



April 1, 2008

**SUBJECT: FY 2007/2008 Department of Employment
Development Expenditure and Revenue Update, the
Impact on Allocated Personnel Positions, and Approval
of Budget Modification No. 45**

REPORT IN BRIEF

This Report recommends Council adopt Budget Modification No. 45. This modification will reflect the reduction in the amount of Workforce Investment Act funds available to the Department of Employment Development by \$1,066,212 and decrease the budgeted expenditures accordingly. This reduction is a result of reduced Dislocated Worker funds available to and from the State of California for FY 2007/2008, compounded by an unprecedented, one-time, nationwide rescission of \$300 million of previously allocated funds that was passed by Congress on December 26, 2007. Consequently those funds allocated to NOVA and those anticipated to be made available during the remainder of this fiscal year have been reduced. This Budget Modification will result in the elimination of 25 budgeted positions, including seven vacant and 18 filled positions. Of the 18 filled positions, two positions are represented by the Sunnyvale Managers Association, 14 of the positions are represented by the Sunnyvale Employees Association and two positions are represented by the Service Employees International Union. Staff recommends Council approve Budget Modification No. 45.

BACKGROUND

The City of Sunnyvale Department of Employment Development (DED) manages programs and services for the NOVA Job Training Consortium, a seven-city entity (Cupertino, Los Altos, Milpitas, Mountain View, Palo Alto, Santa Clara, Sunnyvale) formed through a Joint Powers Agreement. The City of Sunnyvale administers all of NOVA's programs on behalf of the consortium cities, and has done so under the condition that non-General Fund resources are available to cover all of the associated costs.

As the City, through NOVA, applies for these grants, contracts and contributions, it determines what services and service levels will be provided through the application process. The determinations are reviewed and approved by the NOVA Workforce Board through Reports to the Workforce Board at regular Board meetings. After Workforce Board approval, decisions to apply for funds must also then be approved by the Sunnyvale City Council, on behalf of the consortium cities. These decisions occur throughout the year through Reports to Council at regular City Council meetings. Periodically DED's city budget is modified to reflect the changes in actual versus planned funding levels. Since its inception in 1983 NOVA has been successful in attracting sufficient outside resources to manage all obligations.

NOVA's funds are primarily from two sources. First is the allocations received for NOVA's on-going grants under the Workforce Investment Act (WIA). WIA is a federal program that provides the framework for a targeted national workforce preparation and employment system designed to meet the needs of a region's businesses, along with the needs of job seekers and those who want to further their careers. The second major source of funds is from competitions, including WIA discretionary funds made available through the Secretary of the US Department of Labor, the Governor of California and a variety of foundations.

The FY 2007/2008 adopted budget for DED was developed based upon available information regarding the anticipated grants, contracts and contributions that were expected to be realized during the year, and was approved at the level of \$8,546,212.

EXISTING POLICY

The proposed budget modification is consistent with the City of Sunnyvale's Socio-Economic Goal 5.1F: The City of Sunnyvale will participate in the administration of the Workforce Investment Act as a service delivery area as long as adequate Federal/State funding for the program is available, legislation remains essentially intact and the program can be cost effectively administered.

DISCUSSION

The level of funds available to the Department of Labor for Dislocated Worker programs for FY 2007/2008 was flat from the prior year at \$1,471,903,000. However, because the federal to State allocation process is heavily affected by unemployment rates and California's rate has been declining relative to the nation, the level of these funds allocated to the State of California declined 15% from \$162,375,543 to \$137,599,381. As a result, the funding awarded to NOVA through allocations and Governor's discretionary grants targeted at dislocated workers was reduced 27% from \$7,134,228 to \$5,201,812. This

funding includes an additional award of \$500,000 in WIA Governors Discretionary funds to provide services to dislocated workers that was awarded on March 26th and that had been both anticipated and budgeted.

The Dislocated Worker funding allocations to the State and to NOVA have changed over time as shown:

	State		NOVA	
	(\$M)	(%)	(\$M)	%
FY04-05	181		8.7	
FY05-06	182	.5	7.1	(18)
FY06-07	162	(11)	7.1	-
FY07-08	138	(15)	5.2	(27)

Staff anticipates a further, if somewhat slower reduction in available WIA funding for FY 2008/2009.

The WIA allocation reductions were further exacerbated by Congress passing and the President signing into law PL 110-161 on December 26, 2007. This law rescinded almost \$300 million (or 9% of total national appropriations) from WIA funding for this year and last year. These funds had already been granted to the states and California had already allocated them out to the local areas. This situation is amplified by how late in the budget cycle this action is occurring. While the details are yet to be presented, NOVA is estimating a one-time impact in the neighborhood of \$300,000. With only three months left in the fiscal year, the impact of this hit is equivalent to a 20% cut for the remainder of the fiscal year. To respond to this, the City Council directed staff to work with the employee bargaining units to implement a temporary, partial closure of NOVA in order to achieve savings to cover the cost of the rescission and any anticipated gap in funding awards by the end of the fiscal year. Agreement was reached with the bargaining units and the temporary Friday closures began on February 15, 2008. With the award of supplemental WIA Governor's Discretionary funds of \$500,000, it is estimated that sufficient savings will have been realized by mid-May to pay for the rescissions and that NOVA can return then to a full five day a week schedule.

In addition to the reductions in federal funding, State funds are also being diverted due to California's \$14 billion structural budget deficit. NOVA is finding that uncommitted dollars that traditionally have been available for local programming are less often being put out to bid.

NOVA has been tracking these declines in funds while pursuing a variety of other competitive grants. The decline in available funds has caused the funding agencies to decrease the size of grants that can be pursued as well as delaying the award of several grants that NOVA should be in a competitive position to win.

To mitigate the shortfall of funds, there are two potential courses of action: increasing revenues from sources outside the City or decreasing expenses. To date several options have been explored to further increase revenues; however, all involve processes that are increasingly competitive and it is believed that the City may not be notified of the outcomes until FY 2008/2009.

However, as to the reduction of expenditures, the only viable option available at this time is reducing payroll costs. Sufficient funds exist in the Department of Employment Development's operating budget to cover the costs that have been incurred to date, and to honor the commitments that have been made to investors through the rest of the fiscal year only if there is a reduction in costs. Further, NOVA submitted a budget for FY 2008/2009 that anticipates a further reduction of 5%. Therefore, staff is proposing the permanent elimination of 25 positions, 18 of which are currently filled, with the lay-off process to begin on April 3, 2008. As part of this reduction, NOVA is in the process of a reorganization to incorporate a redesigned service provision model.

The relevant Memoranda of Understanding and the City's Administrative Policy describe the provisions related to administering a reduction in force, including the order of lay-off, the issuance of notices to the employees, and reemployment list provisions. The City's Administrative Policy requires that employees shall, whenever possible, receive 14 calendar days notice of lay-off and the Sunnyvale Employees Association Memorandum of Understanding requires that employees be given 30 calendar days notice of lay-off. Staff recommends that the notices of lay-off be issued on April 3, 2008, with an effective date of June 2, 2008, which will give all employees approximately 60 calendar days notice of lay-off, providing additional time for both staff and DED to make this transition. During this time the affected employees will continue doing grant-related work and all of their compensation will be completely supported by the respective grants. Any additional expenditure, such as payment of the cost of health benefits provided through COBRA, cannot be charged to the grant funds as these costs were not stated in the grant applications and the grants do not benefit from the expenditure.

Employees will be given the opportunity to discuss alternative employment opportunities with the Human Resources Department. Should they be interested, every effort will be made to place laid off employees in other City positions that are currently vacant for which they are qualified. Additionally, NOVA staff will contact the other Consortium cities to solicit new employment opportunities for those affected by the layoffs. Those employees who are laid off will be placed on reemployment lists for a period of three to five years, as prescribed in the City's Administrative Policy or the relevant Memorandum of Understanding.

Representatives of the Sunnyvale Employees' Association, the Sunnyvale Managers Association and S.E.I.U. have been informed by the Human Resources Director of the possibility of the need for a reduction in force due to the change in the Department of Employment Development's financial situation. The Associations and the Union have been notified of this agenda item.

NOVA will continue to pursue other sources of funding and cost saving initiatives. If either of these processes produces results of a material magnitude, staff will then reassess in a timely manner the Department's fiscal condition.

In accordance with the above-mentioned funding gaps, operating program budgets should be changed to correspond to actual allocations and awards. To enable this, the following programs require modifications to their original appropriations:

Program 535 – Employment Services Provided to the General Public provides access to a full range of employment, training and support services for customers in a comprehensive environment.

Program 536 – Employment Services Provided to Workforce Investment Act (WIA) Enrolled Participants provides opportunities for adults enrolled under the Workforce Investment Act to increase their skill levels, competitiveness for employment opportunities and career mobility.

Program 537 – Business Services provides a wide variety of layoff assistance, training and support services to businesses.

Program 538 – Youth Services provides individualized assistance in exploring and developing educational and career goals to youth in our community.

Program 539 – Enterprise Support provides administrative and operational support to ensure high quality services to the NOVA organization, its policy makers, customers and investors.

Program 542 – Supplemental Grants - Staffed provides staffing to discrete projects in the area of workforce development.

Program 543 – Supplemental Grants - Managed provides management to projects in the area of workforce development.

FISCAL IMPACT

As a result of the changes in planned versus actual revenues, the operating budgets for DED's Programs need to be revised. All DED operating programs

are funded in the Employment Development Fund, which has a current budget of \$8,546,212. Staff recommends that operating program expenditure budgets be reduced to accommodate the decrease in available funds. Budget Modification No. 45 has been prepared to reduce the Employment Development Fund expenditure budget by \$1,066,212 with a corresponding decrease in revenues. This modification will bring the total FY 2007/2008 budget for DED to \$7,480,000. Additionally, this action has an impact on contributions to the General Fund. The Department of Employment Development transfers a relatively small percentage of expenditures to the General Fund to cover indirect costs incurred by the City. Staff estimates this transfer will be reduced by approximately \$12,856 as a result of this action.

BUDGET MODIFICATION NO. 45

FISCAL YEAR 2007/2008

	Current	Increase (Decrease)	Revised
Employment Development Fund			
<u>Revenues</u>			
DED Grants and Contributions	8,546,212	(1,066,212)	7,480,000
<u>Expenditures</u>			
535 Employment Services Provided to the General Public	1,167,681	(96,163)	1,071,518
536 Employment Services Provided to Workforce Investment Act Enrolled Participants	2,692,503	(448,734)	2,243,769
537 Business Services	450,408	15,854	466,262
538 Youth Services	506,440	118,117	624,617
539 Enterprise Support	2,868,117	(522,403)	2,345,714
542 Supplemental Grants - Staffed	111,443	27,196	138,639
543 Supplemental Grants - Managed	646,973	(147,283)	499,690
<u>Transfers</u>			
Transfer from DED	102,647	(12,856)	89,791

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, in the Council Chambers lobby, in the Office of the City Clerk, at the Library, Senior Center, Community Center and Department of Public Safety; posting the agenda and report on the City's Web site; and making the report available at the Library and the Office of the City Clerk.

ALTERNATIVES

1. Council approves Budget Modification No. 45. This Modification decreases the DED Expenditure and Revenue Budget for FY2007/2008 by \$1,066,212 from \$8,546,212 to \$7,480,000. This Modification also requests a reduction in budgeted positions by 25, of which 18 are currently filled.
2. Council rejects Budget Modification No. 45 and identifies other sources of funds to align planned expenditures for FY 2007/2008 with planned revenue.
3. Other action as determined by Council.

RECOMMENDATION

It is recommended by staff that the Sunnyvale City Council adopt Alternative No. 1: Approve Budget Modification No. 45. This action would bring the anticipated expenditures for the Department of Employment Development into alignment with anticipated funding resources for FY 2007/2008 and create a sustainable cost structure for the future.

Reviewed by:

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