

Agenda Report

TO: CITY COUNCIL

DATE: November 23, 2009

FROM: CITY MANAGER

SUBJECT: BUDGET UPDATE

RECOMMENDATION:

The following report is for information only, no City Council action is requested at this time.

BACKGROUND:

Over the past several months staff has provided regular budget updates to the City Council and Council Finance Committee. On October 5th staff presented the latest update to the Finance Committee. As reported, projections of operating revenues indicate that the General Fund budget deficit for the current fiscal year will reach \$11 million; \$5.5 million higher than anticipated in the adopted budget. This increase is a direct result of the continued poor conditions in the economy as a whole and a continuing decline in local sales tax revenue.

Although economic recovery may be underway throughout the county, the significant drop in revenues coupled with their projected slow growth going forward will make restoring the City's fiscal stability a multi-year challenge. Moreover, while most attention is given to the City's General Fund, similar issues are occurring in many of the City's other important funds.

At the October meeting, staff presented a plan to offset the additional \$5.5 million deficit through a combination of: a one-time transfer from the Power Fund in the amount of \$2 million; ongoing reductions totaling \$700,000 through various departmental efforts, as well as \$2.8 million in ongoing personnel costs reductions which could include:

1. Reducing salary increases from contractual or anticipated 4% increases in base pay to a one-time 2% payment. As envisioned employees would receive the lump sum payment in lieu of a Cost of

Living Adjustment (COLA) but with the understanding that it would be included as part of determining compensation for calculating retirement benefits. This action would provide a long-term structural benefit.

2. Furloughs – either closing non-essential operations one or two days per month or perhaps between Christmas and New Years. This has a one-time cost impact and would not work city-wide. Moreover, this does not provide any structural benefit.
3. Reducing work hours – working fewer hours per day, shifting from a 9/80 to as little as 9/66. Reducing work hours would effectively result in a salary reduction for employees and would reduce the hours the City is available to provide public service. Similar to furloughs, this option does not provide a structural benefit.
4. Increasing employee contributions towards retirement costs – having employees pay the 8% Employee Portion of PERS costs on a pre-tax basis, rather than reimbursing the City on an after-tax basis under the current cost sharing arrangement. This would impact those employees who retire within the next three to five years. This option does provide a structural benefit.
5. Layoffs – reducing the total number of staff positions and reducing or eliminating non-critical services. This would address the structural deficit but would have a direct impact on program service levels. This option does provide a structural benefit.

Clearly, the least impactful of options as it relates to the provision of City services to the public and to City employees, is the first option. While Pasadena's fiscal challenges are significant, it is a testament to the relative financial stability of the City that it can offer some form of additional compensation while other cities throughout the state are implementing pay and benefit reductions, furloughs and layoffs or some combination thereof.

However, in instances where existing labor contracts are in place, implementation of the first option requires a negotiated agreement with the bargaining unit. Currently one of the largest bargaining groups is due for a 4% increase on January 4, 2010. In the unfortunate event agreement on this approach cannot be reached, the City would have no choice but to implement one or more of the other options outlined above, and would likely implement the third option, reduced working hours. It is important to note that as a practical matter not all employees can have their hours reduced due to the nature of their work. As a result, those employees who can have their hours reduced will need to absorb the reductions for those that cannot and therefore could potentially go from an average 40 hour work week to an average 33 hour work week. The consequence for affected employees is a significant reduction in income and is expected to have a devastating effect on workplace morale and productivity.

If an agreement is reached to accept a 2% one-time payment in lieu of 4% COLA, and provided the economy does not deteriorate further or some other

unforeseen action impact the City such as additional state take-aways, staff believes that implementing additional options will not be necessary this year. Regardless, the City has a responsibility to maintain its fiscal stability

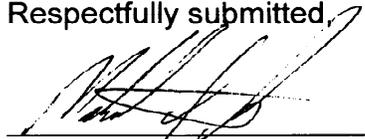
The City continues to monitor revenues and expenses closely to ensure that the 5-year plan to balance the budget is achieved. Significant efforts are being undertaken to ensure expenses remain within our means and all avenues of potential savings are explored. Requests to fill vacancies are being thoroughly analyzed to determine how long positions can remain vacant or if they can be under-filled or permanently eliminated. Contracts are being reviewed to ensure that they are necessary and cannot be completed with in-house staff. As an example, a department recently rejected a bid for construction services so that staff could complete the work instead and avoid the additional costs of outsourcing.

These are unprecedented times that require unprecedented solutions. Employees of the City of Pasadena came together last year for the benefit of the City by forgoing their 4% negotiated or anticipated salary increases. As a direct result, preventing devastating impacts to employees and programs and services which benefit the community they serve. Fortunately, the City's financial plan allows some latitude to provide the workforce a meaningful level of additional compensation provided agreement can be reached to provide such and avoid otherwise significant negative impacts.

FISCAL IMPACT:

The City has a four year plan to balance the General Fund operating budget. In order to maintain financial stability it is critical that this strategic goal be adhered to and staff fully intends to recommend actions to ensure this is achieved.

Respectfully submitted,



MICHAEL J. BECK
City Manager