

City of Huntington Beach **FY 2020/21 Budget Review**

Public Hearing
June 15, 2020



Proposed FY 2020/21 Budget

- **On June 1, the City Council was presented with a proposed FY 2020/21 Budget**
 - The FY 2020/21 Budget is balanced, but reflects the need to adjust the City operation to a new reality of constrained revenues
- **COVID-19 economic impacts for HB are substantial and real**
 - Violent and immediate declines in local revenue base
 - Increase in one-time COVID-19 pandemic related response costs
 - Future economic projections highly volatile and uncertain, with a quick economic rebound no longer being likely
 - Revenue drop is too significant to absorb without making substantial adjustments at the City
- **Quality of life additions**
 - Police Department
 - > 3 new sworn officers for enhanced homeless response
 - Community Development
 - > 2 new code enforcement officers are included in the budget to help enhance quality-of-life enforcement issues
 - Full and robust CIP budget, totaling \$29.8 M in proposed projects

RECAP: FY 2020/21 Budget Study Session Overview

- **The proposed FY 2020/21 Budget includes the following financial projections:**

- > **Revenue adjustments**

- *Proposed FY 2020/21 Revenues:* **\$216.9 M**

- > This represents a \$20 M decrease (-8.4% reduction) from our Pre-COVID FY 2019/20 projected revenues of \$236.9 M

- > **Expenditure cuts**

- \$21.03 M in expenditure cuts were also identified in the proposed budget

- **Of the \$21.03 M in identified expenditure reductions, the City Council requested additional information regarding the following two items**

- > Workforce Reductions: - \$ 6.20 M

- > Suspend Section 115 Retirement Transfer: - \$ 1.00 M

- **Specifically, the City Council requested the following:**

1. Identify alternative budget reduction options to maintain a \$1 M contribution towards our Section 115 retirement savings account
2. Provide additional details / analysis regarding the early retirement program associated with our workforce reduction plan

Section 115 Retirement Trust



Proposal to Fund \$1M Section 115 Trust Contribution

- **City Council requested that staff fund a \$1 M transfer into our Section 115 Trust pension savings account**
- **To do so, staff is proposing that we further reduce our General Liability Fund Transfer by \$1 M**
 - Based on the City's current proposed budget, we had included a \$3.4 M transfer into the City's General Liability fund
 - > With that \$3.4 M transfer, the G/L fund was projected to be overfunded at 115%
 - Reducing the General Liability Transfer amount by \$1 M (down to \$2.4 M) would result in an estimated funded status of ~100% after the reduction
 - The \$1 M savings could then be applied towards the City's transfer into our Section 115 Trust pension savings account
- **Staff Recommendation**
 - Achieve the \$1 M transfer into our Section 115 Trust through a reduction in our transfer into the General Liability fund

Early Retirement Program / Workforce Reduction Analysis



Workforce Reduction Plan Overview

- The most significant budgetary cut included in the FY 2020/21 Budget involves a reorganization of the City operation
- Given the current uncertain economic environment, it is not realistic to assume that revenues will return to pre-COVID-19 levels in the near future, and structural operational adjustments will be needed
- To facilitate a reorganization of the City operation, the budget assumes a net reduction in our workforce of at least 5%, which would save ~\$6.2 M / year in personnel costs
 - An early retirement program is proposed to be instituted to facilitate the planned workforce reduction
 - > Given existing civil service rules / procedures, the early retirement program is the recommended pathway to reduce personnel costs
 - > Through the early retirement program, and a corresponding reorganization effort, the proposed budget assumes the ability to achieve a net reduction of at least 5% of the City workforce
 - That would allow us the opportunity to achieve ongoing cost savings of at least (and likely greater) than \$6.2 M / year

Eligible Employee Census Information

- **The City currently has 294 employees eligible to retire**
- **Miscellaneous / Non-Public Safety – 74% of eligible population base**
 - 218 of the eligible employees (or 74% of the total) are classified as miscellaneous / non-public safety
- **Public Safety – 22% of eligible population base**
 - 65 of the eligible employees (or 22% of the total) are classified as public safety
- **Public Safety Management – 4% of the eligible population base**
 - 11 of the eligible employees (or 4% of the total) are classified as public safety management

Early Retirement Options: CalPERS Program vs. Self-Designed Program

- **We've assessed two early retirement incentive program design options**
- **Based on our employee population, and the need to shrink our workforce, staff recommends moving forward with the CalPERS early retirement program**
 - Provides participants with 2 additional years of retirement service credit
 - Cost varies based on classification of the participating employee
 - > Between ~\$35 K - ~\$60 K / employee for miscellaneous, and ~\$50 K - ~\$125 K / employee for safety
 - This program is recommended as it would likely attract the highest number of employees accepting the early retirement offer
- **We've also looked at self-designed early retirement programs**
 - Provide participants with \$1,500 for every year of service, plus 6-months worth of health insurance coverage
 - > The average cost per employee for this type of program is estimated at ~\$40 K / participant
 - This program design may not allow us to achieve our minimum required net 5% reduction in our workforce

One-Time Costs vs. Permanent Cost Savings

- It is difficult to accurately project / quantify program costs until we know how the program will be designed and how many individuals will be participating in the program
- The early retirement program will result in the absorption of one-time program costs
 - Depending on the program design and number of participants, **one-time costs could run anywhere between \$2 M - \$6 M**
 - > Other workforce reduction options (i.e., layoffs) or restructuring efforts would take at least 3 - 6 months to institute, resulting in the absorption of one-time costs in excess of ~\$1.5 M – \$3M
 - > Without the early retirement program, our **projected ongoing budget deficit is ~\$6.2 M**
 - **Of note, if the early retirement program is adopted, staff projects that on-going budgetary cost savings will cover the one-time early retirement program costs within 1 – 2 years**
 - Also, the City is positioned to be able to absorb some one-time costs, given our current reserve levels
 - > *Current GF Strategic Planning Reserve:* \$16.00 M (7.3% of revised projected GF revenues)
 - > *Total Restricted GF Reserve:* \$56.80 M (25.9% of revised projected GF revenues)
 - > **TOTAL:** **\$72.80 M (33.3% of revised projected GF revenues)**
- Early retirement program costs will be offset by permanent costs savings achieved through two mechanisms
 1. A reduction in the workforce of at least 5%
 2. Hiring PEPRA employees vs. Classic employees

Early Retirement Program Cost Savings Analysis – Miscellaneous

218 miscellaneous employees (74% of total) eligible for early retirement program

Representative Example: Non-Safety Employee

- Age 62
- Annual Salary \$62,275
- Years of Service 30

Ongoing Cost Comparison: PEPR vs. Classic

- PEPR employees are **24% less** expensive than Classic
- First year savings estimated at \$20,904 / employee

Cost of Early Retirement Program

- CalPERS Early Retirement Program \$40,392
- Self-Designed Program \$54,642

Number of Years to Recoup Early Retirement Program Costs

- CalPERS Early Retirement Program ~2.2 Years
- Self-Designed Program ~3.2 Years

Cost Savings Analysis		
<u>Classic Employee</u>		
Salary		62,275
PERS + Benefits		26,091
Total		<u>88,366</u>
<u>PEPR Employee</u>		
Salary		48,575
PERS + Benefits		18,888
Total		<u>67,462</u>
Estimated Annual Savings		20,904

Early Retirement Program Cost Savings Analysis – Safety (Sworn)

65 safety (sworn) employees (22% of total) eligible for early retirement program

Representative Example: Safety (Sworn) Employee

- Age 55
- Annual Salary \$99,923
- Years of Service 21

Ongoing Cost Comparison: PEPR vs. Classic

- PEPR employees are **38% less** expensive than Classic
- First year savings estimated at \$68,120 / employee

Cost of Early Retirement Program

- CalPERS Early Retirement Program \$112,425
- Self-Designed Program \$ 43,956

Number of Years to Recoup Early Retirement Program Costs

- CalPERS Early Retirement Program ~1.7 Years
- Self-Designed Program ~0.7 Years

Cost Savings Analysis	
<u>Classic Employee</u>	
Salary	99,923
PERS + Benefits	77,353
Total	<u><u>177,276</u></u>
<u>PEPR Employee</u>	
Salary	80,662
PERS + Benefits	28,494
Total	<u><u>109,156</u></u>
Estimated Annual Savings	68,120

Early Retirement Program Cost Savings Analysis – Safety (Mgmt)

11 safety (mgt) employees (4% of total) eligible for early retirement program

Representative Example: Safety Management Employee

– Age	60
– Annual Salary	\$162,864
– Years of Service	30

Ongoing Cost Comparison: PEPPRA vs. Classic

- PEPPRA employees are **33% less** expensive than Classic
- First year savings estimated at \$81,959

Cost of Early Retirement Program

– CalPERS Early Retirement Program	\$130,128
– Self-Designed Program	\$ 57,456

Number of Years to Recoup Early Retirement Program Costs

– CalPERS Early Retirement Program	~1.7 Years
– Self-Designed Program	~0.7 Years

Cost Savings Analysis	
<u>Classic Employee</u>	
Salary	162,864
PERS + Benefits	87,419
Total	<u><u>250,283</u></u>
<u>PEPPRA Employee</u>	
Salary	131,456
PERS + Benefits	36,868
Total	<u><u>168,324</u></u>
Estimated Annual Savings	81,959

Cost Comparison Summary

CalPERS

- Will attract higher numbers of participants
- Misc. employees program costs are less
- Higher participation levels, will yield higher savings long term
- Provides greatest opportunity to restructure

Self Designed

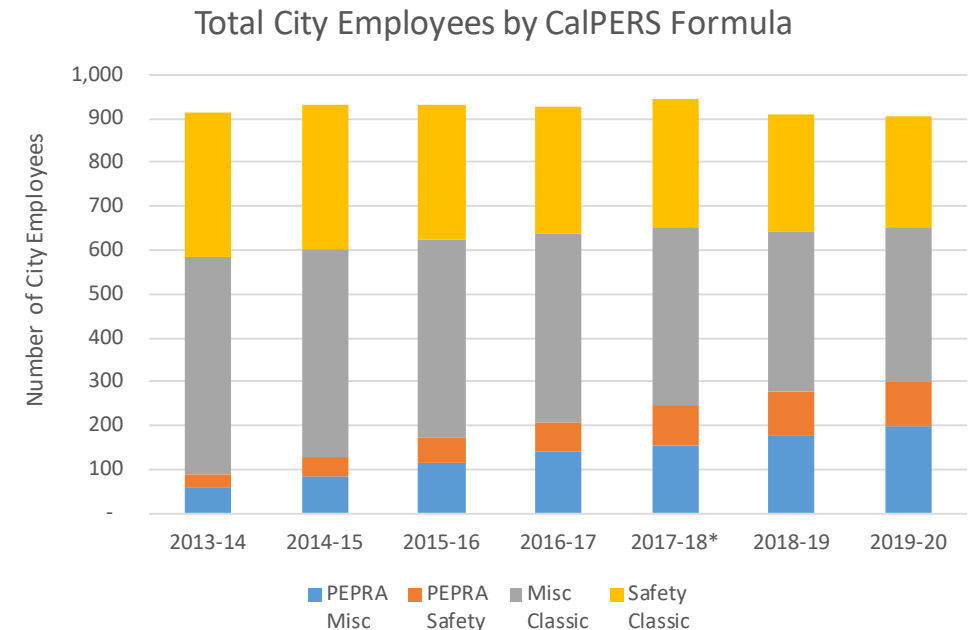
- Less likely to attract high participant count
- Public safety program costs are less
- Lower participation yields less long term cost reductions
- Reduced opportunity to restructure operations

	Miscellaneous	Safety (Sworn)	Safety (Management)
Classic	88,366	177,276	250,283
PEPRA	67,462	109,156	168,324
\$ Savings	20,904	68,120	81,959
% Savings	-24%	-38%	-33%

	CalPERS			Self-Designed	
Employee Classification	Est. Cost	Payback Period		Est. Cost	Payback Period
Miscellaneous	40,392	2.2 Years		54,642	3.2 Years
Safety (Sworn)	112,425	1.7 Years		43,956	0.7 Years
Safety (Management)	130,128	1.7 Years		57,456	0.7 Years

Early Retirement Program Recommendation

- **Staff recommends moving forward with the CalPERS early retirement program**
 - Program costs are comparable for miscellaneous employees (74% of eligible population), regardless of the program design
 - For safety employees, the CalPERS program is more expensive, however, it would also attract the highest number of employees accepting the early retirement offer
- **One-time costs for the early retirement program will be made up within 1-2 years**
 - In addition to reduced staffing levels, the employees that we do hire moving forward under PEPRAs will be required to contribute more towards their pensions, while also receiving a reduced benefit level
 - Increasing the number of PEPRAs hires bends the pension cost curve, achieving both immediate salary savings and long-term reductions to the City's pension liability



* Effective FY 2017/18, the City changed its fiscal year from September 30 to June 30.

FY 2020/21 Budget Summary



City Council Approval Requested

- **City Council approval of the proposed FY 2020/21 Budget is requested, with the following adjustments**

- Section 115 Trust

- > Fund \$1 M Section 115 Trust contribution with reduction in General Liability fund transfer

- Early Retirement Program

- > Adopt resolution authorizing establishment of the CalPERS Early Retirement Program

- **Proposed FY 2020/21 General Fund balanced budget is as follows:**

- > Revenues: \$216.9 M

- > Expenditures: \$216.9 M

- > **NET POSITION: \$ 0.0 M**

- **Key budget components include:**

- Projected \$20 M drop in General Fund revenues

- Budget balancing plan includes a City workforce reduction by ~5%, achieved through use of the Workforce Reduction Program

- Increase in police staffing (3 positions) and code enforcement staffing (2 positions)

- Robust \$29.8 M Capital Improvement Program budget

Questions?