

Office of the City Manager

ACTION CALENDAR  
December 16, 2003

To: Honorable Mayor and  
Members of the City Council  
From: Phil Kamlaz *PK* Acting City Manager  
Subject: Implementation Plan for Budget Crisis Recovery Strategy

RECOMMENDATION

That the Council approve implementation of short- and long-term fiscal measures that address its adopted recovery strategy and immediate state budget cuts.

**Short-Term Action Plan**

Based on actions recently taken at the state level and the resulting immediate budget shortfall caused by the loss of the Vehicle License Fees (VLF), effective January 1, 2004, I recommend that the following steps be taken:

- Freeze on overtime expenditures. amount TBD
- Reduce Fire Department overtime through rotating closure of fire companies during daytime hours (8A—6P/January through June 2004) \$250,000
- Handle interim Police Department hiring to yield 12—15 departmental vacancies June 30, 2004. \$500,000 (est.)
- Implement only essential organizational hiring amount TBD
- Defer all non-essential capital projects (Delay non-essential street, sidewalk, and curb cut projects) \$1 million
- Reduce non-essential staff positions on the existing vacancy list to yield current fiscal year savings \$1 million
- Expend reserves as needed TBD
- Tap one-time revenue adjustment from Comcast \$350,000

SUMMARY

The Council adopted a strategy at its last meeting to guide implementation of both budget cuts and revenue enhancements to address the current fiscal crisis. The nine elements of the strategy define areas that warrant immediate response.

In addition, the political situation in Sacramento dictates short-term budgets cuts we must enact to compensate for reductions in the Vehicle License Fee (VLF) monies passed through to the cities, as well as additional reductions in state programs that affect the City's budget. By developing a balanced approach through revenue enhancements and budget cuts now, we can responsibly handle operational costs and the dramatic reductions in state monies to the City.

FISCAL IMPACTS OF RECOMMENDATION

The recommended fiscal cuts outlined for immediate implementation will yield approximately \$4.9 million. Once the Council reviews and approves a final budget reduction list in March, 2004, staff will return with updated budget figures reflecting a fiscal reduction plan to be completed by July 1, 2004 with the budget adoption.

CURRENT SITUATION AND ITS EFFECTS

We have an additional \$4.9 million VLF loss for FY'04. **We must make immediate, significant cuts** to compensate for this as we prepare for more cuts by July 1, 2004. We have already taken \$1.5 million in current year cuts from reserves and reduced expenditures to make up for lost VLF revenues the state had promised to backfill. This backfill for program costs incurred to date is not likely to occur, given recent information from Sacramento. I outline below both the immediate response to the drastic VLF reductions as well as preliminary implementation steps responding to the Council's adopted Budget Crisis Recovery Strategy.

As Council considers implementation recommendations, staff will further refine the budget materials and departmental information to present a final reduction list at the January 27, 2004 meeting.

We must take immediate action to reduce budget in key areas, given the reductions in state monies. Our urgent measures reflect the serious impacts of the volatile state budget situation on local government. The City of Berkeley faces an immediate reduction in VLF monies:

General Fund loss	\$3.0 million
HHS Realignment funds	
Mental Health allocation	\$ .7 million
Public Health allocation	<u>\$1.2 million</u>
Total reduction this Fiscal Year	\$4.9 million

We can absorb the loss in HHS funding by using existing HHS Realignment reserve monies to compensate for the state losses. This is a one-time solution; we will have a larger fiscal problem in these programs next year. We must, however, enact an immediate plan to balance the \$3 million General Fund reduction. I hope to do so by avoiding layoffs this fiscal year and

December 16, 2003

implementing cuts from expenditure management and vacancy reductions as listed on page 1. We will examine the resulting service impacts of implementing these recommended reductions. The delay in non-essential capital projects and reductions in public safety overtime are the two major impact areas. Staff will come back with information on the potential implications.

### **Response to Council's Recovery Strategy and Longer Term Fiscal Issues**

I outline here the initial staff response on the Council's adopted Budget Crisis Recovery Strategy with the note that should conditions change, we may have to revisit some of our actions and adjust accordingly.

#### 1. Prepare final cut lists.

- Preliminary lists submitted to the City Manager 12/03/03
- CM comments to Departments for revisions in progress
- Council to adopt short-term plan 12/16/03
- Departments Revise Submittals to CM 12/17/03
- Distribution to Unions and Employees  
Unions / Employees Review with Department Directors  
And Propose Options 12/19/03
- Departments Resubmit 20% Reduction List  
(with applicable revisions) 1/09/04
- Labor/Management --Review preliminary  
CM Reduction Recommendations 1/16/04
- Council Work Session: City-wide 20% Reduction Proposal  
List Submitted to City Council and priority setting commences  
in combination with other budget-balancing strategies to be  
discussed through March 2004 1/27/04
- Council approval of reduction recommendations 3/23/04
- Public Review prior to final budget adoption 4—6/04

We will discuss the possibility of conducting Council work sessions to review the impacts of these potential budget cuts, and to develop Council funding and program priorities.

I am working with the senior staff and union leadership to develop an effective and respectful internal process for alerting all our employees about these changes and to seek input on the budget reduction process. Good attendance at recently held Brown Bag meetings indicates employee interest in being engaged in these deliberations. We are also moving forward with the community information efforts via our website and other outlets.

2. Adopt the “hard hiring freeze” as Council Policy.

As discussed, we will move forward with this element, excepting revenue-generating and grant-funded positions, as well as essential public safety situations.

I have convened a group of department directors to regularly review organizational staffing needs; analyze how to flexibly address these needs where possible and to make recommendations to me about any hiring decisions. I, in turn, will report to Council about position vacancies and new hires on a monthly basis.

3. Place a moratorium on all new expenditures.

We will restrict all capital expenditures unless critically needed for public safety reasons; all other capital projects are deferred until July 01, 2004. We will eliminate all fee waivers, along with in-kind and cash contributions to special projects/events. I concur with the Council that we cannot undertake any new Council programs/assignments requiring new funding. All projects/initiatives must be funded from existing sources (or shifted from existing allocations).

Council priorities must be established to guide our expenditure and staff allocations. My hope is that Council will affirm its active interest in and commitment to its priority projects, so that we can then align staff resources to suit. We must examine projects such as the UC Berkeley hotel project, JPA ball field activities, the Southside Plan, the University Avenue Plan implementation, the Gilman Street Corridor project, Oxford Lot Project and downtown parking garages issues to determine how they rank among existing priority projects and shift staff accordingly.

4. Institute “City Savings Award” for employees.

Staff is compiling information from other jurisdictions on how to implement an effective program. We are eager to work with our staff and union leadership to develop a program approach to include demonstrable cost/benefit analysis.

5. Aggressively pursue cost recovery from non-profit landowners.

Council is considering holding a work session on this topic in February. Staff will present information on options for collecting more monies from the exempt non-profits as well as an update on what has been done to date. We will examine options for new tax revenues from the non-profits.

Further, we are conferring with other cities through a variety of vehicles to learn about any other options to explore regarding this area.

6. Recover “escaped” taxes and fees/Increase revenues.

In February, staff will report back on what has been done to date, including efforts to collect funds that the City has billed for. We will develop recommendations on collection improvement and incentives to encourage full payment of all unpaid taxes.

We are currently exploring other revenues and service fees that the City can responsibly collect. At the February work session, we will present options on recovering service costs from tax-exempt agencies and institutions and ensuring effective collection efforts. We are reviewing the feasibility of collecting infrastructure service fees from agencies currently not contributing to these service programs. We will also explore how to increase revenues through expansion of RPP fees for multiple-car households; installation of additional parking meters; leases for City properties; development of a 911-service fee; and targeted, aggressive fundraising.

7. Institute immediate labor savings programs.

We have already explored some options on this with our employees and the labor unions. Though the proposal to close for two weeks during the winter holiday period could not be implemented, we may plan to do so next year. Our existing capacity to provide voluntary time-off will be further discussed with our labor unions and employees, though this may not be feasible.

8. Continue negotiations on additional labor cost savings.

I believe that by working with our employees and the City’s labor unions that we can develop cost savings that will result in minimizing layoffs. By instituting the immediate budget measures outlined earlier, we will have trimmed a significant amount from our general fund expenditures. There is more we can do together.

Senior staff and union leadership is meeting on a regular basis to develop more cost saving strategies we can implement this fiscal year and next. We have the list of recommendations that the unions have drafted and asked that they fully develop these recommendations. The union leadership has been asked to provide specific cost/benefit information on all recommendations (see attached memo). We also have small working groups meeting to further analyze how some of the most practical efficiency and restructuring recommendations developed by the senior staff.

9. Launch a budget crisis education effort.

We have initiated a major initiative from my office to provide our organization and the community with all the up-to-date budget and service information we can provide. This program includes convening biweekly brown bag meetings with staff; establishing of a City Speakers’ Bureau; and developing a City Manager newsletter, in addition to more media outreach and attendance at community meetings.

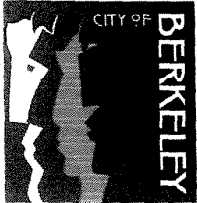
**Additional Strategies**

I have directed staff to develop recommendations on other ways to reduce costs and build revenues. We are reviewing the utility of using reserve balances and deferred capital expenses as part of the budget-balancing program. Other areas being pursued include reduced support to City commissions and recommendations for consolidation of some of these advisory groups; strategic contingency planning to prepare for even deeper state cuts; restructuring the PERS liability; potential consolidation of departmental divisions and operational functions across departmental lines; and examination of service reductions that would result from a monthly, one-day layoff of all non-essential employees to begin next fiscal year.

RATIONALE FOR RECOMMENDATION

Fiscal crisis at local and state level necessitate action.


Attachment



Office of the City Manager

December 2, 2003

To: Public Employees Union Local One  
Service Employees Union Local 535  
International Brotherhood of Electrical Workers Local 1245  
Service Employees Union Local 790  
Berkeley Police Officer's Association  
Berkeley Fire Fighter's Association

From: Phil Kamlarz, Acting City Manager 

**Subject: Proposal for December 12, 2003 Joint Labor/Management Meeting Preparation**

The purpose of the meeting on December 12 will be to present ideas on solving the budget deficit and select the most viable concepts to be more thoroughly developed leading to the City Manager's recommendation to the City Council on January 13. In order to make the Joint Labor Management meeting on December 12 as productive as possible, it will be important for the Union leadership to bring forth actual plans for cost reductions throughout the city. The Joint Union Coalition paper titled, "Workers Cut Red Tape to Save City Services" identifies a number of cost saving concepts. There may also be new ideas that have developed and cost saving measures identified by Unions who did not participate in the development of that document.

We now know the tax measure is not an option for March and we have real deficit numbers to work with that must be reached – **up to \$16 million FY 2005 and \$3 million each additional year for the next 4 years.**

To evaluate the cost saving concepts proposed by the Unions, we need a clear assessment including:

- Identification of the cost saving concept
- analysis of what would actually happen (including new expenditures) to reach the cost savings, i.e.; restructuring resulting in specific positions being eliminated; revenue increases by implementing XYZ; etc.
- actual recurring savings based on the analysis
- program impacts

As discussed in the Labor/Management Budget Oversight Committee, release time may be needed to more fully develop these ideas. Please provide detailed request for release time to me for considering and processing. We look forward to reviewing the details of your concepts as we determine the strategies for the future. Please call Lisa Caronna 981-7000 with questions.

CC: Department Directors  
Unrepresented Employees