



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

SUBJECT: 2010-2011 BUDGET PLANNING

DATE: October 30, 2009

Approved

Chuck Reed

Date

10/30/09

RECOMMENDATION

1. Direct staff to enter into negotiations with our unions to obtain ongoing wage and benefit concessions in 2010-2011 to cover 50% of the current projected shortfall. The remaining shortfall should be covered through revenues and service delivery changes.
2. Direct staff to start negotiations to change retirement benefits for new employees to allow the City to control future increases in retirement costs. Negotiations should be guided by the policy statement on Local Government Retirement Benefits issued by the Santa Clara County City Managers Association and the San Mateo County City Managers Association.
3. Direct staff to not agree to any ground rules with a bargaining unit that prevents disclosure of proposals. All offers made by the City and bargaining unit shall be made public at the time they are made.
4. Direct staff to include in the annual community budget poll questions to evaluate potential public support for new revenues.

BACKGROUND

This year we are going to face another difficult year and must balance a \$96.4 million shortfall in the General Fund. In previous years we solved our shortfalls through a combination of strategies including service reductions and position eliminations, revenue increases and uses of reserves and other one-time sources. Since 2001-2002, the City has eliminated over 800 positions.

Last year we joined with our employees and shared the budget deficit burden and avoided some of the most drastic cuts such as closing community centers and reducing library hours. Thanks to concessions from our employees, we were able to save a lot of services and jobs. I am grateful for their help.

A frequent comment we heard from our bargaining units last year was we should start the concession discussion earlier and give the employee groups a dollar amount needed from

employees to balance the budget. My recommendation would generate a total savings of \$48.2 million, which should be allocated among the bargaining units so that the burden is shared.

I am also recommending we begin negotiations to change the retirement benefits for new employees to allow the City to control future increases in retirement costs. Drops in investment losses combined with newly approved benefits enhancements have caused dramatic increases in employer contribution rates. Due to these investment losses of over \$1 billion in both the Police and Fire Department Retirement and the Federated Retirement plans the City's pension plan contribution will rise. Under one scenario our expected pension plan contribution will grow by \$50 million to an annual contribution of \$100 million per year. This system is not sustainable and needs to be fixed through a new and lower second tier retirement benefit for new hires. As we move forward this discussion with our employee groups, I propose we use the principles as outlined by the Santa Clara County City Managers Association and the San Mateo County City Managers Association.

Guiding Principles

- Our residents deserve fiscal policies that preserve local government's ability to meet community needs, while attracting competent and motivated employees to public service.
- Providing adequate retirement benefits is an important part of attracting and retaining public employees.
- Current retirement benefit formulas are not fiscally sustainable. The costs are escalating beyond our ability to fund them and diverting limited resources from direct service delivery to our communities. In addition, current pension benefits exceed what private sector employees receive and what is reasonably needed to attract public employees.
- Each city has different histories, perspectives and fiscal conditions; a "one size fits all" approach may not be realistic, but all cities in the region compete for the same employees and therefore should move in the same direction to a lower-cost benefit.
- Each city has the legal duty to meet and confer in good faith with its recognized bargaining unit representatives concerning changes to existing terms and conditions of employment.
- Every city is committed to moving toward a two tier system for all new contracts.
- Any new system or tier should be fair to employees, sustainable for taxpayers and employers, and based on objective actuarial data.