



City of Phoenix

To: Councilman Sal DiCiccio

Date: December 5, 2011

From: Ed Zuercher
Assistant City Manager

Subject: FOLLOWUP TO DECEMBER 12 LETTER

Thank you for your questions from your December 12, 2011, email about employee costs and the budget (attached).

Some background information is important. First, the 2012-13 budget proposal is currently being developed. For the past month, Budget & Research has been going line-by-line through the current budget with departments to ensure that we only have in this year what we need so that we understand clearly what is needed to develop a proposal for next year's budget. Budget & Research is planning to present a preliminary estimate of 2012-13 costs and revenue estimates to the Council early next year (late January or early February).

Second, the total compensation costs in the budget will follow the same practice as every year, which is to base costs on the current Council-adopted pay plan. Our budget will be developed assuming no increases in existing pay or benefits. Then, the Council can see the impact of any changes in existing pay or benefits from that point, whether an increase or a decrease, would result in a corresponding increase or decrease to the 2012-13 budget estimate.

Since merit pay and longevity pay are both a part of the current Council-adopted pay plan, they are assumed to continue for the purpose of developing the preliminary expenditure estimates. Of course, if merit and longevity is changed through collective bargaining, then the budget would also change in a corresponding manner. It's important to note that even if not changed, the total cost of merit and longevity could be slightly different next year (either higher or lower) based on the number of employees and their years of service. We have decreased the number of employees and those who remain represent a different mix of years of service used to calculate merit and longevity. Next year's totals will be different from this year, and the estimates for 2012-13 merit and longevity pay are in progress and will be concluded by January.

It's also important to note that known changes to fringe benefit rates not affected by negotiated agreements, such as pensions and health insurance, will be included in the proposed budget and will be clearly highlighted.

With regard to potential service restorations, it is important we understand the full budget picture including projected revenues and expenditures for next year before we make any assumptions or statements. Once the estimates are developed, we will know more about whether the General Fund is facing a deficit, a break-even status, or a surplus of expected revenues over expenses. Restoring programs is a City Council policy decision that will be made in the spring of 2012. At this point we don't know what restorations might be possible to be recommended by departments and management. We first have to develop the baseline budget with projected revenues and expenses and then add in labor agreements. After that, we will know whether restorations or cuts are needed to balance the budget.

Unions made their opening proposals to City Council and management on December 1. I cannot comment on any specific proposal to avoid the appearance of unfair labor practice. However, we do know that the value of a 1% change for all employees is estimated at \$9.75 million to the General Fund (see attached Wage and Benefit Projection Report from Budget & Research). A restoration of the previous concessions would be estimated at between \$30 and \$35 million to the General Fund. The actual number is still being calculated. Any change in compensation and benefits are subject to negotiation with the unions/associations and ratification by the City Council. This process has just begun and will be fully underway in January and February.

Please let me know if you have any further questions.

Attachments

c: David Cavazos
Mayor & City Council
Penny Parrella
Marchelle Franklin
Paul Blue