MEMORANDUM

TO: VICTOR CARDENAS, CITY MANAGER

FROM: CARL JOHNSON, CFO

SUBJECT: COMPENSATED ABSENCES PAYOUTS

DATE: MARCH 26, 2025

This memo provides an update on the plan to address the projected budget shortfall for compensated absences payouts, along with some background on the budgeting process for these types of payouts. Based on initial feedback, unbudgeted realized revenue (from my previous memo) shall be designated for one-time purchases.

Compensated Absences Budget History

During the budget process, finance meets with all departments, including human resources, to review eligible retirements and potential employee separations for the next fiscal year and estimate the associated payout costs. The estimated amounts for payouts are included in the respective departments under personnel costs. Included in the Public Safety Department budget for fiscal year 2024/2025 was $200,000 in estimates for final payouts (101-301.00-704.000). During the first quarter, $200,000 (which was set aside for the possible payouts) was moved to the defined benefit (a.k.a traditional legacy pension plan) pension expenditure line (101-301.00-718.000) to cover the increased annual pension cost for the active command members covered by prior year changes (made in 2023, however, actuary costs were not received until after the adoption of the FY 24/25 budget) to the MERS plan. In consultation with Human Resources, they believe they are aware of all remaining retirements that will occur in the remainder of the fiscal year and have accounted for them accordingly.

For the last ten years, the Finance Department has been successful in estimating the number of payouts, with the current year being one of the exceptions where the payouts are greater than estimated. The following is a summary of the public safety payouts and related budgets:

Original budget estimate of annual payouts of	$200,000
Additional estimated payouts over the original budget	$104,000
Total projected annual public safety payouts	**$304,000**

General Fund Cost Reductions

To ensure the budgets are sufficient for any additional payouts through the end of the year (including salaries and related fringe benefits that are part of the payouts), the City will need to identify expenditure reductions across all departments. There is still more than a quarter of the fiscal year left, and sufficient time exists to make adjustments to the budget to cover these costs. In the coming weeks, departments will identify expenditures that can be deferred or delayed until the end of the fiscal year. The following are types of expenditures that will be used to cover the overage:

- Conferences and workshops through year-end
- Defer non-essential operating and office supply purchases through year-end
- Review unspent capital purchases and cancel non-essential purchases
- Possible hiring freeze on open positions

The third and fourth quarter budget amendments, presented to the Mayor and City Council in the coming months, will include the movement of funds between departments to cover the payouts and will not involve the use of any new revenue. The above plan will ensure the City remains compliant with the State Budget Act.