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 City Budget Office

Memorandum

**TO:** HONORABLE MAYOR  
 AND CITY COUNCIL

**SUBJECT:** UPDATE ON THE 2011-2012  
 PRELIMINARY GENERAL FUND  
 FORECAST

**FROM:** Jennifer A. Maguire

**DATE:** January 24, 2011

Approved

Date

1/24/11

**INFORMATION**

On November 8, 2010, the City Manager's Budget Office issued the 2011-2012 Preliminary General Fund Forecast as an initial planning tool in the development of the 2011-2012 Proposed Operating Budget. Based on information available at that time, including retirement rate projections from February 2010, the General Fund shortfall was projected to be \$70 million (see table below). On December 2, 2010, the shortfall total was revised upward to \$90 million based on very early information regarding increasing retirement contributions.

During the last three months, the Federated and Police and Fire Retirement Boards have approved key changes in assumptions and methodologies that impact the City's required contribution payments to the three retirement systems. This memorandum provides an update to the 2011-2012 Preliminary General Fund Forecast that reflects only these approved changes to the City's retirement contribution payments. As outlined in the table below, the shortfall is now estimated to be almost \$110 million.

| Shortfall Components                          | 2011-2012 Preliminary General Fund Forecast Shortfall as of November 8, 2010 | 2011-2012 Updated Preliminary General Fund Forecast Shortfall as of January 24, 2011* |
|---|--|---|
| Carry-Over from 2010-2011 Adopted Budget      | \$20.5 M   | \$20.5 M  |
| <b>Increased Retirement Contributions*</b>    | <b>21.5 M</b>  | <b>60.9 M</b>   |
| Increased Health Care Costs                   | 4.1 M  | 4.1 M   |
| Salary Step/Performance Increases             | 3.1 M  | 3.1 M   |
| 2011-2012 Committed Additions                 | 6.6 M  | 6.6 M   |
| Public Safety Vehicle Replacement             | 4.4 M  | 4.4 M   |
| Other Expenditure Adjustments                 | 0.2 M  | 0.2 M   |
| Decreased Revenue Estimates                   | 9.5 M  | 9.5 M   |
| <b>Total 2011-2012 General Fund Shortfall</b> | <b>\$69.9 M</b>  | <b>\$109.3 M</b>  |

\* Updated Retirement Contribution information only, updated 2012-2016 General Fund Forecast to be issued in late February; Increased Retirement Contributions: Police (\$26.7 M), Fire (\$18.7 M), Federated (\$15.5 M); Does not include updated Police/Fire retiree healthcare changes.

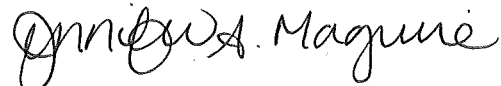
January 24, 2011

**Subject: UPDATE ON THE 2011-2012 GENERAL FUND FORECAST**

Page 2

As displayed in the above chart, increased retirement contributions now represent approximately 56% of the 2011-2012 Preliminary General Fund shortfall. The November shortfall projected increased retirement contributions totaling \$21.5 million. The increased retirement contributions are now expected to total \$60.9 million based on recent actions approved by both retirement boards. As outlined in the January 20<sup>th</sup> Information Memorandum (*Recent Retirement Actuarial Valuation and Methodology Changes and Discussion of 2011-2012 Budgetary Impacts*), this increase is primarily due to lower investment rate of return assumptions as well as methodology changes for calculating the City's annual required contribution payments to the three retirement systems.

It is important to note that the formal 2012-2016 General Fund Forecast is scheduled to be released on February 28, 2011. This Forecast will contain a comprehensive update to all revenue and expenditure projections contained in the Preliminary Forecast, including any additional updates to City retirement contributions approved for 2011-2012 and forecasted for the next four years.



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Budget Director