MEMORANDUM

TO: Jacksonville City Council

FROM: Mayor John Peyton

DATE: March 3, 2010

Re: City of Jacksonville's FY 2010/2011 Budget

In an effort to keep you updated on the status of the city's fiscal year 2010/2011 budget and the process we are using to build next year's budget, I have prepared the information below. Our focus continues to be expense reductions, balanced against ensuring we have the revenue base necessary to maintain, at the very least, the current level of services we provide our citizens. This continues to be a challenge, but I look forward to working with you and our community to make the best decisions possible.

Budget Workshops

Throughout the budget process, I know that our shared goal is to be as transparent and engaging as possible. To that end, in addition to the workshops that the City Council is holding on the budget, we are also holding seven budget workshops this year. Each is two hours long, and allows for an in-depth look at major city departments and functions. We have already held two such workshops, with four more scheduled as follows:

Saturday, March 6, 2010 – 9:30-11:30 a.m.
Jacksonville Children's Commission
1095 A. Philip Randolph Blvd.

Thursday, March 25, 2010 - 6-8 p.m.
Clanzel T. Brown Community Center
4545 Moncrief Road

Saturday, April 17, 2010 – 9:30-11:30 a.m.
Balis Community Center
1513 LaSalle Street

Thursday, April 29, 2010 – 6-8 p.m.
Dinsmore Community Center
7126 Civic Club Drive

In addition, we are working with Council Member Graham to schedule a meeting at the beach. Once this is scheduled we will provide you with the details.

We would encourage you to attend one of the five remaining sessions if your schedule allows. Background about the city's budget is available at www.myjaxbudget.com.

Pension Reform and Salary Cuts

Pension Reform

Since I first took office, pension costs are up 175 percent. The cost for pensions was $40 million in 2003 and approximately $110 million in the current year. This is the single largest cost driver in the city's budget, and pension costs are growing at a far faster rate than any other item in the budget. In fact, there is no item in the city's budget that is growing at even a rate close to this.

In an effort to better manage costs, we have put a pension reform package on the table this year with our unions that would save the city about $1.3 billion over the next 35 years. These proposed changes are fair, sustainable and competitive. The table below highlights the major changes now being sought at the bargaining table from the police and fire unions. Similar reforms are being negotiated with the general employee unions.

Current Police/Fire Pension Plan	Proposed Police/Fire Pension Plan
Retire with 20 years of service at any age	Retire with 25 years of service at 52 years of age
Drop Interest: Guaranteed 8.4% return on DROP investments	Self-directed account
DROP eligibility: Member can either DROP upon reaching normal retirement (20 years of service), and is eligible for 5 years of DROP with up to 30 years of service; 3 years of DROP with 30-31 years; and 2 years of DROP with 31-32 years	Alternative options available to members
3% COLA adjustments begin as early as three months after DROP	CPI adjustments capped at 3% begin after 5 years after the commencement of DROP or 5 years after retirement of the employee does not DROP
7% pre-tax employee contribution	8% pre-tax employee contribution (Note: General employees already pay 8%)
Final Average Pay is based on last 24 months of service	5 highest years of last 10 years – State Ch. 175/185 minimum
75% Spousal Benefit without cost	Benefit to beneficiary with actuarial adjustment to employee benefit – based on State/FRS model and Ch. 175/185 minimums

Salary Cuts

The reform of the city's pension system and reductions in that expense line is a long-term benefit to the city. However, despite the dramatic cost reduction over time, pension changes will not reduce the city's budget in the short term.

In an effort to reduce employee-related expenses now, the proposal to our unions is a 3 percent pay cut, a freeze in step raises (that allow for automatic pay increases at certain employment milestones) and an increase in the employee share of health care premium costs.

In total, we estimate the non-pension changes will save the city approximately $20 million in the fiscal year 2010/2011 budget and mirror many of the actions being taken in the private sector to reduce employee-related costs. Failure to ensure these changes will force the city to look at other ways to reduce employee costs next year – including layoffs in all areas of government.

Other Budget Reductions

Every year since I have been in office, we have worked to reduce operating expenses across government. We have eliminated 510 positions since 2006, and the average annual growth rate for non-public safety spending (including public works, parks and libraries) has remained relatively flat since 2003.

However, the coming budget year is no exception to fiscal scrutiny and efforts to drive efficiency. We are conducting a review in every department, division and function to identify measures that save money – primarily through outsourcing, function elimination or the deployment of new technology.

For example, in the Information Technology Department, we are currently reviewing the proposals received last month to outsource desktop support. We will also soon release an RFP to test the market for the hosting of certain legacy systems by a private provider. This type of action will be repeated again and again across government as we work to bridge the budget gap.

Self-Sustaining Enterprise Funds

While focusing on employee and other operating expenses must be a critical part of the city's budget preparation, we must also ensure that we are taking a business-like approach to the charges levied for various municipal services. To that end, during last summer's budget deliberations, the City Council's Finance Committee asked that we review the fees charged for various services to determine if the city is capturing its cost of service. The administration agreed with this approach and has just completed that analysis.

Of the fees charged (primarily in the solid waste, planning and zoning and recreation and community services areas), many are not capturing the city's cost of service – meaning that the enterprise funds that support these activities are upside down. When the enterprise fund does not collect enough revenue to support the service provided, the general fund provides a subsidy, thereby draining needed resources from other government operations.

In solid waste, for example, failure to remedy the mismatch between the fee and cost of service could likely result in a significant reduction in recycling and yard waste pick-up services now provided to residents. In the building inspection division, without an adjustment in fees, further layoffs are likely, resulting in a smaller workforce than the work demand requires.

To remedy this issue, the administration is submitting to the City Council legislation that ensures fees properly capture cost of service – meaning fee increases in some instances and fee decreases in others. It is important to note that while fees have been adjusted in the past, these fee changes are proposed based on an in depth cost versus fee analysis. Attached to this document is a Municipal Fee Schedule and Analysis document (Attachment A). It contains a summary of proposed fee changes and detailed analysis information.

Five-Year Outlook -- Expenses Outpacing Revenue

As we begin work on the fiscal year 2010/2011 budget, we are also analyzing revenue and expenses over the next five years. The table below highlights projected revenue and expenses from fiscal year 2010/2011 through fiscal year 2014/2015. As you will see, revenue is expected to grow by 10 percent, while expenses are expected to grow by 35 percent. Of the $354.4 million in increased expenses, $268 million (76 percent) is attributable to employee-related costs.

	Revenue	Expenses
FY 09/10	$981,500,413	$981,500,413
FY 10/11	$985,358,119	$1,043,355,966
FY 11/12	$999,648,103	$1,106,500,919
FY 12/13	$1,018,671,960	$1,182,047,893
FY 13/14	$1,045,445,266	$1,255,432,493
FY 14/15	$1,078,030,970	$1,335,884,141

To close the gap in the short term, we are currently negotiating wage and benefit items, and we continue to reduce operating expenses as outlined above. Even with those efforts, however, the five-year projection does highlight a challenge faced by cities and counties across the nation. In the face of these economic pressures, we must effectively balance our budget while still investing in and positioning Jacksonville for the future.

For your further review, I have attached two versions of the five-year outlook. Attachment B is the outlook without reductions in the employee-related expenses now being negotiated and fees not being adjusted to capture cost of service and an outline of assumptions used to create the outlook. Attachment C accounts for both changes and reflects a smaller, while still significant, gap.