

City of Watsonville
Finance Department

APPROVED
By Carlos J. Palacios at 6:01 pm, May 20, 2013



MEMORANDUM

DATE: May 20, 2013
TO: Carlos J. Palacios, City Manager
FROM: Ezequiel Vega, Administrative Services Director *Ezequiel Vega*
SUBJECT: 2013-2014 PROPOSED BUDGET AND 2014-15 PROJECTED BUDGET

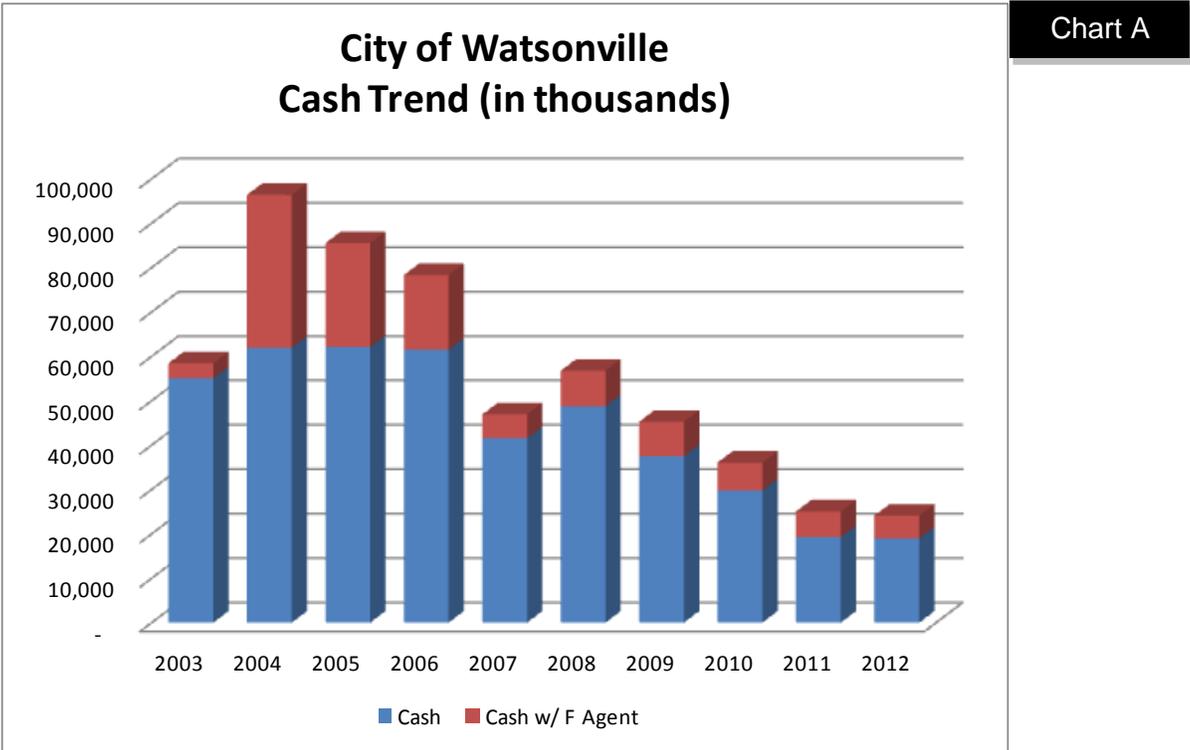
AGENDA ITEM: May 21, 2013 Joint Successor Agency & City Council

RECOMMENDATION:

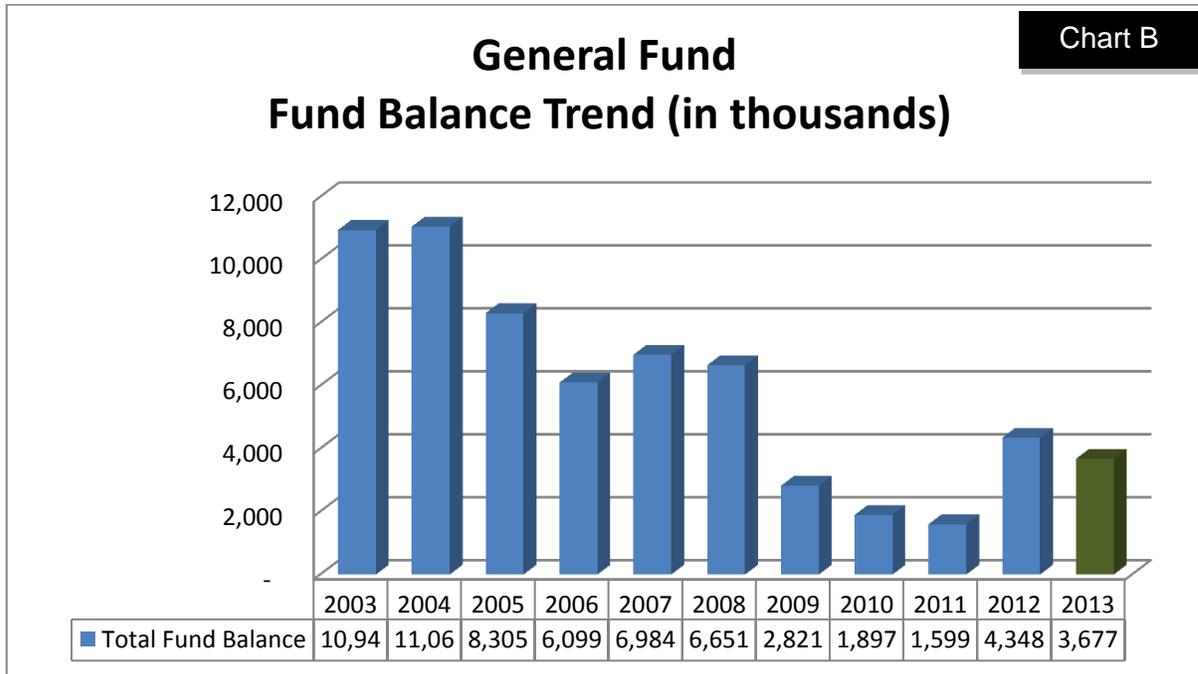
Staff will present the Proposed 2013-2014 Budget and the 2014-2015 projected budget plan including the 5-year Capital Improvement Program. No further action is required.

BACKGROUND:

As previously indicated during the Audited Financial Statements presentation to the Council during the February 12, 2013 meeting; the City of Watsonville has experienced financial challenges which have resulted in reduction of cash reserves citywide and depletion of General Fund reserves. This decline can be seen in the chart below.



In fact, General Fund reserves are projected to be lower at the end of FY 2013-14. The decline in cash and fund balance could be exacerbated by the recent demand for payment from the State Department of Finance (DOF) in the amount of \$4.6 million (more details about this are found in the redevelopment section below).



Keep in mind, FY 2011-12 audited General Fund City reserves when compared to comparable cities are below the median point as reported in the latest audited financial reports for each comparison City.

Watsonville vs. Comparable Cities FY 2011-12

	Salinas	Scotts Valley	Santa Cruz	Gilroy	Monterey Hill	Morgan Hill	Median	Watsonville
GF Revenues and Other Sources	\$ 82,490	\$ 7,703	\$ 77,912	\$ 38,082	\$ 61,050	\$ 23,493	\$ 48,557	\$ 36,658
GF Expenditures	\$ 82,517	\$ 7,833	\$ 95,908	\$ 35,230	\$ 59,125	\$ 25,479	\$ 45,670	\$ 35,809
GF Fund Balance	\$ 7,833	\$ 6,749	\$ 25,531	\$ 25,482	\$ 33,831	\$ 7,282	\$ 18,140	\$ 4,348
		NP	NP					
Fund Balance, % GF Exp	9.50%	86.16%	26.62%	72.30%	57.22%	28.58%	42.90%	12.14%

DISCUSSION:

Following is the proposed schedule with regard to the adoption of the 2013-2014 Budget and the 2014-2015 Projected Budget. On February 26, 2013 the City Council approved the Mid-Year Budget Report and Revised City Budget. On March 1, 2013, the City Council conducted a Study Session on the 2013-2015 Strategic Plan which includes overall policy and strategic goals for the City and provides direction to staff on budget priorities. The Strategic Plan was approved on May

14, 2013. Today, May 21, the City Council is conducting its first study session on the proposed budget for the next two years. On May 28, a second study session on the proposed budget will be held and staff will receive direction from the City Council. It is proposed that the City Council take action on the 2013-2014 Budget and 2014-2015 Projected Budget on June 11.

The City of Watsonville has faced serious financial challenges over the last five fiscal years. In three of those fiscal years, the City made a policy decision to deficit spend in the General Fund operations in order to preserve valuable services and jobs in the community resulting in depletion of General Fund reserves. With these efforts, services were maintained with minimal labor reduction. This was particularly true in the areas of public safety where no Police or Fire layoffs were implemented during that period of time. Please refer to Exhibit 1 below for a summary of prior year reductions.

Exhibit 1

General Fund Reduction Strategy	Timing	Estimated Annualized Savings
Hiring freeze for all non-safety General Fund positions	Winter 2007	\$402k
Reduce Capital projects	Mid-Year 2008	\$133k
Freeze and eliminate various capital projects	June 2008	\$693k
Staffing reductions implemented	June 2008	\$1 million
Increase parking permits & fire false alarm fees; sold excess property	June 2008	\$120k
Reduce General Fund staffing	August 2008	\$75k
Reduce General Fund staffing	October 2008	\$120k
Holiday temporary layoff plan from 12/22/08 through 1/05/09.	December 2008	Net \$440k
Administrative freeze on General Fund travel and training programs	January 2009	\$59k
Freeze additional position	January 2009	\$106k
Reduce General Fund staffing	February 2009	\$131k
Increase Parking Citation rates	March 2009	\$110k
Massive reduction plan for FY 2009-2010: Up to 15% employee comp reduction, Freeze step increases for miscellaneous groups, 3 layoffs & 20 unfunded positions; unfunded all General Fund Capital Projects; 15% reduction in Community/Social grants, 911 Center & Animal Services	June 2009	\$4.5 million
Additional eliminations of General Fund staffed positions & implemented a low-cost Voluntary Retirement program.	Fall 2009	Net \$70K
Additional reductions of General Fund staffing	February 2010	\$379k
Amendments to Vehicle Towing Services Ordinance	March 2010	\$183k
Reduce General Fund staffing, personnel costs and social service grants, continuing reductions from prior budget cycle	June 2010	\$1.5 million
Mid-year reduction plan Eliminated P&CS Superintendent, consolidate programs with P&CS, consolidate customer services between departments, eliminate additional support services, assume maintenance contract for Driving Range, increase lease revenue	Feb 2011	\$301k
Reduce General Fund options with ongoing personnel cost	June 2011	\$1.93 million

reductions, 5% reduction social service grants, and operating reductions from prior budget cycles: 19 Positions eliminated, unfunded and reduced Reduced retirement benefits for all new hires by implementing 2-tier system for Miscellaneous and Public Safety groups		
Additional reductions of General Fund staffing through attrition and RAHD staffing due to elimination of Redevelopment Agency	Feb 2012	\$400k

Assuming that all labor groups maintain current salary and benefit concessions at the current level, the FY 2013-14 *Proposed Budget* is balanced. However, since resolution to ongoing negotiations with the different labor groups is still pending, there is a distinct possibility the budget may be thrown out of balance if the current concessions achieved with the collaboration of the labor groups are not maintained in FY 2013-14. This report will present two separate scenarios:

- Alternative A: FY 2013-14 Proposed Balanced Budget with Continuing Concessions and no layoffs
- Alternative B: FY 2013-14 Proposed Balanced Budget without Some Concessions and with issuance of layoffs.

Proposed Budget Alternative A. Preparing the budget for the new two budget cycle (FY 2013-14 & 2014-15) has been challenging just as in the previous five fiscal years. Even before beginning the budget work, it was readily apparent revenues were not growing at the same pace as expenditures and some level of reduction would be necessary. Accordingly, departments were asked to prepare three different budget scenarios for consideration:

- Status quo budget (for all departments, all funds),
- One percent reduction budget (General Fund Departments only), and
- Three percent reduction budget (General Fund Departments only)

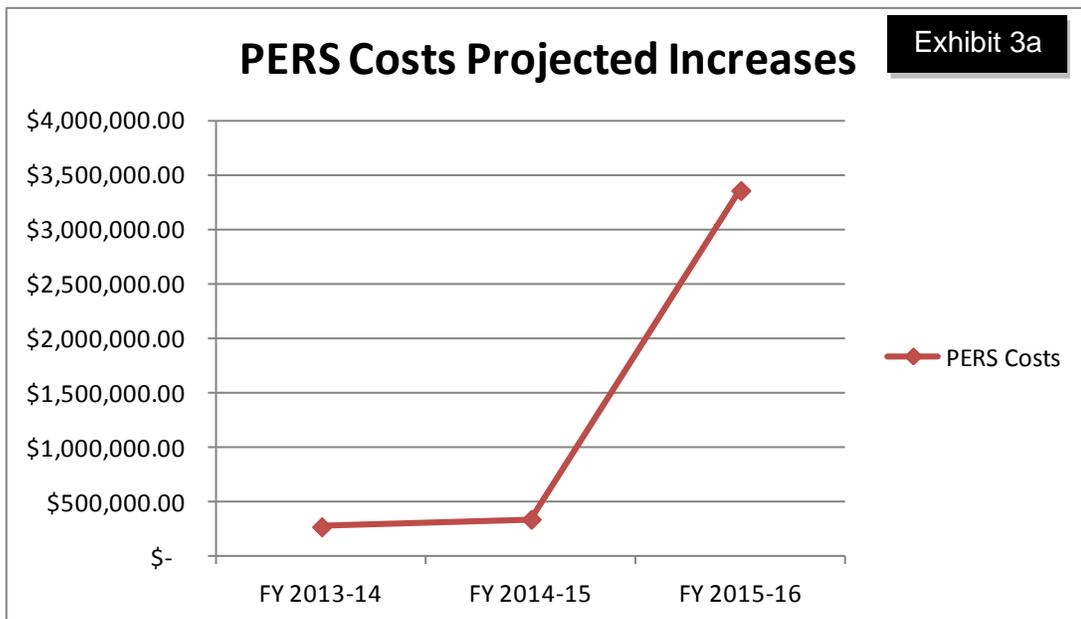
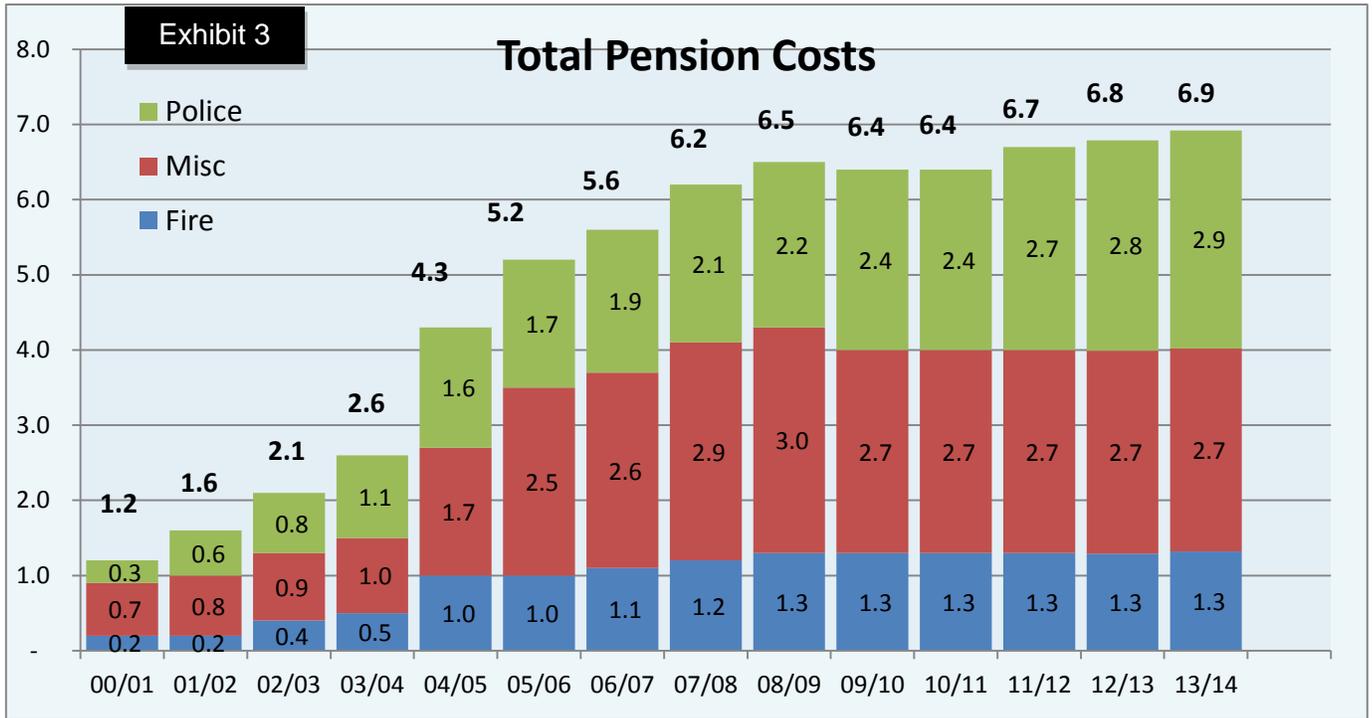
After reviewing the General Fund status quo budget submissions, the City's *Proposed 2013-14 General Fund Budget* was facing an approximate \$700,000 operating deficit. The main reasons (not an all inclusive list) for this deficit were attributed to increases in the following areas:

Summary of Increases	Amount
Police and Fire PERS Increases	\$ 177,000
Miscellaneous PERS Increases	\$ 96,000
Step Increases Police and Fire	\$ 188,000
Health Increases	\$ 92,000
Other	\$ 140,000
Estimated Totals	<u>\$ 693,000</u>

Exhibit 2

As reported in previous reports to the City Council, the City's pension rates have increased significantly over the last 14 years. In addition, pension rates are anticipated to increase in the range of 10% to 16% as early as FY 2015-16 (estimated at \$3.3 million dollars). Exhibit 3 shows

the historical increases and Exhibit 3a shows the marginal increase these costs may experience in FY 2015-16.

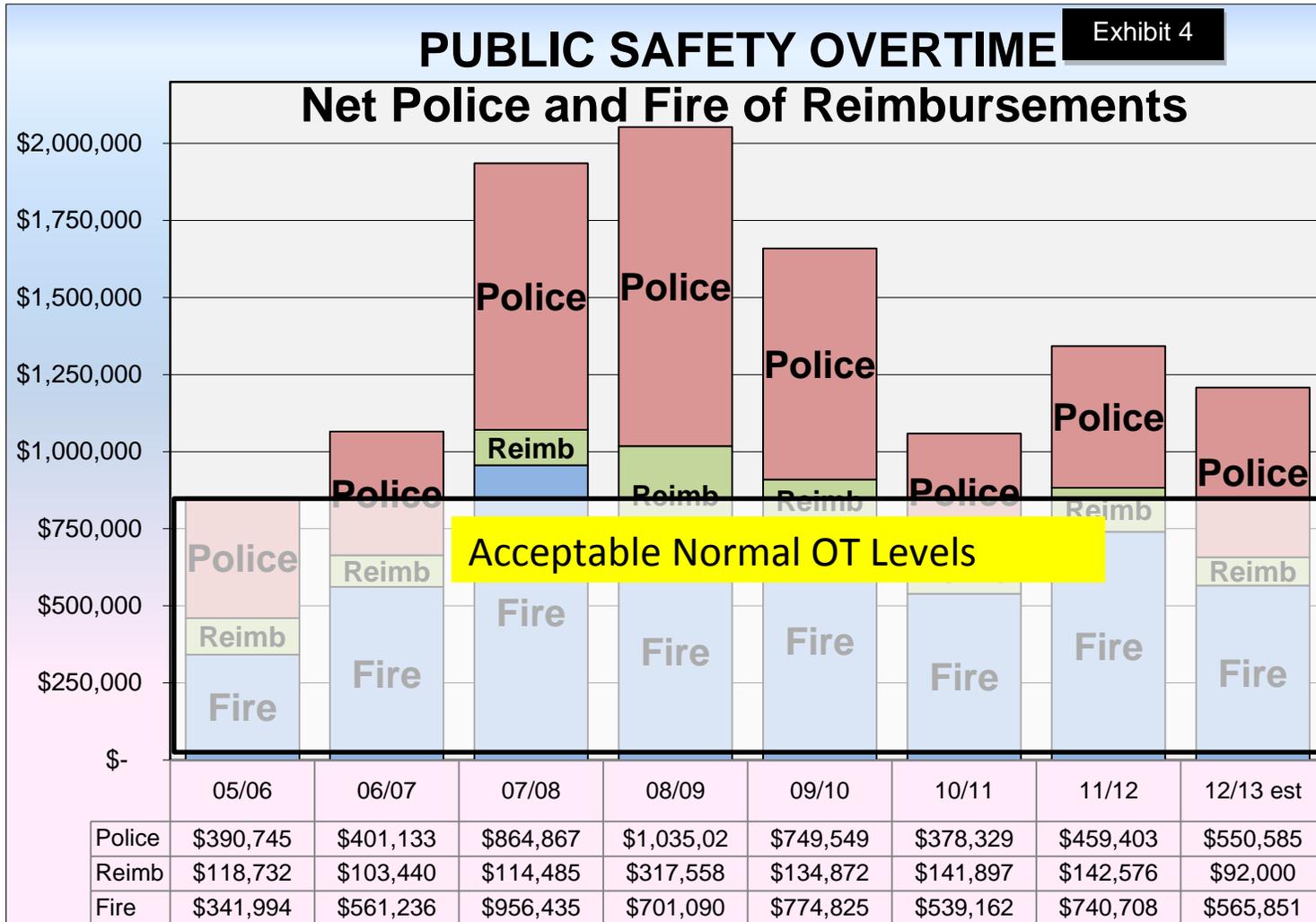


This sharp increase is due mainly to policy changes by CalPERS in the following areas:

- Change in the retirement formula to reduce the smoothing period from a rolling 30 years to a fixed 25 years
- Increase in the longevity of members

- Decrease of the discount rate by 0.25% (The Discount Rate is the annual projected earnings for PERS investments. Previously this rate was 7.75%, it is currently 7.5% and will be reduced to 7.25 %.)

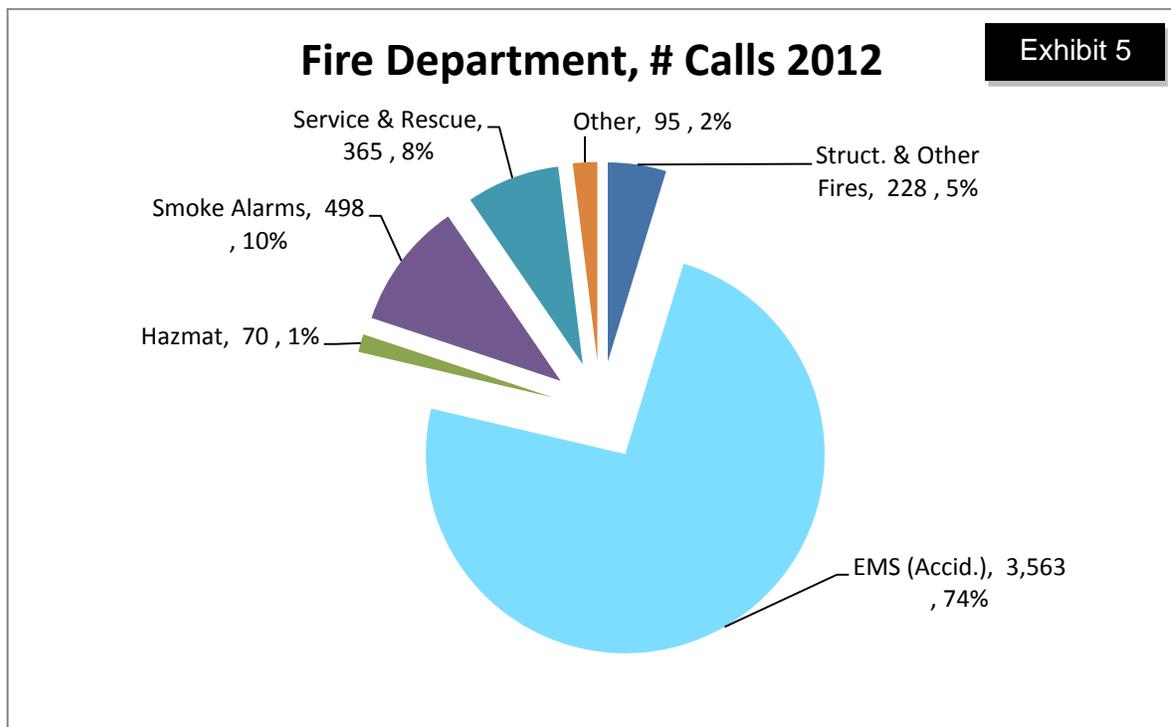
Additionally, balancing of the budget was also facing ongoing concerns with overtime costs in public safety, particularly the Fire Department. The chart below shows the historical overtime levels through FY 2011-12 and estimated 2012-13 figures and the 2013-14 budget.



Given all these different challenges, City staff worked with each department and agreed to implement their three percent budget reduction scenario. Upon implementation of this scenario, the budget has been balanced with some important operational impacts at department levels.

In the Fire Department, FY 2013-14 operations will continue with a \$250,000 overtime (OT) budget which will be capped to avoid future budget overruns. This means the Department will only have 128 hours of allowed OT per month, per shift. As this maximum is reached monthly, down-staffing would occur in lieu of expending more OT in order to maintain the ninth firefighter on each shift. Once this limit is reached, the ladder truck located downtown would be staffed with two firefighters, not three. The two fire engines at each station would remain staffed with three

firefighters each. Although this will be a significant change in staffing, it is anticipated the number of calls will continue to be appropriately staffed given the nature of the calls the Departments will respond to are mainly medical.



Another example of the reductions proposed in this budget includes the reduction of the Parks and Community Services Department programs as follows:

- Reduction of park maintenance temporary labor
- The elimination of the summer drop-in and lunch program at Marinovich Park
- Eliminate summer lunch program and reduce drop in program by one hour at Callaghan Park.
- Elimination of Computer Center Services on Saturdays, reducing the overall service level to 15 hours per week

This budget also proposes the reduction of social service and community service grants by \$75,000 and dedicating those funds for the acquisition of much needed police vehicles. Funding of the police vehicles is considered critical because the Capital Improvement Program funding has been virtually non-existing over the last four fiscal years. This has left the police vehicle fleet in a difficult position, along with many other General Fund Capital needs. Police vehicles are considered particularly important as the fleet is aging and many vehicles have surpassed their anticipated useful life.

A final example is the Police Department. This department met their three percent reduction target by eliminating costs in various divisions including the reduction of the contribution to the Santa Cruz County Anti-Crime Team (SCCACT) in half, obtaining a new grant to pay salaries of

an existing staff member in the Police Activities League program, and reducing various departmental expenses in their operational budget. All other departments made similar reductions to their operations budget with similar impacts.

On a positive note, the Library operations revenue has been improving over the last couple of years and projections indicate revenue will continue to be a bright spot for the City. Accordingly, the main Library proposes to open its doors for four hours on Saturdays. Once the schedule is developed an update will be provided to the City Council.

Proposed Budget Alternative B. Without the concessions mentioned in the introductory section of this report, the total deficit City-wide would be \$3.1 million and would affect an estimated 29.10 full time equivalents (FTE). Of this amount, \$2.1 million correspond to the General Fund representing 18.50 FTE positions affected. Thus far, City staff is optimistic about reaching agreement to continue the same level of concessions with four out of eight labors groups. Unfortunately, as of the date of this report, public safety (Fire, Police, and Police Mid-management) and clerical technical (SEIU) labor groups have not agreed to continue concessions to offset the 2013-14 budgeted costs. The City is close to reaching agreement with Public Works (Operating Engineers Local 3), Management, Mid-Management, and Confidential units.

Of these groups, the Firefighters Association (IAFF L-1272) and SEIU 521 are currently at the table while the Police Officers Association and the Police Mid-management units have not yet agreed to bargain. The police labor groups' contract expires in December of 2013 and can continue to choose not to negotiate with the City. The potential impacts of not achieving a status quo budget with these remaining four units are shown in the tables below.

Fire Department. If an agreement for the continuation of employee concessions is not reached with the fire labor group, in addition to the changes outlined in the Budget Alternative "A", it will be necessary that the ladder truck be down-staffed to two personnel: an engineer and a firefighter. The fire captains positions assigned to the truck would be eliminated, triggering bumping provisions through the ranks to implement the reduction of three permanent departmental positions.

Fire Reduction Plan				Exhibit 6
Position	FTE	Fund	Comments	
Fire Captain	1.00	GF	Demote to Firefighter, Firefighter layoff	
Fire Captain	1.00	GF	Demote to Firefighter, Firefighter layoff	
Fire Captain	1.00	GF	Demote to Firefighter, Firefighter layoff	
Total Savings	3.00		\$	426,900

Police Department. Similarly, if an agreement for the continuation of concessions is not reached with the Police Officers Association and the Police Mid-management units, the department will have to reduce its operations as indicated in the table below.

Police Reduction Plan

Exhibit 7

Position Title / Category	FTE	Comments
Lieutenant	-	Demoted to Sergeant
Lieutenant	-	Eliminate Position
Police Officer	1.00	Layoff Officer
Police Officer	1.00	Vacant Position
Police Officer	1.00	Layoff Officer
Police Officer	1.00	Layoff Officer
Police Service Specialist	1.00	Freeze Position
Recreation Coordinator	0.25	Eliminate PAL
Sergeant	-	Demotion to Police Officer
Services and Supplies PAL	-	Eliminate PAL
Temporary Police Officer	-	Layoff Officer
Temporary Recreation Leaders	-	Eliminate PAL
Total Savings	5.25	\$ 710,000

Implementing these reductions would mean the elimination of the Police Activities League (PAL) program, eliminating four Police Officer positions resulting in the layoff of three police officers, demoting one Sergeant to Police Officer, eliminating one Lieutenant, and demoting one Lieutenant to Sergeant, and elimination of one vacant Police Services Specialist and 0.25 Recreation Coordinator.

SEIU Labor Group. Reductions for this labor group would also be necessary if an agreement to continue with concessions is not reached. It is estimated that a total of 5.50 FTEs would need to be eliminated (resulting in layoffs) in order to balance the budget as shown in the table below. Needless to say, this type of reduction to already depleted departments would result in the deterioration of the quality of service delivered to the community.

SEIU Reduction Plan

Exhibit 8

Position	Department	FTE	Savings
Senior Accounting Assistant	PW	0.50	
Senior Accounting Assistant	PW	0.50	
Accounting Assistant	Finance	1.00	
Assist Admin Analyst	PW	1.00	
Library Assistant	Library	0.50	
Library Assistant	Library	0.50	
Code Enforcement Officer	CDD	0.50	
Code Enforcement Officer	CDD	0.50	
Sr Engineering Aide	PW	0.50	
Total Savings		5.50	\$ 446,002

Ongoing Salary and Position Reductions. All miscellaneous employees (including Management and Mid-Management bargaining groups) are currently paid for 36 hours per week which results in a 10% salary reduction beginning in FY 2009 with the exception of a few employees in the Solid Waste division. In addition, step increases have been frozen for all

Confidential, SEIU, Management and Mid-Management positions and employees have contributed an additional 1% of retirement costs in the last two years.

It is important to note that while all miscellaneous employees are being paid for 10% fewer hours, there are some employees who have had salary adjustments when comparing salaries from 2008 to 2013. This is true for employees in all bargaining units and not just management positions.

Due to the ongoing economic crisis, when a position is vacated due to attrition, retirement, or layoff, the City first determines if there is a critical need to fill the position or if there are other cost-saving mechanisms that can be used to continue providing the service. In many cases throughout the City due to positions being eliminated or consolidated, this has resulted in an internal promotion, reclassification, or temporary upgrade as required by MOUs and the City's Personnel Rules and Regulations. While this may result in a slightly higher salary for the person promoted, it results in overall savings to the City. Often, the promoted employee is paid less than the predecessor at either a lower classification or lower step and the position they vacate is often then eliminated rather than being filled. Also, some positions are eliminated through consolidation. The list below is a summary of positions which were eliminated or consolidated during this period. This list is not intended to be all inclusive as its intent is to provide a general summary of changes which have occurred.

Reduced or Eliminated Positions by Department 2009-2012

Community Development

- Community Development Director (duties assumed by Assistant City Manager and Principal Planner)
- Associate Planner (eliminated)
- Assistant Community Development Director (position reduced and filled as Building Official)
- Assistant Engineer (reduction by 50% to utilities)
- Administrative Assistant II (reduction by 50% to utilities)
- Sr. Building Inspector (eliminated)
- Building Inspector (eliminated)
- Sr. Engineering Associate reduction by 100% (transfer to utilities)
- Development Review Technician (eliminated)

Library

- Librarian position reduced from full time to half time
- Library Clerk 50%-(eliminated)
- Library Assistant 50% (eliminated)
- Custodian 50% (eliminated)

Finance Department

- Accounting Technician (eliminated)

Fire Department

- Reclassification of Battalion Chiefs to Division Chiefs to eliminate overtime
- Elimination of one Division Chief position (on-call duties fulfilled by temporary employee)

Police Department

- Deputy Police Chief (position eliminated with reorganization)
- Crime Analyst (eliminated)
- Administrative Services Manager (filled by lower position of Sr. Administrative Analyst)
- Youth Employment Specialist (eliminated)
- Parking Control Officers (eliminated 2 positions)
- Administrative Assistant II (eliminated)
- Executive Assistant (eliminated)

Redevelopment and Housing Department

- Redevelopment and Housing Director (filled with hourly, part-time employee)
- Economic Development Manager (reduced by 25%)
- Administrative Analyst (eliminated)
- Administrative Assistant I (eliminated)
- Construction Manager (reduction by 50% to utilities)

City Administration

- Administrative Analyst (eliminated)
- Administrative Assistant I (eliminated)

Parks and Community Services Department

- Neighborhood Outreach Coordinator (eliminated after promotion made to Admin Analyst to fill vacated Sr. Admin Analyst position)
- Senior Administrative Analyst-reduced by 25%
- Senior Administrative Analyst (eliminated)
- Recreation Superintendent (eliminated)
- Administrative Assistant I (eliminated)
- Office Assistant II 50% (transferred to grant funded position)

Public Works and Utilities Department

- Principal Engineer (filled at lower level of Assistant Engineer)
- Public Works Operations Manager (eliminated, responsibilities absorbed by existing staff)
- Field Services Manager (eliminated, responsibilities absorbed by existing staff)
- Senior Utilities Engineer (eliminated)
- Safety and Regulatory Comp. Officer (filled by lower position of Sr. Administrative Analyst)
- Senior Administrative Analyst (eliminated)
- Assistant Engineer (eliminated)
- Custodian (eliminated)
- Building Maintenance Worker (eliminated, responsibilities absorbed by existing staff)
- Equipment Maintenance Coordinator (eliminated)

Capital Improvement Plan. As funding is limited and can barely cover ongoing costs, City staff is not recommending new projects or equipment acquisition (except for funding in the amount of \$75,000 for police vehicles) to be funded in the Capital Improvement Plan for the General Fund. In the Enterprise Funds, the City has worked on a Capital Improvement Plan that identifies the

most pressing needs only, focusing on making sure ongoing revenues can fund both operations and capital needs without tapping into their existing cash reserves. The capital improvement plan presented with this budget meets those requirements. The tables below show a summary for the Enterprise Funds and the funding shortfall to fund all capital needs

Exhibit 9

Cash Calculations for 710- Sewer Fund			Cash Calculations for 720-Water Fund		
13/14	Cash Est 7/1/13	\$ 2,674,191	13/14	Cash Est 7/1/13	\$ 1,492,661
13/14	Expenditures	(9,283,323)	13/14	Expenditures	(9,641,133)
13/14	Revenue	10,644,119	13/14	Revenue	9,915,710
13/14	CIP	(1,137,302)	13/14	CIP	(532,500)
14/15	Cash Est 7/1/14	\$ 2,897,685	14/15	Cash Est 7/1/14	\$ 1,234,738
	Unfunded CIP	\$ 1,264,000		Unfunded CIP	\$ 10,073,000

Cash Calculations for 730 - Airport			Cash Calculations for 740 - Solid Waste		
13/14	Cash Est 7/1/13	\$ (4,701,648)	13/14	Cash Est 7/1/13	\$ 2,692,509
13/14	Expenditures	(2,788,273)	13/14	Expenditures	(8,782,825)
13/14	Revenue	2,873,036	13/14	Revenue	9,404,400
13/14	CIP	(81,375)	13/14	CIP	(902,000)
14/15	Cash Est 7/1/14	\$ (4,698,260)	14/15	Cash Est 7/1/14	\$ 2,412,084
	Unfunded CIP	\$ 1,000,000		Unfunded CIP	\$ 7,174,000

State Budget & Redevelopment. Currently there are no new concrete developments at the State budget level that would impact the City. However, the dissolution of the redevelopment agency has had a significant impact over the last year. The Successor Agency to the City of Watsonville Redevelopment Agency has faced numerous funding take aways from the State; including a major blow requiring it to pay back \$4.6 million for a loan repayment to the General Fund and Impact Fees Funds made in 2011. City staff will continue monitoring the State's budget development and present updates to the City Council through the City's budget process.

FINANCIAL IMPACT:

The Proposed 2013-14 Budget balances an initial \$700,000 operating deficit in the General Fund. However, if concessions with all labor groups are not continued at the current level, reductions of up to \$3.1 million City-wide or \$2.1 in the General Fund would have to be implemented.

ALTERNATIVES:

The City will continue to seek out alternatives to layoffs in the form of employee concessions, furloughs, reduction in work week, service consolidation with other local service providers or other options that may present themselves within the next several weeks (before final budget adoption

on June 11th). If alternatives are not reached the City Council may choose to direct staff to make reductions elsewhere.

ATTACHMENTS:

- 1 Proposed 2013-2014 Budget document
- 2 Budget Power Point Presentation

cc: City Attorney