



## MEMORANDUM

**To:** All City Employees  
**From:** Marc A. Ott, City Manager  
**Date:** January 16, 2009  
**Subject:** Budget Challenges

One of the first challenges we faced together when I became your City Manager nearly a year ago was to continue our high level of service while living within our means. We had to find ways to continue to serve our community with about \$8 million less in our 2008 General Fund budget. On the heels of that difficult task, we had to close a \$25 million General Fund gap for the 2009 budget. In both cases, you continued to provide stellar service to our citizens with fewer resources. I am very proud of the way each and every one of you helped us work through these challenges.

Unfortunately, our national economy continues to struggle. The turmoil that we have seen in the global financial markets over recent months and the slowdown in our own economy here in Austin have placed more pressure on our financial situation, right after we just closed the \$25 million budget gap. Sales tax revenue, which accounts for about 25% of our General Fund dollars, has declined about 4% for the first two months of this fiscal year. We also expect lower revenue collections in several other areas, such as development permitting and interest earnings. As you know, I have asked departments to develop a menu of potential cost reductions to present to the City Council, with \$15 million in reductions as a starting point. That means over the last 11 months we have had to close a total gap of about \$48 million.

As we move forward in considering the cost reduction menu, I will do everything I can to avoid employee layoffs and pay cuts...things that are already happening all across the country in both the public and private sectors. To that end, we need to minimize increases in our employment and compensation since that makes up most of our operating costs. Therefore, I've chosen to implement the following:

1. Frankly, in these times it makes no sense to hire a lot of new employees when we could be facing layoffs later in the year. Therefore, I am implementing a rigorous hiring process to help us preserve as many vacancies as possible. Effective today, I have asked the Human Resources Department to place a hold on all vacant positions. If Department Directors have a critical need to fill a position after today, we will be implementing a

process for a City Manager's Office review. We will get detailed information out to each Department next week regarding this new process.

2. I have decided to postpone the implementation of phase II of the annual market review, originally scheduled to occur this month. As you may recall, in 2006 the City conducted a comprehensive market review of wages City-wide to help us keep our wages competitive. Adjustments to our pay structure were made at that time. In 2007 we established a review cycle where each year we study at least 1/3 of job titles as well as any position that is hard to fill or has high turnover. The first phase of our market review cycle was implemented in January 2008. We are currently in "phase II" of the market review cycle and the results were scheduled to be implemented this month. However, given the current economic conditions, most organizations are not increasing salaries, while many others are even decreasing wages across the board or eliminating positions entirely. Therefore, due to our continuing financial pressures and taking into account the changing "market", I feel that we must postpone this initiative. However, I do want you to know that I remain dedicated to this important employee compensation program and fully plan to reconsider the situation as conditions improve.

These are extremely difficult challenges and I don't make these decisions lightly. I will keep you all informed as we go forward. I have asked my executive team to meet with their departments over the next few weeks to provide more detail and answer any questions that you may have. I will try to attend as many of those meetings as I can.

Lastly, I want to thank you for your continued dedication to our community and your understanding about the current difficult economic conditions. I am very proud to be working side by side with you to provide the best service to our citizens with seemingly ever decreasing resources.

Xc: Mayor and City Council