

# **Frequently Asked Questions: The City Budget, Employee Compensation and Unfunded Liabilities**

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January 2012

## **1. *Why does Berkeley have more employees than other cities its size?***

The City of Berkeley provides several services directly instead of contracting with outside vendors or relying on other jurisdictions as other municipalities might do.

This adds additional employees to the payroll. These services include:

- Solid waste pick up and disposal
- The library system.
- The Public Health Department.
- The Rent Board.
- Municipal Jail
- Animal Shelter.
- The Marina

Most of these services are funded through extra taxes or fees for service outside of the General Fund, but the employees count as City employees.

Since the early 2000's, the number of City employees has been reduced by over 200. The adopted budget for Fiscal Year 2013 lists 1460 full-time-equivalent (FTE) employees.

## **2. *Why are Berkeley's taxes so high?***

Berkeley taxes are high, but comparable to our neighbors': our total property tax burden is slightly less than Albany's and Oakland's.<sup>1</sup> Our taxes pay for services and programs that reflect our community priorities. They include:

- A five-branch, updated library system.
- A professional, college-educated police force.
- More fire stations per square mile than other cities in the Bay Area of comparable size.<sup>2</sup>
- City government that makes public process a priority through extensive boards and commissions requiring additional staffing.
- Detailed zoning regulations that require extensive staff review.
- Social service safety net and subsidized housing for those in need.

- 52 parks and many recreation programs for youth.
- A marina.
- Public health clinics.

### **3. How does Berkeley compare with other similar California cities?**

The City of Santa Barbara did a "[Comparative Indicators Report](#)," comparing aspects of the adopted 2012 budgets of ten California Cities<sup>3</sup> with similar characteristics. Berkeley was one of them. In this comparison, Berkeley stands out in the following ways:

- Berkeley is a small, dense city.
- It has the smallest population of residents under the age of 17.
- It is above the mean for both annual revenues and expenditures.
- It is significantly above the mean for percentage of General Fund monies allocated to capital projects.
- Berkeley's income relies to a greater degree on property taxes, property transfer taxes, and business license fees.
- Berkeley has the most fire stations per square mile, yet fewer than the mean calls for fire service and only a slightly above average number of calls for medical service.
- Berkeley spends significantly more per capita on its libraries.
- Berkeley and Santa Cruz have the worst street pavement condition.

### **4. Is Berkeley spending less now for capital improvements than twenty years ago?**

Berkeley is currently spending substantially larger sums on capital improvements than it did two decades ago. In Fiscal Year 1993, the City spent \$26.9 M on capital improvements, whereas in FY 2011 it is spending \$47.9 M, an increase of over three quarters. However, as a percentage of the total budget the spending on capital improvements has declined slightly from 16.7% in FY 1993 to 14.7% in FY 2011.<sup>4</sup>

The City's total capital improvement budget can vary widely from year to year depending upon the contracting of specific projects. Most capital improvement funding is through special assessments (the sewer replacement program), special taxes, bond measures, grants or county/state/federal funding (most road improvements). Scarcity of federal and state money may limit future capital projects.

The current capital improvement budget includes the branch library improvements and the animal shelter both funded through voter-approved bonds. Last year's repaving of University Avenue was federally funded through the American Recovery and Reinvestment Act of 2009.

**5. *The City of Berkeley has a backlog of deferred maintenance. What is the City Council doing about his?***

It is true that the City has not kept up with most of the maintenance of its infrastructure (the sewer system is an exception: since 1987 it has had its own funding stream and rebuilding/maintenance program.) This includes not only streets, sidewalks, but also the storm water system, parks and City buildings. The City Council has been holding special work sessions to review and re-evaluate the scope of infrastructure needs within the City.

Relevant reports can be found at:

1. Parks, Pools and Waterfront Capital Needs. September 27, 2011  
[Presentation \(PDF\)](#)
2. [Watershed Management Plan Update \(PDF\)](#). October 25, 2011  
[Attachment 1](#)  
[Attachment 1 Appendices](#)  
[Presentation](#)
3. [Solid Waste Operation and Financial Update \(PDF\)](#). November 8, 2011  
[Presentation](#)
4. [Pavement Management System and Capital Needs \(PDF\)](#). November 15, 2011  
[Presentation](#)
5. [Public Facilities Capital Needs \(PDF\)](#). December 13, 2011  
[Presentation](#)

**6. *What are unfunded liabilities? Why have they increased so dramatically over the past several years?***

Unfunded liabilities are financial obligations owed by an organization for which the organization does not have 100% of the cash in the bank at all times to cover the cost.<sup>5</sup> The City's unfunded liabilities are related to employees' future pension and healthcare benefits. (For a more comprehensive explanation, go pages 49 through 59 of the [FY 2012 – 2013 Biennial Budget](#).)

Some of the major events that have led to the City's unfunded liabilities include:

- In the late 1990's the State Legislature approved that public safety employees be allowed to retire at between 50 and 55, with 3% of their current salary for every year worked. This has added tremendously to pension liabilities.
- Labor unions were provided very generous benefit packages when cities were led to believe by a variety of indicators that we could afford them. Projections were too optimistic, the financial markets collapsed, and cities were left with significant unfunded liabilities.
- Healthcare costs have skyrocketed. Current City contracts do not require employees to pay any portion of their healthcare costs if they choose Kaiser. (Employees who choose coverage through other carriers pay the difference.)
- In recent years the state has dipped into municipal pockets through take backs of parking fines, vehicle licenses fees and property taxes in order to back fill their own deficits.

Without voter approval for increase in fees or taxes, cities have limited options for recouping these funds. They include:

- Reducing salaries.
- Increasing employee contributions towards retirement benefits and health coverage
- Reducing City services.
- Increasing efficiency in delivery of services

#### ***7. What has the City already done to reduce the budget?***

- **Voluntary Time Off (VTO) Days.** Currently, City offices are closed two Fridays a month, non-public safety staff members have the option of taking those days off as vacation or without pay.
- **Staff reductions.** Since the early 2000's, the number of City employees has been reduced by over 200. The adopted budget for Fiscal Year 2013 lists 1460 full-time-equivalent (FTE) employees. The city is not currently filling vacancies.

- **Department consolidation.** The Health and Human Services Department and the Housing Department have been consolidated under one director.

## **8. What are strategies to improve the long-term financial health of the City?**

**Further Reduction of City Services.** These reductions have been ongoing since FY 2004. (For current Budget Balancing Plan, go to pages 115 to 143 of the [FY 2012 – 2013 Biennial Budget](#).)

### **Review Labor Contracts**

- Institute a cap on the City's employee retirement contribution for employees.
- Adopt a hiring freeze until that cap is adopted.
- Restructure the City's contributions to employee benefits for new hires, creating a two-tier system.
- Eliminate spiking: calculate retirement benefits based upon a three-year average instead of the single highest wage year.
- Cap the number of vacation days an employee can accrue.
- For non-sworn employees cap retirement benefits at the same maximum value, 90% of salary, as for sworn employees (police & fire).
- Reduce and cap the number of sick leave days for which a retiring employee can be paid.
- Require employees to pay a greater portion of their healthcare benefits.
- Reevaluate healthcare policies including cash-in-lieu.
- Advocate a revision in California State law that allows for changes to pension agreements after the hiring date. (Currently benefits can be increased but not decreased.)

### **Refer to the Voters**

- The City Council will be deliberating about possible revenue measures for the November 2012 Ballot particularly in regards to Public Works infrastructure.

## **9. Other jurisdictions are having similar problems. What are they doing?**

- In **Calistoga**, fire fighters and public employees agreed to a 5% pay cut and to contribute the employees' share of their pension (8 to 9%). They also instituted a second-tier benefits' package for new employees.

- The City Council of **San Jose** is putting on the June ballot a proposal to create a voluntary two-tier system for existing employees. Those who “opt in” will receive reduced benefits in the future (less retirement and later retirement age). Those who do not will be forced to pay a significant portion of their salary to amortize currently unfunded liabilities. New employees will receive the “opt-in” program. Even if this proposal passes, it may still be subject to court challenge. (Go to [City of San Jose Retirement Ballot Measure](#) for more details.)
- **San Francisco** posted two measures on the November 2011 ballot, Propositions C and D, to require future and current employees to pay more for their retirement benefits. Only Proposition C was approved. Supported by the labor unions, Ed Lee and the Chamber of Commerce, it requires a smaller increase in employee contributions than Proposition D and will be phased in over a period of years.

The San Francisco 2011-2012 Adopted Budget relies on \$31 million in savings over two years through an agreement with police officers and firefighters to contribute more to their pensions. In addition, the City’s labor unions participated in a months-long process to develop a pension reform measure for the November ballot that will save approximately \$1 billion over the next ten years.

- **Oakland** has adopted a “two-tier” benefits approach with different benefits for recently hired employees, issued bonds to finance unfunded payments and laid off 80 Police Officers.
- The **Santa Cruz** City Manager and executive staff have taken pay cuts, will contribute \$100/mo to health benefits and have reduced vacation buy-outs. All City offices are closed on Fridays. Firefighters agreed to a two-tier retirement system and will pay more towards their pensions. Police increased their retirement contribution from 9% to 20% of their salaries.
- The **City of Santa Barbara** is avoiding a budget deficit in FY 2012 through a continuation of one-time wage and benefit concessions by non-sworn personnel, a continuation of a work furlough program, and elimination of ten positions through attrition. Their police officers recently agreed to a three-year contract that included – outside of salary and benefit increases - employee PERS contributions, 12-hour furlough program, suspension of vacation and holiday pay-outs through 2013.
- In March 2008 the **City of Vallejo** filed for Chapter 9 bankruptcy protection, after employee unions did not accept salary cuts and the economic recession significantly reduced tax revenue. Between 2004 and 2010, Vallejo reduced its General Fund workforce by 31%, from 494 to 340 employees. This has resulted in significant service reduction to the

community in every city department with Public Safety and Public Works taking the largest hits; fire and police personnel were reduced by 159 employees between 2003 to 2010, in 2010 road maintenance was funded at 10 percent of recommended levels, and funding to community organizations has been significantly reduced and in some cases, eliminated.

### **Footnotes**

1. Tri-City Property Tax Comparison. [See Attachment 1.](#)
  
2. Fire Stations per square mile. Using the 12-City comparison used by Berkeley Budget SOS:  
Berkeley: .67 Fire Stations per square mile  
Santa Clara: .54  
Alameda: .38  
San Leandro: .37  
All others less than .23. Concord, Antioch and Daly City contract with their respective county fire departments.  
Note: Berkeley's number of citizens per fire station is below the average for these cities.
  
3. The cities in the November 2011 comparison were: Santa Cruz, Redondo Beach, Sunnyvale, Berkeley, Oceanside, Ventura (city), Carlsbad, Huntington Beach, Santa Barbara, Santa Monica, and Newport Beach. The report was created and published by the City of Santa Barbara.
  
4. In FY 1992-93, the Total City Budget was allocated between Operating Budget," \$134,021,471, and "Capital Budget," \$26,884,500 ("Components of Total Financial Program 1992 – 93"). By definition the Capital budget was 16.7% of the total budget.  
  
The adopted budget for the "Citywide Capital Program" for FY 2010-2011 was \$47,915,582 (Proposed Capital Improvement Program Fiscal Years 2012 and 2013. Page 7. "Citywide Capital Program by Category – All Funds") Net budget Expenditure for FY 2011 \$325,469,635.<sup>5</sup>The Capital Budget was 14.7% of the Total Budget. (FY 2011 Mid-Biennial Budget Update. Page 11. Summary of FY 2011 Proposed Update. Revenue and Expenditure Totals.)
  
5. [City of Berkeley Auditor's Report: "Employee Benefits: Tough Decisions Ahead."](#)  
January 18, 2011