Report Type:  Meeting Date: 10/18/2011

Summary Title: Budget Update 2012

Title: Fiscal Year 2012 Budget Update

From: City Manager

Lead Department: Administrative Services

Recommendation
Staff recommends that the Finance Committee provide feedback or direction on how to address the $4.3 million public safety labor group compensation concession placeholder in the Fiscal Year 2012 Adopted Budget.

Executive Summary
Staff is returning with information as directed by the Finance Committee during the FY2012 budget hearings to provide an update on the $4.3 placeholder for the public safety labor group compensation concession.

Background
The Fiscal Year 2012 (FY2012) Adopted Budget included a $4.3 million budget-reducing placeholder for expected cost savings from negotiations with the City’s four public safety unions. This placeholder helped close a projected $3.2 million gap in the General Fund as well as provide funding for additional pension and healthcare cost increases anticipated in FY2013. When the Finance Committee recommended approval of the FY2012 Proposed Budget, in May, Committee members expressed uncertainty about the likelihood of obtaining the necessary budget savings to achieve $4.3 million. The Committee directed staff to return early in the fiscal year to update the Committee on the status of achieving the $4.3 million in savings.

Council will consider a new memorandum of agreement (MOA) with the International Association of Fire Fighters (IAFF), Local 1319, on October 17. If Council approves the MOA it will provide $1.1 million in salary and benefit cost savings in FY2012. This would reduce the amount needed to close the placeholder to $3.3 million.

Discussion
FY2011 Budget Update
Staff is in the process of finalizing the year-end financial statements for FY2011. The City’s financial statements and external audit results will be included in the comprehensive annual financial report (CAFR), which staff will present to the Finance Committee in December.
Although the financial statements are not finalized, staff has preliminary numbers that can be shared at this time. Fiscal Year 2011 revenues came in higher than adjusted budget, driven by a $0.6 million increase in the transient occupancy tax (hotel tax) that has improved as business travel has increased some in the local area. Documentary transfer taxes (tax on real estate transactions) are also a key driver and revenue in this category will be up $1.2 million compared to the FY2011 adjusted budget. Modest improvements in the local economy in FY2011 resulted in increased sales tax revenue of $1.2 million compared to FY2011 adjusted budget. Staff is monitoring these revenues in FY2012 and may recommend changes at midyear, if warranted.

Mainly due to these results, the balance in the General Fund Budget Stabilization Reserve (BSR) is expected to increase compared to what was presented in the FY2011 mid-year adjusted budget (report ID#1442) and in the third quarter financial report. At the time of the FY2011 midyear, in March, 2011, staff showed a negative impact to the BSR due to midyear budget changes that included increases to department budgets. The projected BSR balance at the FY2011 midyear point was $26.9 million or 19.3% of FY2011 adopted expenditures.

The FY2011 year end results will change the FY2011 BSR ending balance by transferring $2.7 million to the BSR. The resulting BSR balance is estimated to be approximately $30 million or approximately 21 percent of adopted expenditures.

**FY2012 Budget Update**

During the review of the FY2012 Proposed Budget the Finance Committee asked staff to provide alternatives for reducing the public safety budget in the event that staff is unable to reach agreement with the public safety unions to achieve savings in the amount of $4.3 million.

To do this staff first proposes to defer the $1.1 million reserved for anticipated pension and healthcare costs in 2013, thus freeing up funds in FY2012 and reducing the placeholder to $3.2 million. If the $1.1 million in concessions from IAFF is approved, the gap is further reduced to $2.2 million. Since the BSR would have an increase of $2.7 million from FY2011 those funds could be used to close the budget gap. Staff will continue negotiating with the other safety labor groups to achieve structural changes to their compensation that will help close this year’s gap and the significant FY2013 projected gap. As the Finance Committee’s discussion on the new figures for our retiree medical costs unfunded liability will show, the City faces new, increased costs in FY 2012 in that area.

As outlined in Attachment A, in the Police Department, staff identified an alternative that would eliminate 11 police officers to reach savings of $2.0 million. In the Fire Department, staff identified a reduction of one Engine Company combined with either brown-outs or the elimination of one Rescue Company. Either combination would provide an estimated $2.3 million in cost savings. Together, the Police and Fire department reductions would result in an estimated $4.3 million savings necessary to achieve the place holder amount and the additional amount for pension and healthcare costs in FY2013. As these reductions could have an impact on service delivery, staff is also pursuing labor concessions through contract negotiations with
the four public safety unions. It is the City Manager’s recommendation to not proceed with these cost saving reductions at this time. These service level reduction options could still be considered depending on how negotiations proceed.

Public Safety Negotiations Update
Staff has been actively pursuing contract negotiations with all four public safety unions. Since negotiations with the public safety unions have not resulted in an agreement as of September, it is unlikely that the City will realize the full $4.3 million placeholder included in the FY2012 budget. A new MOA between the City and IAFF, is scheduled to be considered by the City Council on October 17. The MOA, if approved by Council, will provide an estimated $1.1 million in salary and benefit cost savings in FY2012.

Three alternatives are presented for Finance Committee consideration to close the FY 2012 projected budget gap:

1) Eliminate the set aside for FY2013 pension and healthcare increases and transfer BSR balance to cover the gap as show in Table 1 below.
   This is staff’s recommendation based on the upcoming availability of funds prior to the FY2012 midyear budget. The amount transferred will be $2.1 million if the Council approves the new MOA for IAFF.

2) Monitor until midyear and propose changes at that time
   This is a viable option that may reduce the transfer from the BSR if certain revenues come in higher at midyear than expected.

3) Budget cuts in public safety as outlined in Attachment A
   This option would take time to implement, given the current period of the fiscal year, and thus would be difficult to achieve the full $4.3m in FY2012. A potential draw on the BSR could be anticipated depending on the timing of implementation.

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<th>Table 1:</th>
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<td>Staff Recommendation: Scenario if Council votes on new MOA with IAFF</td>
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<td>($millions)</td>
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<tr>
<td>Scenario: new MOA with IAFF</td>
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<td>FY2012 Placeholder</td>
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<tr>
<td>Eliminate set aside for FY2013 pension and healthcare increases</td>
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<tr>
<td>New MOA with IAFF (pending)</td>
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<td>Revised FY2012 Placeholder</td>
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Timeline
Staff is recommending that the Finance Committee provide direction that would allow staff to take action at the midyear timeframe at the latest.

Resource Impact
As shown in Table 1 above staff recommends a transfer from the BSR and elimination of the set aside for anticipated FY2013 pension and healthcare increases to close the $4.3 million placeholder. The transfer from the BSR would be $3.2 million or $2.1 million depending on the outcome of Council’s vote on the MOA. This would result in a BSR balance of approximately $26.8 million or 18.4 percent of adopted budget total expenditures should the transfer be $3.2 million. If the transfer is $2.1 million the BSR balance would be approximately $27.9 million or 19.1 percent of adopted budget total expenditures. These figures may change as the year-end FY2011 financials are finalized in December.

Policy Implications
Staff’s recommendation does no impact existing Council Policy.

Attachments:
- a: Attachment A: Public Safety Cut Alternatives Memo from Finance Committee Meeting May 20, 2011 (PDF)

Prepared By: David Ramberg, Assistant Director
Department Head: Lalo Perez, Director
City Manager Approval: James Keene, City Manager
CITY OF PALO ALTO
MEMORANDUM

TO: HONORABLE FINANCE COMMITTEE

DATE: May 20, 2011

SUBJECT:

• Follow-up on Preliminary Reductions to Public Safety if Compensation Concessions are not Materialized

• Office of Emergency Services Recommendations

Attached are memos for the May 24, 2011 Finance Committee Meeting.

PAMELA ANTL
Assistant City Manager

JAMES KEENE
City Manager
CITY OF PALO ALTO
MEMORANDUM

TO: James Keene, City Manager
    Pamela Antil, Assistant City Manager
    Lalo Perez, Director of Administrative Services

FROM: Dennis Burns, Interim Director of Public Safety

DATE: May 16, 2011

SUBJECT: FY 2012 Police Department Alternative Reduction Proposal

Background

The 2012 General Fund budget balancing proposal to the Finance Committee relies on $4.3 million in concessions from Police and Fire unions which are still being negotiated (approximately $2M from Police and $2.3M from Fire). The Finance Committee requested information related to other cuts that could be made if these concessions are not agreed upon by mid-year of FY 2012 to cover the ensuing $4.3 million gap. Although I remain confident that concessions will be made by both unions, the following memo was prepared to address the budget shortfall in the Police Department if they are not made in a timely manner.

It must be noted that these options were developed fairly quickly and, as a result, should the Finance Committee and full City Council wish to proceed with such changes, staff would request additional time to conduct a more detailed analysis to determine final cost savings; possible impacts related to changes in shift staffing; and impact on service levels in the community. Although we cannot predict to what extent, we assume that any changes to staffing will impact service levels to the community in some way (e.g., response times, community outreach, enforcement activities, etc.). This would need to be addressed through a restructuring of the department to mitigate any negative outcomes. Concessions from the employee groups are clearly preferable to undertaking such changes immediately.

Analysis

The Police Department command staff met on numerous occasions to examine how we might achieve this $2.0 million reduction through the elimination of positions, reorganization of the Department and/or contracting services currently provided in-house. This exercise proved challenging as the Police Department has already eliminated 31 positions (18 non-sworn and 13 sworn positions) since FY 2002/03. Further complicating our analysis is the fact that the Police Department has a number of positions that are difficult to eliminate as they generate revenue or provide services to a regional...
partner pursuant to a contract (e.g., dispatch and animal services). These are typically the services that other communities have selected to outsource to another community or private vendor. To outsource these services in Palo Alto would necessitate a deeper analysis/formal study to determine if they could be done more efficiently while still generating the same or higher level of service and revenues.

**Reductions in Staff and Operations:**

To meet the $2.0 million reduction objective the Police Department would eliminate 11 Police Officer positions, assuming a fully loaded salary/benefits cost of approximately $183,500/sworn officer position. Eliminating 11 positions would reduce our authorized strength from the current 91 sworn officer positions to 80 sworn officer positions. 11 sworn positions would be equivalent to eliminating the entire Investigative Services Division (Detectives) or approximately 25% of the officers assigned to the Field Services Division (Patrol). Most likely a reduction this significant would be accomplished by eliminating a combination of patrol officer positions, detective positions and traffic officer positions. Any significant reduction in police officers would necessitate a major restructuring of the Patrol and Investigations Divisions. In addition, some changes may trigger meet and confer requirements under the union agreement.

The Police Department has made every effort to identify reductions that did not severely impact the current level of service to meet the $2 million objective and without bringing back the recommendations from the last fiscal year which were rejected by the Finance Committee and City Council (e.g., elimination of traffic unit, crossing guards, etc.). Unfortunately, we are unable to suggest new cuts that do not impact patrol, traffic and investigative services in some way.

I look forward to working with you and your staff to answer any questions about the Police Department’s staff reduction options.

Respectfully submitted,

Dennis Burns
CITY OF PALO ALTO
MEMORANDUM

Date: May 19, 2011

To: James Keene, City Manager
Pamela Antil, Assistant City Manager
Lalo Perez, ASD Director

From: Dennis Burns, Interim Director of Public Safety

Subject: FY 2012 Fire Department Alternative Reduction Proposal

Background

The 2012 General Fund budget balancing proposal to the Finance Committee relies on $4.3 million in concessions from Police and Fire unions which are still being negotiated (approximately $2M from Police and $2.3M from Fire). The Finance Committee requested information related to other cuts that could be made if these concessions are not agreed upon by mid-year of FY 2012 to cover the ensuing $4.3 million gap. The following memo was prepared to address the budget shortfall if they are not made in a timely manner.

It must be noted that these options were developed fairly quickly and, as a result, should the Finance Committee and full City Council wish to proceed with such changes, staff would request additional time to conduct a more detailed analysis to determine final cost savings; possible impacts related to the Stanford contract; and impact on service levels in the community. Although we cannot predict to what extent, we assume that any changes to staffing will impact service levels to the community in some way (e.g., response times, community outreach, etc.). This would need to be addressed through a restructuring of the department to mitigate any negative outcomes. Concessions from the employee groups are clearly preferable to undertaking such changes immediately.

Analysis

Outsourcing:

A consideration of outsourcing for the Department’s Fire Prevention Bureau was briefly looked at by staff but would need more time to be fully vetted to determine if such an arrangement is possible in Palo Alto. Staff also reviewed the 2011 RFP for Fire and Emergency Services that the City of San Carlos recently completed. However, as with outsourcing fire prevention, further analysis would be required to make comparisons between that process and the services and the current environment in Palo Alto.
Reductions in Staff and Operations:

Staff identified the following options to achieve about $2.3 million cost savings objective placed upon the Fire Department. These options took into consideration a number of factors including a combination of call volume, response times and provisions in the current contract with Stanford. Descriptions of the potential service impacts or other implications are included with each option:

**Option 1 (Shut down One Engine Company and Brown-outs):**

To meet the savings objective the Fire Department would reduce staffing by 9 FTE through elimination of one Engine Company and implementing a sequential fire station brown out system. Daily line staffing would be reduced to 26 personnel from the current 29. Browning out fire stations would begin when staffing for a given day falls to 25 personnel. In this model, the City of Palo Alto would reduce our authorized strength from the current 108 to 99 sworn shift personnel and overtime due to staffing would average one 12 hour person for the medic van per day, resulting in approximately 2/3 less overtime per year.

The fully loaded salary/benefits cost reduction would be approximately $4.5 million. This option would result in a reduction in Stanford reimbursement of approximately $1.4 million, leaving a total proposed budget savings of $3.1 million.

**Option 2 (Shut down One Engine Company and One Rescue Company):**

To meet the savings objective the Fire Department would reduce staffing by 18 FTE through elimination of one Engine Company and one Rescue Company. Daily line staffing would be reduced to 23 personnel from the current 29. Eliminating 18 positions would reduce our authorized personnel from the current 108 positions to 90. The reduction would eliminate the hazardous materials response capabilities and could affect the current Stanford-Palo Alto contract. The current practice of staffing the 12 hour medic unit with overtime would remain the same.

The fully loaded salary/benefits cost reduction would be approximately $3.5 million. This option would result in a reduction in Stanford reimbursement of approximately $1.07 million leaving a total proposed budget savings of approximately $2.4 million.

It should be noted that all submission options above would require further discussion and are likely subject to the meet and confer requirements of the union agreement. Fire Department Management has been meeting with Local 1319 (IAFF) to explore alternative staffing models that could provide other cost reductions to the City if adopted.

I remain optimistic that the anticipated labor concessions will be achieved to balance the FY 2012 budget. I am available to meet with you and your staff to answer any questions in this reduction proposal.

Respectfully submitted,

Dennis Burns
Interim Director of Public Safety