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DEPARTMENT OF
FINANCE

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June 21, 1988

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Financial Impact of a Hiring Freeze Extension - Report Back

SUMMARY

This informational report details additional funding generated by extending the ninety day hiring freeze.

BACKGROUND

The Midyear Review recommended steps to avoid a possible future General Fund resource shortfall. One of the suggested Midyear corrective measures included the institution of a ninety day hiring freeze for certain positions. During the Budget and Finance Committee Meeting on May 10, 1988, Councilman Shore requested information relative to the additional funds that could be generated for other programs by extending the 90 day hiring delay.

The ninety day hiring delay does not include public safety positions, completely revenue offset positions, seasonal positions, or any other position which would result in severe program reductions. The remaining positions subject to the freeze total approximately 1,373. The following chart summarizes the various position in the General Fund:

Sworn Police Officers	572
Sworn Fire Personnel	446
Dispatchers	85
Fully Reimbursed	100
Seasonal	170
Other Full Time Positions	1,373

Total General Fund	2,848
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FINANCIAL

As part of the budget process, an analysis is performed to determine the appropriate amount to deduct from gross labor costs for vacancies that will occur during the year. The anticipated overall 1988-89 vacancy rate for the General Fund is 1.60% of gross labor dollars or about \$2.0 million (before any intentional hiring delays). The hiring delay is anticipated to increase the labor savings by \$2.0 million which corresponds to a 3.2% total savings relative to gross salaries or about 7.0% total savings on those positions subject to the freeze.

An extension of the freeze from 90 to 180 days, will increase the labor savings. However, the labor savings does not double the expected \$2.0 million from the 90 day holding period. The additional savings is reduced by: a portion of the savings in the Proposed Budget already includes proceeds from an extended holding period; time constraints to accumulate a full six month average savings; and the impact of multiple vacancies on existing programs.

If the additional delay did not impact service levels the savings could reach as high as \$1,400,000. However, under the hiring delay guidelines, positions are not held if the vacancy would result in severe program reductions. Given that the Proposed Budget already includes holding certain positions vacant for the entire year, multiple vacancies in programs will likely occur. Certain positions would have to be filled to prevent a dramatic reduction in services. Due to the randomness of vacancies, it is impossible to predict exactly how much this factor would reduce labor savings. However, the labor savings rate for those positions subject to the freeze would need to average over 10% to reach the higher labor savings. This high rate would be difficult to sustain without adversely impacting programs.

Because of the uncertainty related to vacancies and the multitude of assumptions, the financial risk associate with increased appropriations from labor savings increases sharply. The calculation is a historical average in which any one year may vary substantially from the average. If the delay is extended and the vacancy rate declines, the General Fund could be faced with greater financial problems. It would be safer to cut programs or lower services up front in the Proposed Budget process than to increase the budget further based on variable factors.

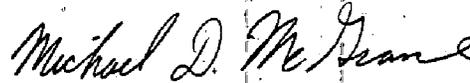
Due to the impact on services and the increased financial risk, staff does not recommend utilizing labor savings resulting from a further extension to the hiring delays at this time.

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RECOMMENDATION

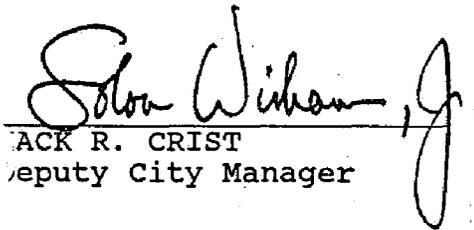
This report is for information only. No formal action is required.

Respectfully submitted,



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APPROVED FOR COMMITTEE INFORMATION:



ACK R. CRIST
Deputy City Manager

All Districts
June 21, 1988