

INTEROFFICE MEMORANDUM
City of Santa Clara



DATE: October 18, 2010
TO: All City Employees
FROM: Jennifer Sparacino
SUBJECT: City's Fiscal Crisis and Contingent Layoff Plans

As employees are aware, the impact of the "Great Recession" on the City of Santa Clara has resulted in a fiscal crisis situation. Throughout the development of our fiscal year 2010-11 budget, we have analyzed and communicated the very serious state of the City's finances to employees and the public. While we have taken decisive and extensive steps to solve this problem, including reductions in hours and services at many City facilities, as well as holding about 15% of City positions vacant or eliminating other vacant positions due to attrition and retirements, *the problem is still not solved and the City's emergency reserves are nearing depletion.*

The City is grateful to the bargaining group representatives who have been meeting with the City's negotiators to discuss the City's fiscal crisis, and realize that this is a very difficult conversation. In addition to budgeting and needing to achieve millions of savings by postponing or not filling vacancies, or not filling positions as they become vacant, the City needs and has budgeted for an additional \$5 million in employee compensation cost savings to balance the General Fund for FY 2010-11. The City's need would have been \$10 million from employee compensation in FY 2010-11 except the City made a one-time \$5 million land sale in FY 2010-11. Accordingly, the City continues to need \$10 million in employee cost savings to the General Fund in calendar year 2011 and on an annual ongoing basis as well as a savings in Enterprise Funds.

The City has asked all employees through their bargaining representatives to help by agreeing to forego any total compensation increases scheduled to occur at the end of December 2010 and agreeing to an across the board 5.15% salary reduction effective January 2011. These concessions would save the City's General Fund about \$5 million this fiscal year and about \$10 million on an annualized basis (about \$13 million across all funds). The City and certain bargaining representatives also are discussing the possibility of unpaid furloughs as an alternative to the 5.15% salary decrease.

The significant steps the City has taken thus far to cope with the unprecedented impact of the economic downturn on City finances do not solve what is projected to be on-going structural deficits beyond 2011, and forecast over the next five years. Employee compensation is more than 75% of the City's General Operating Fund budget. Thus, as difficult as it is, we are compelled to further reduce the City's costs by reducing the cost of employee compensation.

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There are ten employee bargaining units in the City of Santa Clara. Two of the bargaining groups, the POA and Police Management, are in negotiations with the City regarding their MOUs which expire at the end of 2010. We are also in discussion with the other eight bargaining groups. If concession agreements cannot be reached with employee bargaining groups whose MOUs are not expiring in December 2010, then the City's only recourse for these groups will be layoffs. For that reason, I have asked each Department Head to develop a potential layoff plan for their department, by bargaining group. These plans will be compiled and then reviewed by the Human Resources Department and me over the next few weeks. The City's intent is for the plan to be ready for implementation no later than January 1, 2011. Since the City must achieve \$5 million in General Fund cost savings in employee compensation this fiscal year and \$10 million next calendar year (about \$13 million across all funds), employee bargaining groups that choose not to agree to concessions would be subject to the layoffs.

I greatly value our employees and their dedication to the City of Santa Clara. Our employees are known for the great work that they do – and are a motivated, hard-working and talented group of people. In all my years as City Manager, we have always been able to resolve budget challenges without having to layoff full-time employees. And, if there was any fiscally responsible way to avoid layoffs this fiscal year, other than concessions, we would pursue it. However, there simply isn't another financially responsible option.

With regard to timing, the City will be contacting bargaining group representatives by or around November 1 to discuss a layoff plan for bargaining units that did not reach agreement with the City on concessions. Bargaining representatives will have 30 days to discuss the impacts of the layoff plan with the City, including potential alternatives. The layoff rules also require 30 days notice to employees who would be laid off. Because the City needs layoffs to be effective January 1, 2011 to achieve about \$13 million in annualized employee compensation savings (\$10 million in General Fund savings; \$3 million in Enterprise Funds employee compensation), the City plans to send actual layoff notices to affected employees in all departments by or around December 1, 2010. Again, the City is hopeful that the City and the bargaining groups will reach agreements on concessions to avoid layoffs for those groups, but must still proceed with putting together the layoff plan now in order to comply with all procedural requirements necessary to implement layoffs by January 1, 2011.

If you have questions, please feel free to contact Director of Human Resources Liz Brown or Deputy City Manager Carol McCarthy. Thank you.


Jennifer Sparacino
City Manager

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