City of Huntington Beach
FY 2020/21 Budget Adoption

Special City Council Meeting

June 29, 2020

FY 2020/21 Budget Overview

- **Budget reviews coordinated with City Council during the past month**
  - On June 1, the City Council was presented with a proposed FY 2020/21 Budget
  - A Public Hearing about the budget was held on June 15, at which time it was requested that an additional Special Meeting be convened to review our FY 2020/21 spending plan

- **Economic impacts from the COVID-19 pandemic have created a challenging FY 2020/21 budgetary environment**
  - > **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 have been identified in the proposed budget
  - > **Quality of life additions**
    - Homeless response – 3 new sworn officers added to aid enhanced homeless response
    - Code Enforcement – 2 new code enforcement officers included in the budget to help enhance quality-of-life enforcement issues
    - Full and robust CIP budget, totaling $29.8 M in proposed projects

The COVID-19 Economic Context – An Unprecedented Contraction

- **Lots of unknowns right now… and the economic pain is real**

- **Real GDP declining at a historic rate**
  - Q1-2020 GDP **dropped by -4.8% on an annualized basis,** the largest drop since 2008
  - Economists are projecting that **Q2-2020 GDP will drop by around -20% to -40% on an annualized basis**
    - > Federal Reserve Bank of Atlanta is projecting (as of June 17) a -45.5% drop in Q2-2020 GDP
    - > Federal Reserve Bank of New York is projecting (as of June 19) a -19.0% drop in Q2-2020 GDP
  - For comparative purposes… during the Great Depression in 1932, GDP dropped **-12.9%**

- **Massive unemployment numbers**
  - Over **35 million new unemployment claims** filed since March 24
  - As of May 31, the **US unemployment rate stood at 13.3%**, the worst since the Depression era
  - **19.5 million people** receiving unemployment benefits as of June 13

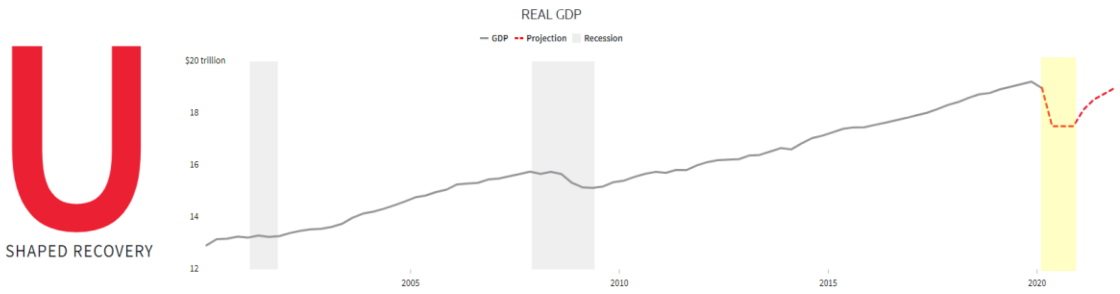
Economists Are Projecting An Uneven Economic Recovery

- ***The good…***
  - Retail sales in May 2020 increased by 17.7% from the month earlier, which was the biggest month-over-month increase since 1992
  - Unemployment dropped in May 2020 down to 13.3%, from 14.7%

  - *"We've had a solid start to May in the US, but we believe stimulus spending has been a big driver, which we don't anticipate staying at these levels."*

    Doug McMillion, CEO Wal-Mart

- ***The bad…***
  - Industry executives have said that government stimulus helped boost May sales
  - The Federal Reserve projects that the economy faces long-term damage from higher unemployment and a wave of small business failures due to the coronavirus pandemic



- ***The likely economic reality…***
  - An uneven economic recovery that doesn't see pre-coronavirus output levels for at least 2-3 years

Economic Reality Necessitates Structural Organizational Changes

- **Revenue levels are expected to recover modestly during the next 12 – 18 months, but the current economic environment has created a longer-term structural budget deficit**
  - Staff is currently projecting a preliminary structural budget deficit of at least $6.2 M

- **To avoid external service level reductions, the proposed FY 2020/21 budget proposes a long-term operational strategy built on three key concepts**
  1. Redesign, standardize, and simplify internal support functions and rules
  2. Institute more efficient service delivery methods across certain operational areas
  3. Maintain core external service levels

- **Within that framework, in order to achieve the necessary cost reductions, the proposed FY 2020/21 budget assumes a reduction in the City's workforce of at least 5%**
  - At question is the process through which we achieve staffing level reductions

Early Retirement Program Recommended

- **Staff has recommended utilization of an early retirement program to facilitate the needed reductions**
  - Given existing civil service rules / procedures, the early retirement program is the recommended pathway to reduce personnel costs
  - Through an early retirement program, we have a chance to save costs through two primary methods
    1. Not filling vacant positions and reorganizing operations (primarily in our miscellaneous classifications)
    2. Reduced staffing costs with PEPRA employees (primarily in our safety classifications)

- **Using early retirement incentives and a targeted reorganization process allows us to redesign while scaling down**
  - Layoffs are an option, but in a civil service environment, layoffs trigger “bumping rights”
  - This typically results in a severely reduced capacity to perform work, as existing tenured-based “bumping right” rules result in misalignments between operational needs and employee capabilities

- **Our long-term goal and strategy is to maintain existing service levels with reduced staffing levels**
  - Ultimately, if we want to provide services more efficiently, we will need to…
    - > Ensure that we have the right people serving in the right jobs
    - > Ease internal bureaucratic red-tape
    - > Standardize and streamline all internal support function processes
    - > Move towards becoming a flatter, more customer-focused operation
    - > Continue to build a distinct organizational culture focused on the provision of exceptional service

Two Early Retirement Program Options Initially Assessed

- **Staff originally assessed two early retirement program options**
  - Originally, staff assessed two separate early retirement incentive programs, including a CalPERS program and a self-designed program
    - > CalPERS program provides 2 years of retirement service credit
      - While this program was more cost effective for miscellaneous employees, it was more costly for public safety employees
    - > Self-designed program would provide $1,500 / year of service, plus 6-months of health insurance coverage
      - While the program cost less for public safety, concerns persisted that this program would not achieve the required level of participation to address our current budget situation

- **Based on program design / participation, one time early retirement program costs were estimated to be up to ~$6 M**

- **Early retirement program costs per employee were estimated as follows:**

	CalPERS		Self-Designed
Employee Classification	**Est. Cost**		**Est. Cost**
Miscellaneous	40,392		54,642
Safety (Sworn)	121,277		50,706

Additional Workforce Reduction Program Options Assessed

- **Based on City Council direction, staff has worked during this past week to assess alternative reduced-cost workforce reduction options**

- **New options assessed include:**
  1. Modified CalPERS early retirement program option, open only to unrepresented and miscellaneous staff
  2. Modified CalPERS early retirement program option for miscellaneous, self-designed program for safety
  3. Use of the self-designed program exclusively
  4. Deploying layoff procedures and engaging in the meet-and-confer process to negotiate requisite staffing cost reductions

Survey Conducted of Eligible Miscellaneous and Public Safety Staff

- **In addition, to gain a better understanding of who might participate in the early retirement program, staff conducted a survey last past week of eligible participants**
  - Survey was sent to all eligible miscellaneous and safety employees
  - We had a 72% response rate

- **Miscellaneous Employees**
  - No retirement incentive – 1% likely or very likely to retire
  - CalPERS program – 44% likely or very likely to retire
  - Self-designed program – 17% likely or very likely to retire

- **Safety Employees**
  - No retirement incentive – 1% likely or very likely to retire
  - CalPERS program – 43% likely or very likely to retire
  - Self-designed program – 29% likely or very likely to retire

Option 1:
Modified CalPERS Early Retirement Program

Modified CalPERS Early Retirement Program

- **Deploy only the lowest cost early retirement program tier, and limit the eligible employee population to only our unrepresented and miscellaneous class of employees**
  - The lowest cost early retirement program option identified was the CalPERS early retirement option for miscellaneous staff
    - Program costs on average $40,392 / miscellaneous employee
  - Every other program option had a higher per participant cost
    - Misc. self-designed option: $54,642 / miscellaneous employee
    - Safety CalPERS option: $121,277 / safety employee
    - Safety self-designed option: $50,706 / safety employee

- **44% of eligible miscellaneous employees indicated that they would be likely to retire early if offered the CalPERS early retirement program option**
  - There are **145 fully vested miscellaneous employees** who would qualify for the modified CalPERS early retirement program option
    - Per our survey, 44% of eligible employees (64 staff members) indicated that they would be interested in the program
    - For comparative purposes, we've also run calculations assuming that 65% of eligible employees (94 staff members) and 100% of eligible employees (145 staff members) would participate

<u>**Modified CalPERS Early Retirement Program**</u>

Costs vs. Cost Savings

- **If 44% of the eligible population participates…**
  - One time program cost: $2.6 M one time

    vs.
  - Ongoing available cost savings: $7.8 M / year

- **If 65% of the eligible population participates…**
  - One time program cost: $3.8 M one time

    vs.
  - Ongoing available cost savings: $11.5 M / year

- **If 100% of the eligible population participates…**
  - One time program cost: $5.9 M one time

    vs.
  - Ongoing available cost savings: $17.6 M / year

Modified CalPERS Early Retirement Program

Summary Assessment

- **The modified CalPERS early retirement program offers a more cost effective incentive program by restricting the number of people eligible to participate**

- **While the program design would reduce the number of individuals eligible to participate, the program would likely attract enough employee participation to provide the necessary ongoing budgetary relief needed to balance the City's operating budget**
  - The biggest cost savings from offering an early retirement program will come from not filling vacant positions and reorganizing our work flows
  - This modified CalPERS early retirement program targets the incentive at our miscellaneous staff, where we have more opportunity to restructure operations when compared with our public safety operations

- **If instituted, the ongoing cost savings level achieved would allow the City to recoup one-time early retirement program costs within one year, even after implementing a reorganization plan**
  - Under the likely program participants scenario, one time costs for the program would be $2.6 M, while ongoing annual salary savings would be three-times that amount at $7.8 M
  - Cost : Savings Ratio = 3x

Option 2:

Modified CalPERS Early Retirement Program (Miscellaneous) + Self-Designed Separation Incentive Program (Safety)

HUNTINGTON BEACH

Modified CalPERS (Misc.) + Self Designed (Safety)

- **Provides the most cost effective incentive option for miscellaneous and safety employees**
  - Modified CalPERS option (misc.): $40,392 / miscellaneous employee
  - Self-designed option (safety): $50,706 / safety employee

- **44% of miscellaneous employees indicated that they would retire early if offered the modified CalPERS retirement program, and 29% of safety employees indicated that they would retire if offered the self-designed incentive**
  - There are **145 fully vested miscellaneous employees** who would qualify for the modified CalPERS early retirement incentive
  - There are **64 fully vested safety employees** who would qualify for the self-designed early retirement incentive
  - Per the survey results, 44% of miscellaneous employees (64 staff members) and 29% of safety employees (19 staff members) indicated that they would be interested in each respective program

<u>Modified CalPERS (Misc.) + Self Designed (Safety)</u>

Costs vs. Cost Savings

- **If 44% of the eligible miscellaneous population and 29% of the eligible safety population participates…**
  - One time miscellaneous program cost: $2.6 M one time
  - Ongoing miscellaneous cost savings: $7.8 M / year

  - One time safety program costs: $941 K one time
  - Ongoing safety cost savings: $1.5 M / year (assuming no reduction in public safety personnel)

  - Total combined program costs: $3.5 M one time
  - Total ongoing program savings: $9.2 M / year

<u>Modified CalPERS (Misc.) + Self Designed (Safety)</u>

Summary Assessment

- **This dual program design provides the most cost effective incentive for both miscellaneous and safety employees**

- **The program would likely attract enough employee participation to provide the necessary ongoing budgetary relief needed to balance the City's operating budget**
  - The biggest cost savings will come from not filling vacant miscellaneous positions and reorganizing our work flows
  - Cost savings for safety personnel will come from reduced PEPRA employee costs, which are 36% lower than Classic safety employees

- **While this dual program is not quite as cost effective as offering only the modified CalPERS program to miscellaneous employees, the program design would still achieve the needed budget savings while allowing us to recoup one-time program costs within one year, even after implementing a reorganization plan**
  - Under the likely program participants scenario, one time costs for the program would be $3.5 M, while ongoing annual salary savings would be two-point-six times that amount at $9.2 M
  - Cost : Savings Ratio = 2.6x

<u>Option 3:</u>
Use of Self-Designed Separation Program

HUNTINGTON BEACH

Self-Designed Program

- **Lowest cost option for safety employees, and slightly more expensive than CalPERS options for miscellaneous**
  - Misc. self-designed option: $54,642 / miscellaneous employee
  - Safety self-designed option: $50,706 / safety employee

- **17% of miscellaneous employees and 29% of safety employees indicated that they would be willing to participate if offered the self-designed program**
  - There are **145 fully vested miscellaneous employees** and **64 fully vested safety employees** who would qualify for the self-designed program
  - Per the survey results, 17% of miscellaneous employees (25 staff members) and 29% of safety employees (19 staff members) indicated that they would be interested in the program

Self-Designed Program

Costs vs. Cost Savings

- **If 17% of the eligible miscellaneous population and 29% of the eligible safety population participates…**
  - One time miscellaneous program cost: $1.3 M one time
  - Ongoing miscellaneous cost savings: $3.0 M / year

  - One time safety program costs: $941 K one time
  - Ongoing safety cost savings: $1.5 M / year (assuming no reduction in public safety personnel)

  - Total combined program costs: $2.3 M one time
  - Total ongoing program savings: $4.5 M / year

Summary Assessment

- **The self-designed program offers a more cost effective incentive program open to both safety and miscellaneous employees**

- **However, the biggest downside to this option is that the program design may not attract enough employee participation to provide the ongoing budgetary relief needed to balance the City's operating budget**
  - While there would be a chance to absorb a large portion of the miscellaneous staff cost savings with restructuring opportunities, cost savings for the safety staff would come primarily from replacing retiring staff with PEPRA employees
    - PEPRA safety officers are on average 36% cheaper than non-PEPRA safety officers

- **If this self-designed program is instituted, the incentive alone will likely not be enough to achieve the requisite salary saving level needed to solve our current budget deficit**
  - Under the likely program participants scenario, one time costs for the program would be $2.3 M, while ongoing annual salary savings would be around one-point-nine times that amount at $4.5 M
  - Cost : Savings Ratio = 1.96x

Option 4:
Deploying Layoff & Employee Concession Procedures

Layoff & Employee Concessions

- **There are no immediate one-time costs to institute layoff and employee concession procedures**

- **However, given that it would take between 3 – 6 months to institute layoff and employee concession procedures, the City would need to absorb ongoing staffing costs estimated at $1.55 M - $3.1 M**
  - Staff has estimated our current structural budget deficit to be ~$6.2 M
  - The ongoing staffing costs we would need to absorb as we negotiate details related to layoff and concession protocols with our bargaining units, which we anticipate will take between 3 – 6 months to complete and institute

- **Additionally, negotiating and implementing layoff and employee concession will have an adverse effect on productivity and morale**

Summary Assessment

- **We would approach negotiations in such a way so as to achieve no less than $6.2 M in cost savings through a combination of layoffs and employee concessions**
  - The process is estimated to take 3 – 6 months to negotiate and implement
  - During the negotiations, staff would work to minimize negative impacts while ensuring that the end result of the layoff / concession negotiations achieves our requisite budgetary needs
- **Of note, layoff processes in our civil service environment will trigger bumping rights and a reduced ability to manage the reorganization process**
  - This is due to the fact that our tenured-based “bumping right” rules result in misalignments between operational needs and employee capabilities
- **Of the options assessed, this process will have the greatest negative impact on external service levels**
  - Based on City Council direction and community needs, we would work to limit impacts for our external operating departments
  - However, this process will likely result in reduced service levels that will be noticed by the public

Budget Balancing Options Summary

Additional Workforce Reduction Options Assessed

- **Given current economic and budgetary realities, in an effort to avoid external service level reductions, the proposed FY 2020/21 budget proposes a long-term operational strategy built on three key concepts**
  1. Redesign, standardize, and simplify internal support functions and rules
  2. Institute more efficient service delivery methods across certain operational areas
  3. Maintain core external service levels

- **Additional budget balancing options that have been assessed include:**
  – Option 1: Modified CalPERS early retirement program option, open only to unrepresented and miscellaneous staff
  – Option 2: Modified CalPERS early retirement program option for miscellaneous, self-designed program for safety
  – Option 3: Use of the self-designed program exclusively
  – Option 4: Deploying layoff procedures and engaging in the meet-and-confer process to negotiate requisite staffing cost reductions

Budget Balancing Options – Comparison Summary

- **Option 1 offers the best *cost : savings* ratio**
  - The program would only be offered to eligible miscellaneous employees, and would not be offered to safety staff
- **Option 2 is a viable strategy that provides incentive options for both miscellaneous and safety employees**
  - The program does not provide as great a *cost : savings* ratio as compared with Option 1
- **Option 3 will likely not achieve enough program participation to balance the budget, making it an unattractive option**
- **Option 4 does not have any specific one-time program costs, however, it will result in significant operational and service level disruptions**

No.	Description	Likely 1x Program Costs	Ongoing Available Cost Savings	Cost : Savings Ratio
Option 1	Modified CalPERS (Misc.)	$2.6 M	$7.8 M	3.00x
Option 2	Modified CalPERS (Misc.) + Self-Designed (Safety)	$3.5 M	$9.2 M	2.63x
Option 3	Self-Designed (Misc. + Safety)	$2.3 M	$4.5 M	1.96x
Option 4	Layoff & Employee Concessions	$0.0 M	$6.2 M	n/a

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**
  - *Workforce Reduction Program*
    - > Select either Option 1 or Option 2

- **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?