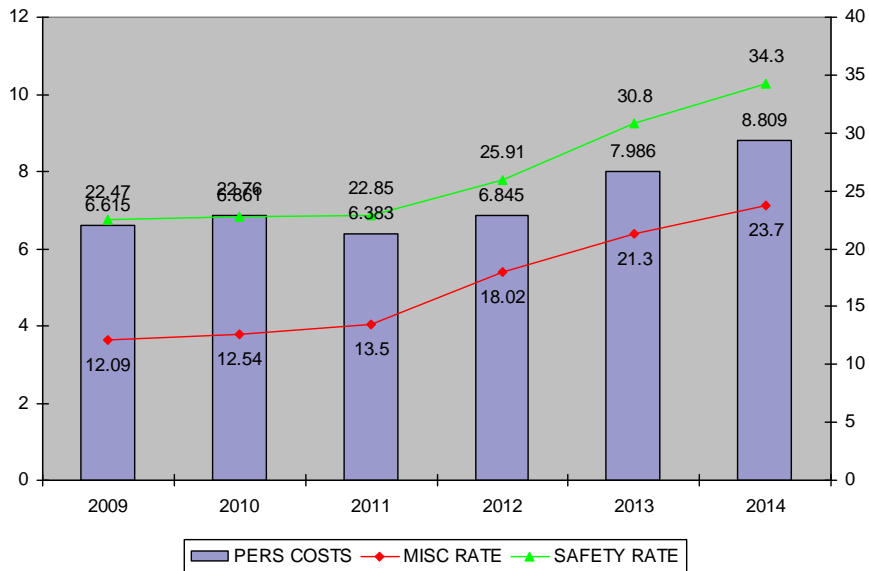
Historical Trends - Retirement Employer Contribution Rates



CALPERS RETIREMENT PLANS

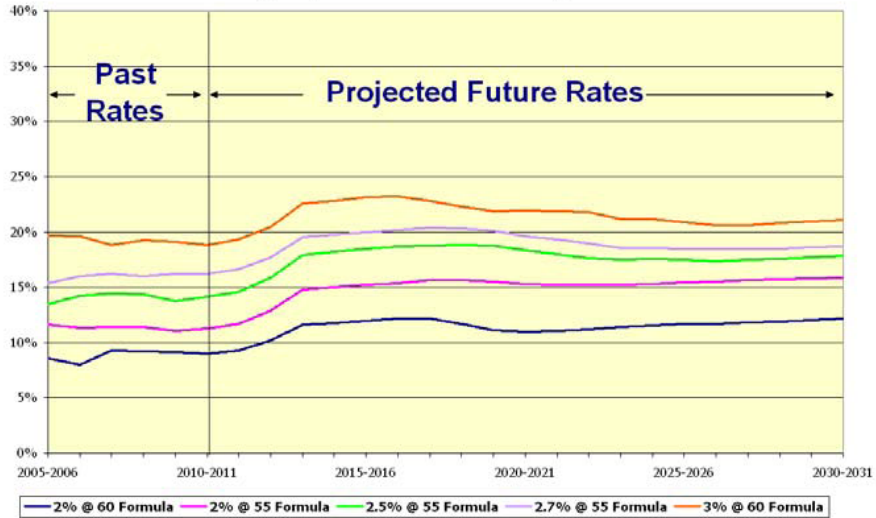


CALPERS RETIREMENT PLANS



CALPERS RETIREMENT PLANS

**Historical and Projected Average Employer Rates
For Local Agency Miscellaneous Plans by Benefit Formula**



CALPERS RETIREMENT PLANS

**Historical and Projected Average Employer Rates
For Local Agency Safety Plans by Benefit Formula**

