



# **City of Vallejo Vallejo Police Officers' Association**

**Fact-Finding**

**November 14-15, 2013**

*Note: Updated as of 11/15/2013*



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# **Bargaining Unit Overview**



# Bargaining Unit Overview

Classification	FY2013-14 Budgeted FTE (Filled)	Top Step Monthly Pay
Officer	76 (53)	\$8,504.62
Corporal	10 (10)	\$9,099.97
Sergeant	11 (10)	\$10,199.40
Lieutenant	6 (6)	\$12,144.93
Captain	2 (2)	\$14,274.07

- Average cost per Unit member = \$271,423
- 1% Base Wage Adjustment = \$120,438
- 1% Overtime Adjustment = \$22,000
- 1% Benefits Adjustment = \$47,773
- 1% Total Adjustment = \$188,212



# Detailed Cost of VPOA

- A 1% salary increase would cost approximately \$188,212 per year. This increase would be on top of any cost increases outside of the City’s control (i.e., pension costs)
  - Neither the City nor VPOA has proposed a salary increase, so this number reflects the impact of the proposed salary decreases
- This also does not include the cost of the City’s unfunded liabilities (pension and OPEB)

	<u>FY 2013-14 Budgeted Cost</u>	<u>Value of 1% Adjustment</u>
Salary - Base (a)	\$12,283,493	\$120,438
Salary - Overtime	\$2,200,000	\$22,000
PERS (Normal Cost) (b)	\$2,558,881	\$25,118
Health/Dental (c)	\$2,087,707	-
Retiree Health (Normal Cost) (b)	\$1,926,277	\$18,909
Worker's Comp (d)	\$2,075,910	-
Social Security/Medicare	\$178,111	\$1,746
Other	\$55,290	-
<b>VPOA Total</b>	<b>\$23,365,669</b>	<b>\$188,212</b>

**Notes:**

- a) Includes Measure B funded positions, and supplemental pay types as projected in the FY13-14 Adopted Budget (not all pay types included in base pay are affected by 1% change in rates)
- b) Includes Normal Cost only for PERS and Retiree Health and excludes amortization of unfunded liability for past service costs
- c) Health and dental costs are not “salary driven” benefits and, accordingly, do not change based on salary adjustments. As of July 3, 2013, the average cost per VPOA unit member of health insurance was \$18,258. As of March 5, 2013, the average cost per VPOA unit member of dental insurance was \$2,200, for a total of \$20,458
- d) Worker’s Comp changes are excluded because underlying costs are not materially affected by changes in salary

# **AB 646 Fact-Finding Criteria & Key Issues in Dispute**



# AB 646 Fact-Finding Criteria

1. State & federal laws applicable to employer
2. Local rules, regulations, or ordinances
3. Stipulations by parties
4. Public interest & welfare, and public agency's financial ability
5. Comparability of employment conditions with those in other agencies
6. Cost of living
7. Overall employee compensation
8. Other facts normally taken into consideration

Source: Gov. Code 3505.4(d)



# AB 646 Fact-Finding Criteria

8. Other facts normally taken into consideration
  - Bankruptcy
  - Internal comparability
  - Vallejo's socio-economic status relative to communities in the broader Vallejo-Fairfield MSA and to the Bay Area MSA





# Key Issues in Dispute

## *City's Final Offer*

### ■ ***Health benefits***

- \$300 employer contribution to PEHMCA (retiree medical premium)
- Contribution to cafeteria plan for active employees (75% of Kaiser Bay Area premium)

### ■ ***Retirement***

- Employee contribution increase from 9.0% to 12.4%
- Eliminate longevity pay

### ■ ***Leave***

- Reduction in sick leave accrual for employees hired after 2/1/09
- Eliminate sick leave buy-back provision for employees hired prior to 2/1/09

### ■ ***Wages***

- 5% pay reduction
- Changes to premium pays

# **Bankruptcy and Historical Context**



# Economic Factors

## History

- The City of Vallejo began as an agricultural settlement deeded to General Mariano Guadalupe Vallejo in 1844, briefly served as the State Capital of California during the 1850's, and was incorporated in 1868
- In 1854, the US Congress purchased Mare Island for use as naval shipyard, developed as the first permanent US naval installation on the West Coast, and serving as a cornerstone of the local economy for the next 140 years
- In the post-WWII era, the City's population grew rapidly along with California and the region overall, increasing more than five-fold over the period from 1940 to 1990
- In 1993, the federal Base Realignment and Closure Commission (BRAC) recommended the closure of Mare Island, culminating in the formal shut-down of the base in 1996 and contributing to population declines across the mid-1990s

	Population	% Change Over Prior Decade
<b>1880</b>	5,987	--
<b>1890</b>	6,343	5.9%
<b>1900</b>	7,965	25.6%
<b>1910</b>	11,340	42.4%
<b>1920</b>	21,107	86.1%
<b>1930</b>	16,072	(23.9%)
<b>1940</b>	20,072	24.9%
<b>1950</b>	26,038	29.7%
<b>1960</b>	60,877	133.8%
<b>1970</b>	66,733	9.6%
<b>1980</b>	80,303	20.3%
<b>1990</b>	109,199	36.0%
<b>2000</b>	116,760	6.9%
<b>2010</b>	115,942	-0.1%

*Sources: US Census Bureau, Decennial Census (1880-2010); Vallejo Naval and Historical Museum. "Mare Island Shipyard and Vallejo History."*



# Bankruptcy and Historical Context

- While many governments faced fiscal strain in the midst of the Great Recession, municipal bankruptcy remains an **extraordinary** event. Only a handful of U.S. cities as large as Vallejo have ever declared:
  - According to the most recent U.S. Census Bureau data, there are more than 90,000 local governments and public school systems nationally (90,056 as of 2012)
  - Since 1938, there have been some 500 municipal bankruptcies, many of which occurred at the onset of the Great Depression/World War II era. From 1986 through 2011, there were 263 municipal bankruptcy petitions filed, the majority of which were by utility and other special districts
    - Over the 18-month period from January 1, 2012 through June 30, 2013, there have been a total of just 22 Chapter 9 filings, bringing the total number of filings since 1986 to 285
  - In California, Vallejo is one of four incorporated cities (out of 482 total) to be found eligible for chapter 9 protection. The other cities deemed eligible in California include the Cities of Desert Hot Springs, Stockton and San Bernardino (Mammoth Lakes' bankruptcy filing was dismissed)

Sources: U.S. Census Bureau, 2012 Census of Governments; Administrative Office of the U.S. Courts, "What Happens When Cities Go Bankrupt?", July 13, 2012; Administrative Office of the U.S. Court, U.S. Bankruptcy Courts, Table F-2 [[www.uscourts.gov/Statistics/BankruptcyStatistics.aspx](http://www.uscourts.gov/Statistics/BankruptcyStatistics.aspx)]



# Bankruptcy and Historical Context

- It is an **extraordinarily** difficult process to manage through and out of bankruptcy. As such, the City's stakeholders (employees, residents, and creditors) have had to share in a broad range of sacrifices as outlined in the 5-Year Business Plan:
  - Severe service cuts and reductions in FTE (see next slide)
  - Employee compensation restructuring
    - Active and Retiree Medical Benefits
    - Pension Benefits
    - Wages
    - Leave benefits
  - New taxes and fees
  - Debt restructuring



# Public Interest

- From the time of the bankruptcy filing (May 2008) through the adoption of the 5-Year Business Plan (November 2010), the following **service cuts** were enacted:
  - Police services were dramatically reduced:
    - ✓ 47% reduction in police department staffing (sworn and civilian staff reductions and reductions in dispatch staff). More than 50% reduction in traffic enforcement staff
    - ✓ Elimination of 4 out of 5 canine teams
  - Fire protection services reductions
    - ✓ 42% staffing reduction
    - ✓ Number of fire stations reduced from 8 to 5
  - Quality of life services eliminated:
    - ✓ Eliminated funding to support increased hours at the County-run libraries
    - ✓ Eliminated funding to the Greater Vallejo Recreation District to support park maintenance and recreation
  - Maintenance of City's roads, grounds and buildings
    - ✓ Only 10% of maintenance needs budgeted in FY2010-11 (\$760,000 of estimated \$7.0 million need)



# Debt Factors

- As of 6/30/2012, Vallejo's General Fund long-term debt was **\$18.5 million**, the bulk of which is associated with its renegotiated reimbursement obligations with Union Bank. The remainder of Vallejo's debt is associated with Certificates of Participation and Capital Lease Obligations
- Further, as with many governments, long-term retiree obligations are projected to significantly increase in years ahead
  - The City faces a **\$165.7 million** (72.8% funded) unfunded actuarial accrued liability across its Safety and Miscellaneous pension plans as of the June 30, 2012 actuarial valuation (all Funds). On a market basis, the City's unfunded liability increases to **\$239.4 million** (60.9% funded)
    - The City's pension obligations are expected to increase significantly due to continued recognition of 2009 investment losses (-24.0%) and future changes in CalPERS actuarial assumptions that have been approved by the CalPERS Board and will be effective with valuations for June 30, 2013 (for contributions beginning in FY2014-15)
  - Vallejo's retiree-health (OPEB) unfunded liability (all Funds) stood at **\$106.6 million** as of June 30, 2012, up from an unfunded liability of **\$81.2 million** as of June 30, 2009

Source: CalPERS Safety and Miscellaneous Actuarial Valuation Report as of June 30, 2012 (October 2013); Bartel Associates, GASB 45 Actuarial Valuation as of June 30, 2012 (May 2013); City of Vallejo, CAFR, June 30, 2012



# Pre-Bankruptcy Comparator Universe

## *History*

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- Prior to the bankruptcy filing, the City had agreed to use certain jurisdictions for comparability studies. This comparison group was skewed toward cities in a higher cost, higher wage economic region located outside of Vallejo's labor market that resulted in unsustainable workforce costs for the City which ultimately played a role in the path to bankruptcy





# 2009 Comparator Universe – Post-Bankruptcy History

- In the 2009 supplemental agreement, the City and the VPOA agreed to a revised comparator universe reflected in the table below
- As shown on the following slides, the Vallejo–Fairfield MSA ranks lower in terms of key economic factors (e.g., income levels, housing costs) than the San Francisco-Oakland-Hayward MSA, to which many of its former comparator cities belong

Vallejo-Fairfield MSA	San Francisco-Oakland-Hayward MSA
Vallejo	Alameda
	Berkeley
	Daly City
	Hayward
	Oakland
	Richmond
	San Leandro



Source: U.S. Office of Management and Budget, Bulletin No. 13-01, February 28, 2013



# Economic Comparability

- Vallejo is in the distinct Vallejo-Fairfield Metropolitan Statistical Area (MSA), and does not have an economy like that of the Bay Area

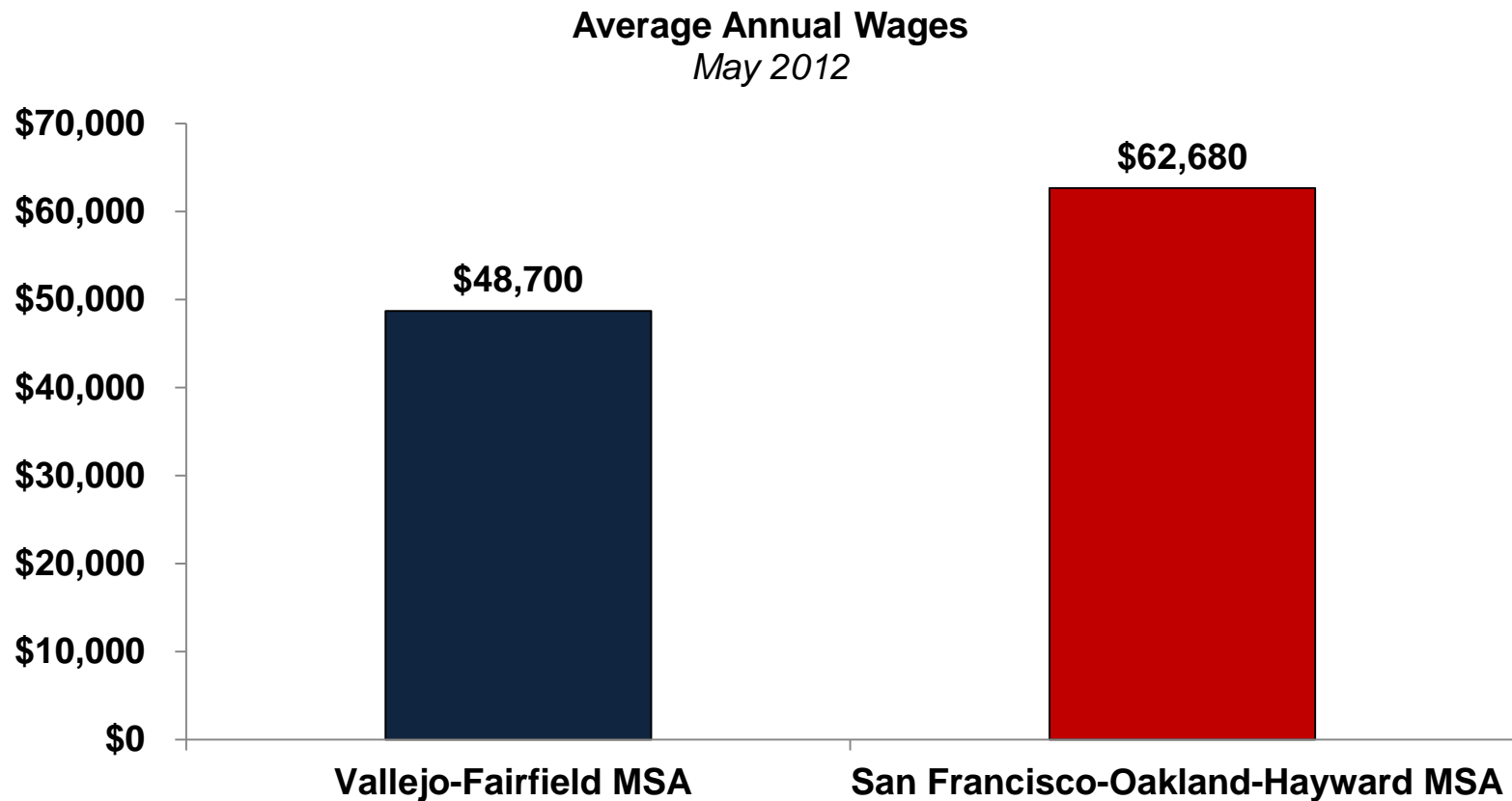
	Vallejo-Fairfield MSA	San Francisco-Oakland-Hayward MSA	% Difference
Per Capita Income (2012)	\$27,589	\$40,522	46.9%
Median Household Income (2012)	\$62,066	\$74,922	20.7%
Unemployment Rate (August 2013)	8.2%	6.5%	-20.7%
Median Owner Occupied Monthly Housing Cost (2012)	\$1,949	\$2,653	36.1%
Median Home Value (2012)	\$234,900	\$557,700	137.4%
Population Change (2002-2012)	2.8%	6.9%	146.4%

Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics; US Census Bureau, 2012 American Community Survey; U.S. Census Bureau, Annual Estimates of the Population of Metropolitan and Micropolitan Statistical Areas: April 1, 2000 to July 1, 2006, Annual Estimates of the Population of Metropolitan and Micropolitan Statistical Areas: April 1, 2010 to July 1, 2012



# Average Annual Wages

- The average annual wage in the Vallejo-Fairfield MSA is 22% lower than that in the San Francisco-Oakland-Hayward MSA

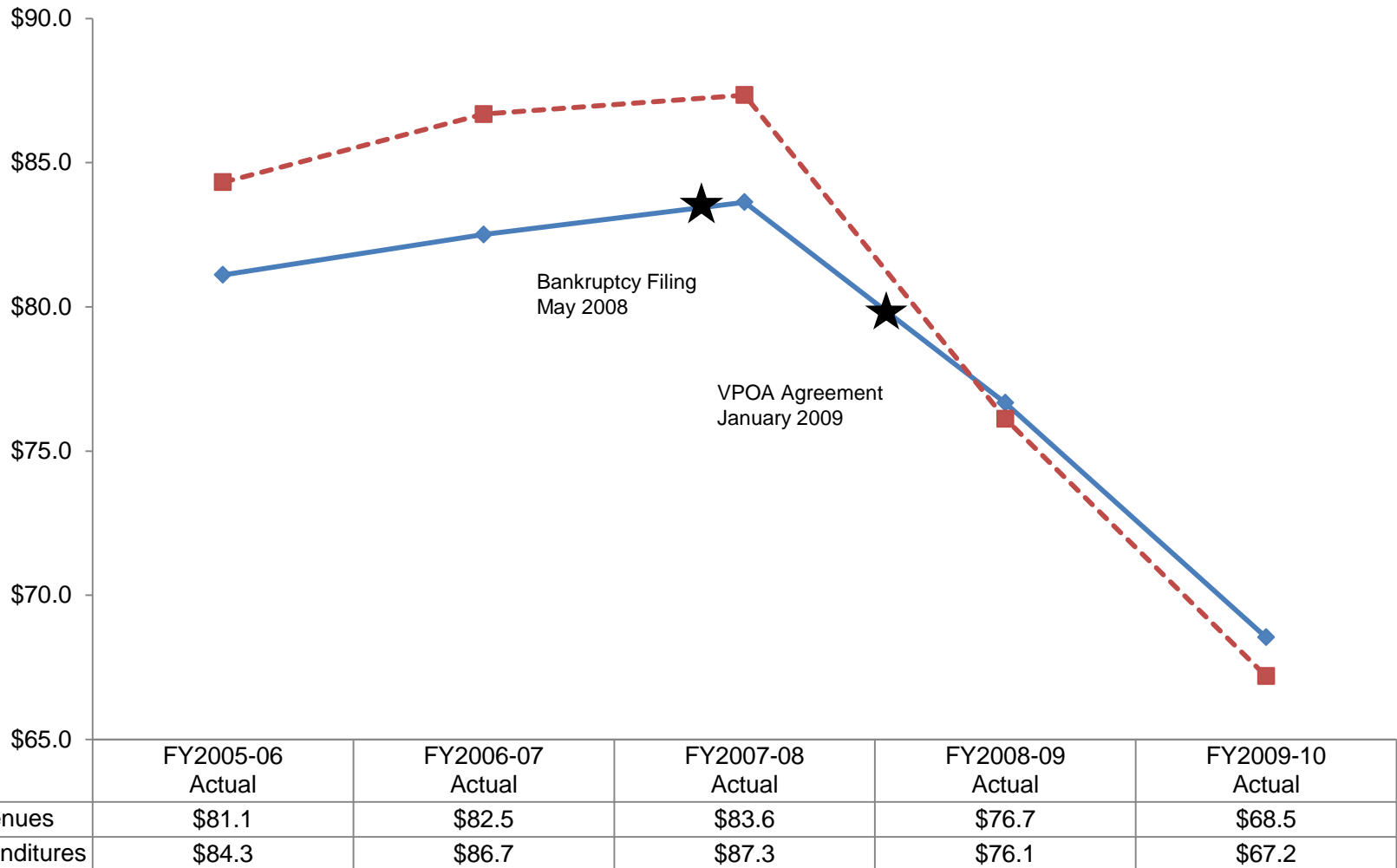


Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics, May 2012



# Vallejo's Bankruptcy At-a-Glance

## General Fund Revenues & Expenditures





# Renegotiated Labor Contracts

- To address the financial challenges, the City moved to renegotiate each of its labor contracts:
  - **June 2008:** City moved to reject all of its labor contracts
  - **January 2009:** City reached a deal with VPOA and withdrew VPOA contract from rejection motion
  - **February 2009:** City reached a deal with CAMP
  - **August 24, 2009:** IAFF stipulated to rejection, entered into binding arbitration with City
  - **August 31, 2009:** Bankruptcy court approved rejection of IBEW contract
  - **March 2010:** City and IAFF agreed to new contract
  - **December 2010:** IBEW and City agreed to new contract



# Overview

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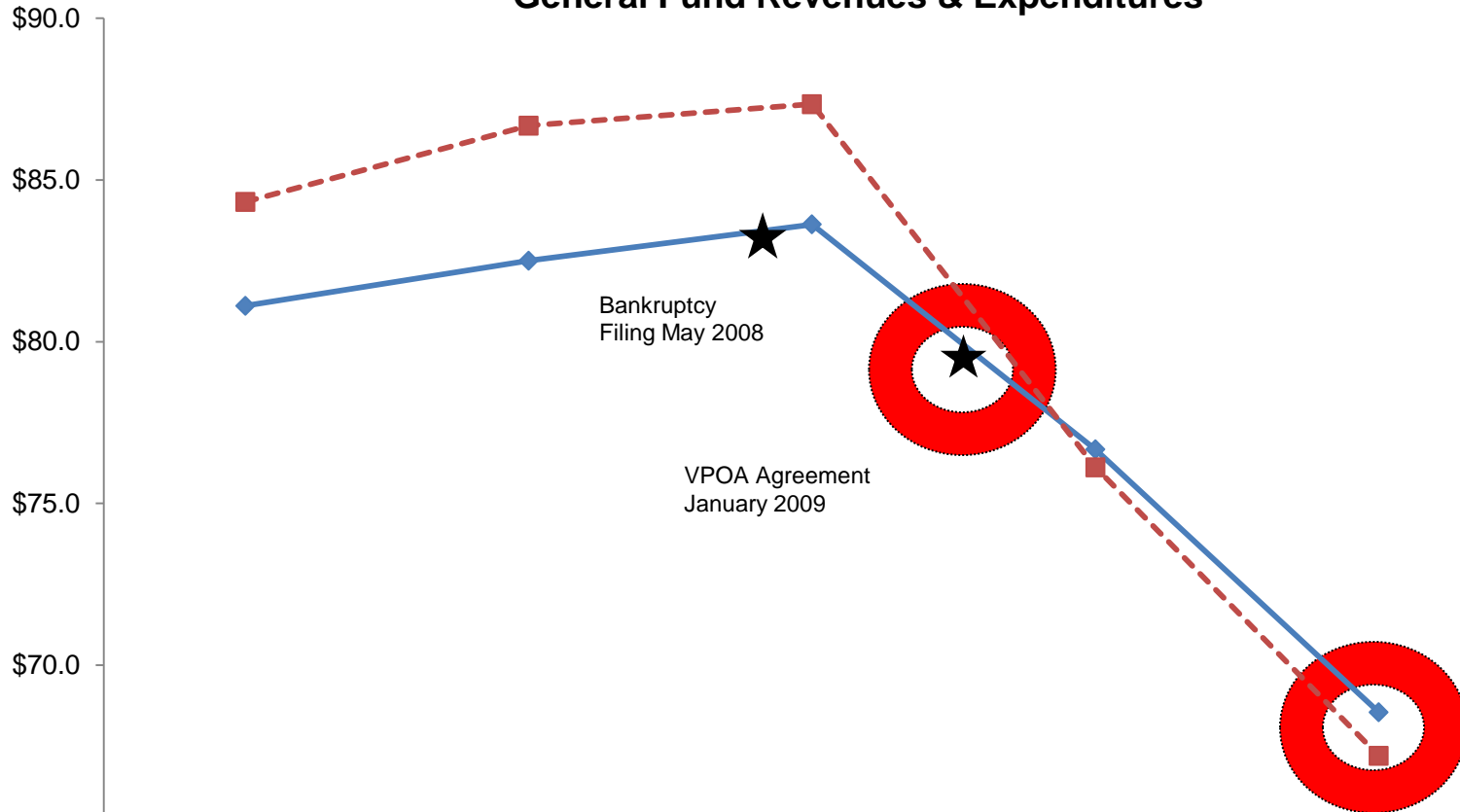
- To VPOA's credit, it settled early

But...



# Vallejo's Bankruptcy At-a-Glance

## General Fund Revenues & Expenditures



	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Actual	FY2008-09 Actual	FY2009-10 Actual
—◆— Revenues	\$81.1	\$82.5	\$83.6	\$76.7	\$68.5
-■- Expenditures	\$84.3	\$86.7	\$87.3	\$76.1	\$67.2



## Post-Bankruptcy VPOA Contract

- The City's agreement with the VPOA was reached prior to the major effects of the recession
  - Public agency revenue growth/decline typically lags
  - No one expected the depth or severity of the recession
- In retrospect, the VPOA's concession did not address the City's structural budget problems





# IAFF and IBEW Contracts

- In its subsequent negotiations with IAFF and IBEW, the City required significantly greater economic concessions, including:
  - ***Health benefits***
    - \$300 employer contribution to PEMHCA (retiree medical premium)
    - Contribution to cafeteria plan for active employees (75% of Kaiser Bay Area premium)
  - ***Retirement***
    - Employee contribution increase from 9.0% to 13.4% for IAFF
    - Eliminate longevity pay for IAFF
  - ***Reductions in sick leave accruals and cash-out provisions***
  - ***Wage reductions***



# 5-Year Business Plan

## Summary

- To achieve settlement agreements with the City's debt holders, the City was required to develop and file with the bankruptcy court a 5-Year Business Plan to regain and sustain fiscal stability. The Business Plan, which covers FY2010-11 through FY2014-15, included these key objectives:
  - Grow revenues to preserve then-current service levels
    - Focus on existing revenue streams such as property tax, sales tax, franchise/utility use tax, transient occupancy tax, business license tax
  - Achieve labor concessions
    - Implement reduced second pension benefit tier for new employees
      - Apply more conservative funding formula than CalPERS in order to manage unfunded liability and avoid future expense spikes
    - Implement \$300 monthly retiree medical benefit as labor contracts expire
    - Reduce contribution to active employee medical benefit to 75% of cost
    - Reduce leave accrual rates, caps on accumulation and limited, non-vested sick leave cash-outs upon retirement
  - Restore services and build reserves
    - Stabilize staffing levels
    - Fund vehicle and equipment replacement, infrastructure maintenance
    - Build economic contingency reserve towards City Council's goal of 15%



# Plan of Adjustment

## *Vendor and Creditor Restructuring*

- The City's second amended plan of adjustment, confirmed on August 5, 2011, became effective on November 1, 2011. The treatment of the major classes of claims was as follows:
  - Union Bank Certificates of Participation were restructured for an estimated reduction of 47%\*
  - National Public Finance Guaranty 1999 COPs obligation was restructured to allow the City to defer a portion of the required lease payments through fiscal 2012-13 and retain ownership of the real property leased provided that the City honors its obligations under the settlement agreement
  - MPA Lease was restructured for an estimated reduction of 45%\*
  - General unsecured creditors (comprising mainly wage and pension impairment claims filed by members of IAFF and IBEW based on the City's imposition of the pendency plan) resulted in payouts of approximately \$.23 on the dollar
- Non-General Fund liabilities were not impaired, nor were liabilities to CalPERS, workers compensation recipients, or the City's regular vendors and service providers.

\* Net present value basis

Source: City of Vallejo, Department of Finance



## Internal Equity

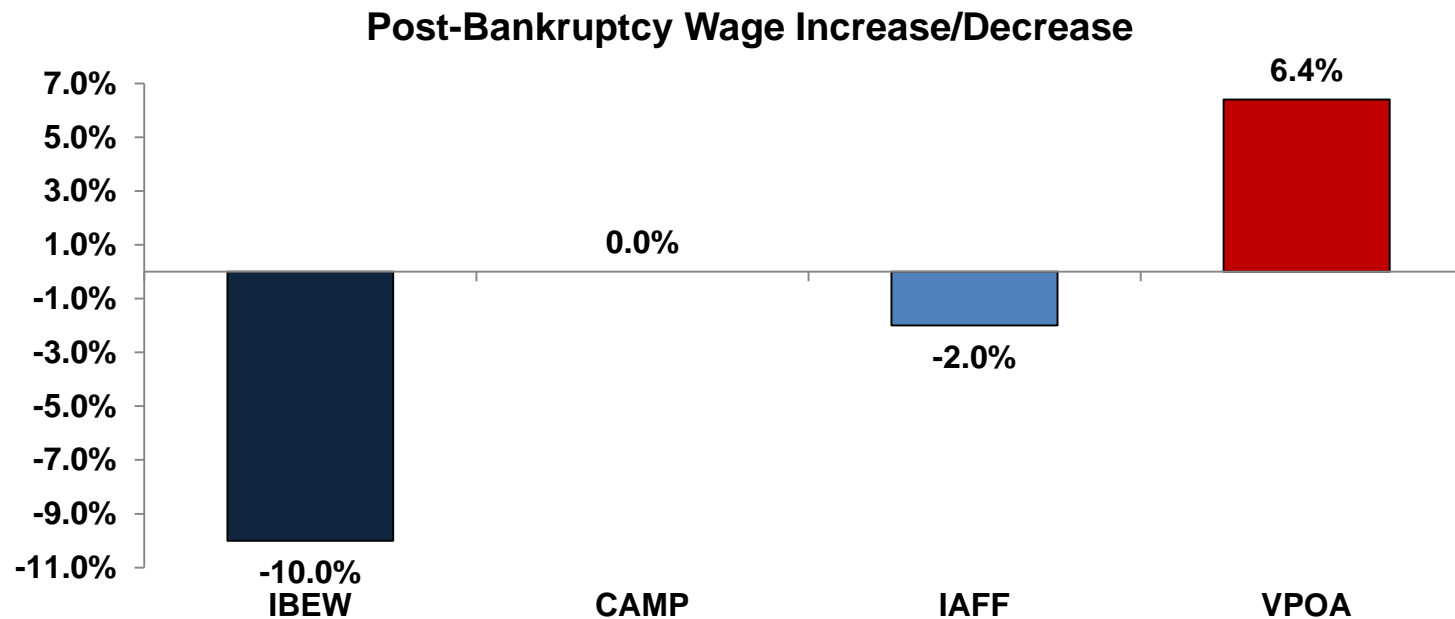
- As a result of the dates that the agreements were reached, there is a large internal disparity between the concessions agreed to by each unit
  - VPOA Agreement – January 2009
  - CAMP Agreement – February 2009
  - IAFF Agreement – March 2010
  - IBEW Agreement – December 2010



# Internal Equity

## Wage Increases/Decreases Post-Bankruptcy

- Base Wage Post-Bankruptcy
  - VPOA: +6.4%
  - CAMP: 0.0% (6.2% increase offset in full by furloughs)
  - IAFF: -2%
  - IBEW: -10.0%





# Internal Equity

## Longevity Pay Pre- and Post-Bankruptcy

	Pre-Bankruptcy		Post-Bankruptcy		Change
	20-Year	25-Year	20-Year	25-Year	
VPOA	5%	10%	5%	10%	No Change
IAFF	5%	10%	0%	0%	Eliminated
IBEW	0%	0%	0%	0%	No Change
CAMP Pre-2/2009 Hires	5%	10%	2.5%	5%	Reduced
CAMP Post-2/2009 Hires	N/A	N/A	0%	0%	Eliminated

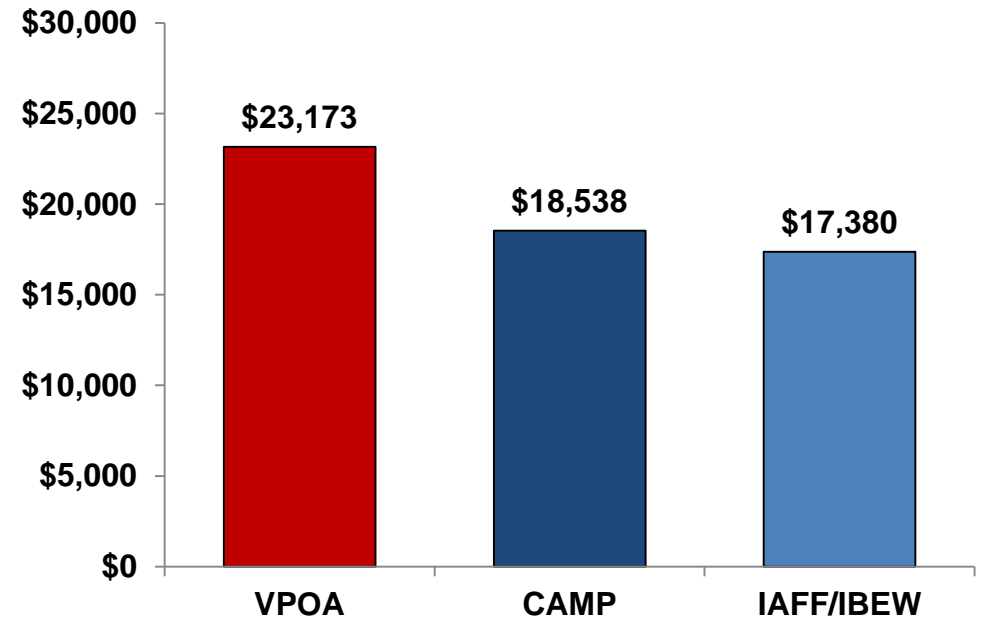


# Internal Equity

## Active Employee Health Benefits

- VPOA
  - City pays 100% of Kaiser Bay Area premium
- CAMP
  - City pays 80% of Kaiser Bay Area premium
- IAFF / IBEW
  - City pays \$300 to PEMHCA
  - City supplements this contribution with an amount equal to the difference between \$300 and 75% of the Kaiser Bay Area rate for each level of participation

**Active Employee Medical  
City's Annual Contribution  
Bay Area - Kaiser Family Premiums**



*Note: 2014 Kaiser Medical Premium for employee with 2 or more dependents is \$1,931.07 per month*

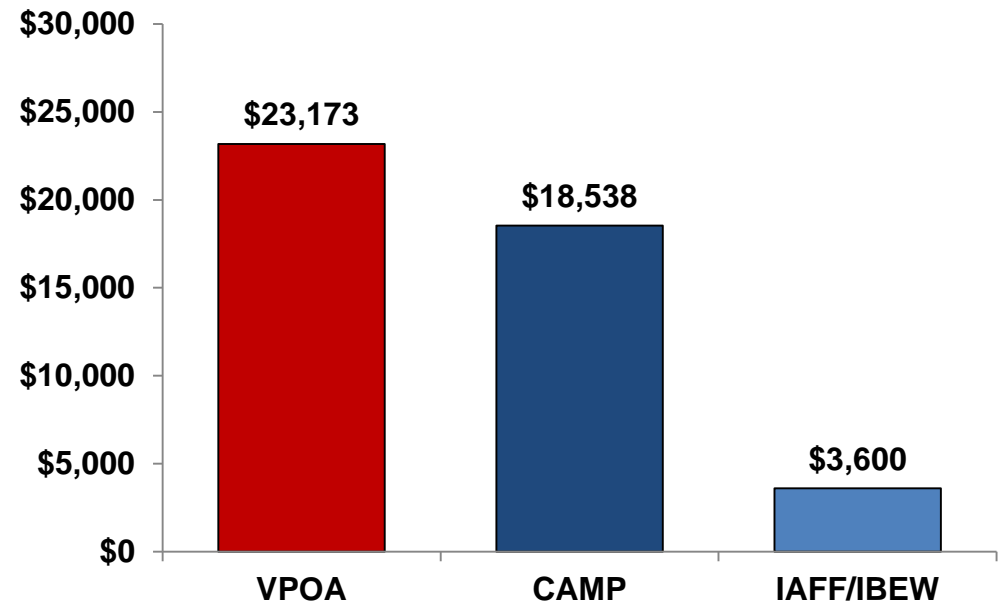


# Internal Equity

## Retired Employee Health Benefits

- Retired Employee Health Insurance
  - VPOA / CAMP / IAFF / IBEW
    - The City contributes the same amount towards eligible retirees' PEMHCA premiums as it does for active employees
  - Under current contracts this is equal to:
    - VPOA: 100% of Kaiser Bay Area premium
    - CAMP: 80% of Kaiser Bay Area premium
    - IAFF/IBEW: \$300 per month

**Retiree Medical  
City's Annual Contribution  
Bay Area - Kaiser Family Premiums**



*Notes: Vallejo IAFF members hired pre- 3% @ 50 retirement formula are eligible for retiree medical benefit equal to 75% of Kaiser Bay Area rate; 2014 Kaiser Medical Premium for employee with 2 or more dependents is \$1,931.07 per month*

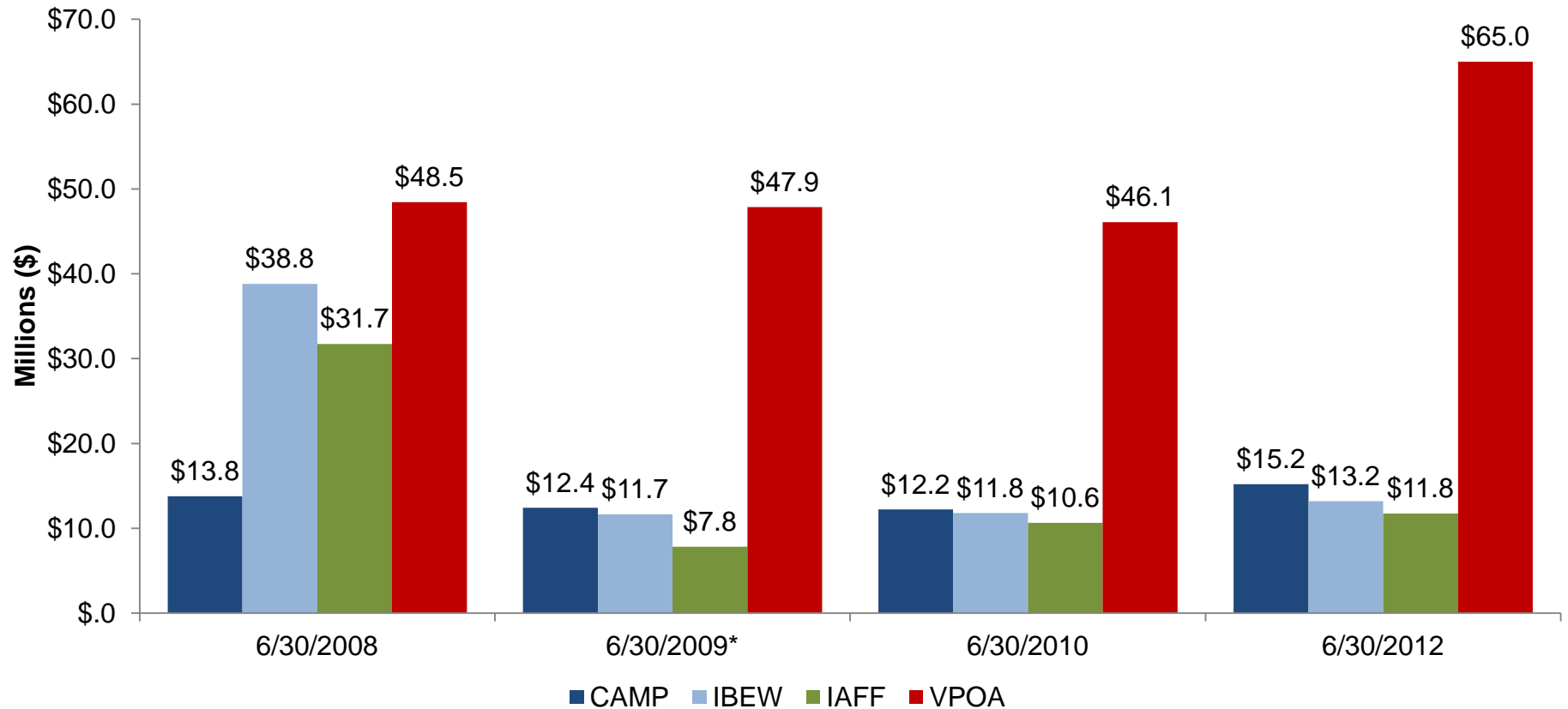




# Internal Equity

## Retired Employee Health Benefits

**Current Retiree Medical Benefits  
Actuarial Accrued Liability by Unit**



\* Reflects the full impact of post-bankruptcy contracts for all units.

Source: Bartel Associates, 11-12-2013

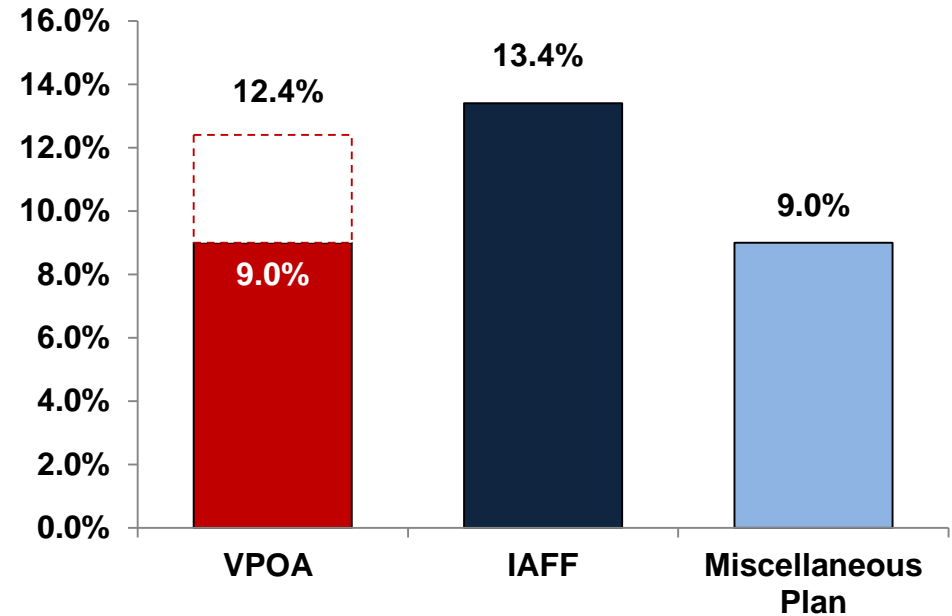


# Internal Equity

## Member Pension Contributions

- VPOA (Safety Plan)
  - Employee pension contribution: 9%
  - Total Normal cost: 27.7%
- IAFF (Safety Plan)\*
  - Employee pension contribution: 13.4%
  - Total Normal cost: 27.7%
- CAMP (Miscellaneous)
  - Employee pension contribution: 9%
  - Total Normal cost: 18.1%
- IBEW(Miscellaneous)
  - Employee pension contribution: 9%
  - Total Normal cost: 18.1%
- All groups other than VPOA are making a contribution in excess of the statutory minimum. While each of the other groups' contributions are close to 50% of normal cost, VPOA is contributing less than 1/3 of its normal cost

**Member Contributions**  
**VPOA Current Member Contributions & City Proposed**



Source: CalPERS Actuarial Valuation Report, June 30, 2012

\* In 2010, IAFF agreed to a second pension tier, 3 years before PEPRRA. While IAFF and VPOA are both part of the Safety Plan and have the same normal cost, IAFF has a lower pre-PEPRRA benefit level



# Emergence from Bankruptcy

- Vallejo emerged from bankruptcy in November 2011
  - As detailed above, the City secured significant concessions from IAFF and IBEW
  - The City is engaged in negotiations with CAMP and expects to achieve concessions consistent with the strategy outlined in the 5-Year Business Plan
  - VPOA remains the sole outlier . . .

Which is how we arrive at the City's current offer

# **City's Offer**



# Key Issues in Dispute

## *City's Final Offer*

- ***Critical Issue 1: Health Benefits***
  - \$300 employer contribution to PEMHCA (retiree medical premium)
  - Contribution to cafeteria plan for active employees (75% of Kaiser Bay Area premium)
- ***Critical Issue 2: Retirement***
  - Employee contribution increase from 9.0% to 12.4%
  - Eliminate longevity pay
- ***Critical Issue 3: Leave***
  - Reduction in sick leave accrual
  - Eliminate sick leave buy-back provision
- ***Critical Issue 4: Wages & General Finance***
  - 5% pay reduction
  - Changes to premium pays



# Critical Issue 1: Health Benefits

- Most Critical Issue
  - Health care
    - Reduction in active benefit
    - Impact on retirees
  - Justification
    - Significant Cost Savings
    - 5-Year Business Plan
    - Preserved Pension in Bankruptcy
    - Internal Equity
    - External Comparability



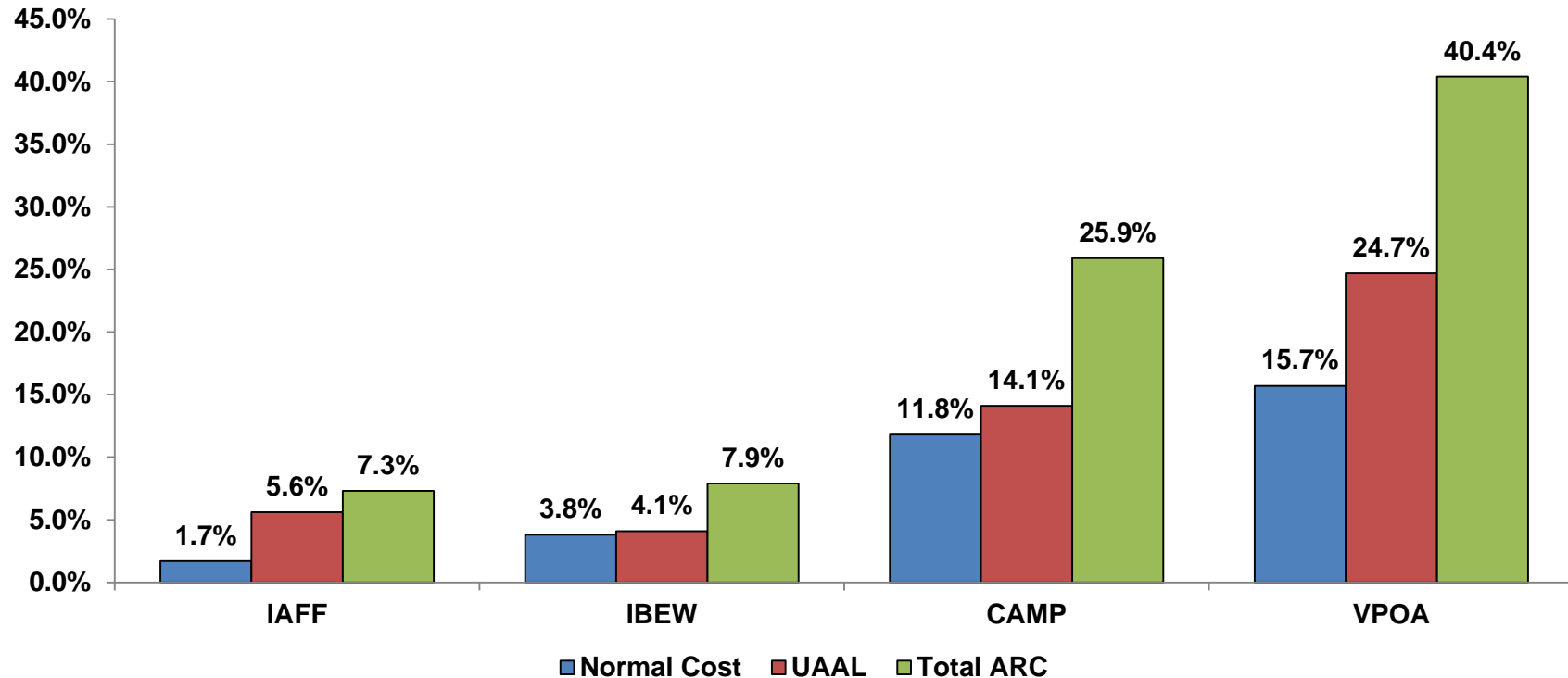
# Critical Issue 1: Health Benefits

## Retiree Medical – Current Plan

- Significant Cost Savings

- Total OPEB Actuarial Liability Current Plan = **\$106.6 million**

Annual Required Contribution - Current Plan  
FY2012-13 - 4% Discount Rate



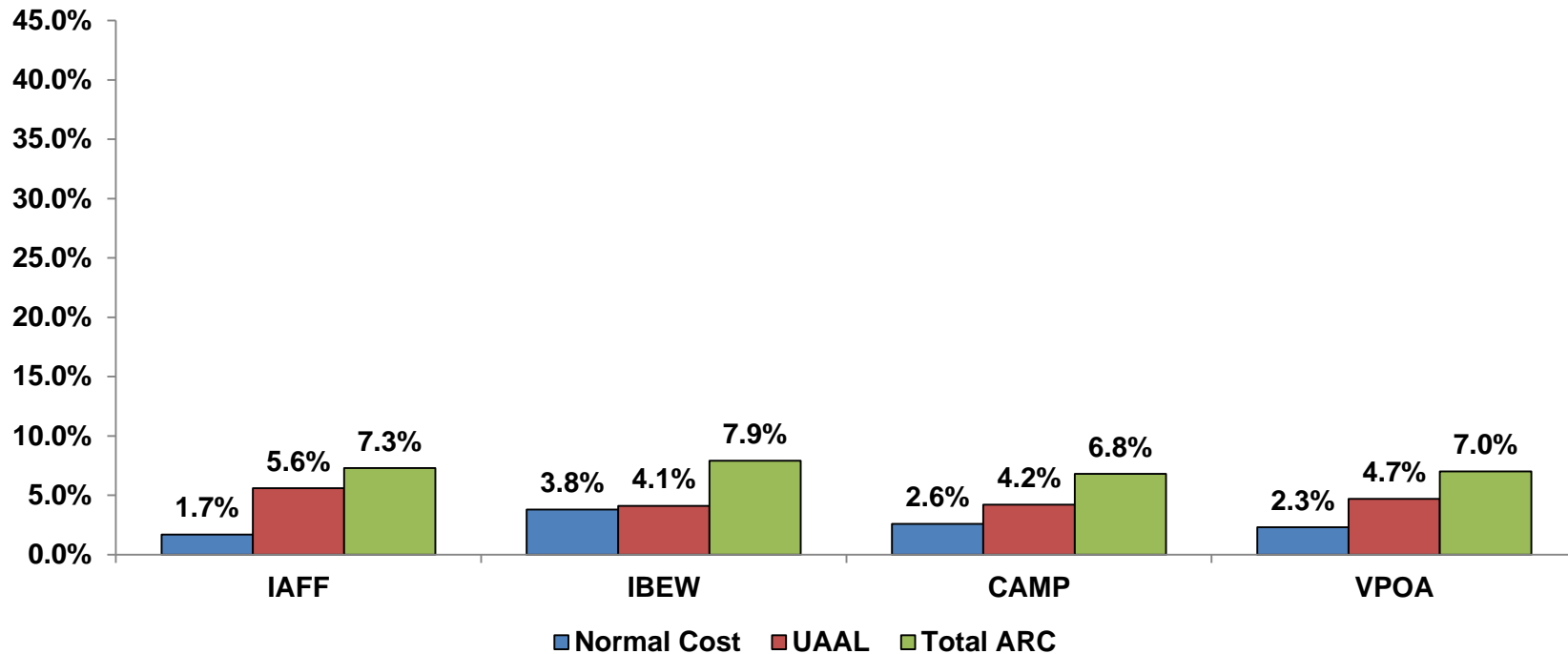


# Critical Issue 1: Health Benefit

## Retiree Medical – Proposed Plan

- Significant Liability Reduction
  - Total OPEB Actuarial Liability \$300 Benefit = **\$40.0 million**
  - Savings of **\$66.6 million**
  - FY2013-14 savings of **\$4.3 million** (full-year estimate)

Annual Required Contribution - \$300 Benefit  
FY2012-13 - 4.0% Discount Rate







# Critical Issue 1: Health Benefit

## *Active Employees*

- Significant Cost Savings
  - The City is proposing to align VPOA active employee health benefits with those provided to IAFF and IBEW and which the City expects to achieve with CAMP
    - Under the City's proposal the City would contribute on behalf of active employees 75% of the Kaiser Bay Area premium for each coverage level (down from 100%), achieved through a \$300 per month contribution to PEMHCA and a cafeteria-style flexible spending account
    - FY2013-14 savings of **\$478,000** (full-year estimate)
  - The Union's fact-finding proposal would require the City to contribute 75% of the Bay Area Kaiser premium to PEMHCA
    - The Union's proposal saves the same for active employees, but has drastically higher cost for retirees
- 5-Year Business Plan
- Preserved Pension in Bankruptcy
- Internal Equity
- External Comparability



# Critical Issue 1: Health Benefit

- Significant Cost Savings
- 5-Year Business Plan
  - Financial plan that allowed City to emerge from bankruptcy, and filed with and considered by federal bankruptcy court in confirming Plan of Adjustment
  - Predicated, in part, on labor concessions
    - Including reduction in retiree medical benefits to \$300 per month
- Preserved Pension in Bankruptcy
- Internal Equity
- External Comparability



# Critical Issue 1: Health Benefits

- Significant Cost Savings
- 5-Year Business Plan
- Preserved Pension in Bankruptcy
  - After negotiations with stakeholders, the City determined to preserve its employees' pensions
  - Reflected in City's most recent CalPERS valuation
    - Safety employees retired between 0-5 years on service retirement have an average annual annuity of **\$101,867**
      - Nearly 40% of service retirees have been retired between 0-5 years
    - Safety employees retired between 0-14 years on service retirement have an average annual annuity of **\$93,194**
      - Nearly 2/3 of service retirees have been retired between 0-14 years
      - All other retirees should be Medicare eligible
- Internal Equity
- External Comparability

Source: CalPERS Actuarial Valuation as of June 30, 2012, October 2013



# Critical Issue 1: Health Benefits

- Preserved Pension in Bankruptcy

**Distribution of Retirees by Year Retired and Retirement Type**

<b>Years Retired</b>	<b>Service Retirement</b>	<b>Non-Industrial Disability</b>	<b>Industrial Disability</b>
Under 5 Yrs	52	0	34
5-9	23	0	40
10-14	11	1	13
15-19	21	1	15
20-24	13	1	13
25-29	5	2	6
30 and Over	6	4	16
<b>All Years</b>	<b>131</b>	<b>9</b>	<b>137</b>

**Distribution of Average Annual Amounts By Year Retired and Retirement Type**

<b>Years Retired</b>	<b>Service Retirement</b>	<b>Non-Industrial Disability</b>	<b>Industrial Disability</b>
Under 5 Yrs	\$101,867	\$0	\$80,236
5-9	84,029	0	70,032
10-14	71,354	11,076	49,292
15-19	58,752	6,665	49,225
20-24	45,044	23,664	35,755
25-29	33,342	12,303	40,588
30 and Over	23,563	9,060	24,963
<b>All Years</b>	<b>\$77,421</b>	<b>\$11,361</b>	<b>\$58,513</b>

Source: CalPERS Actuarial Valuation Report as of June 30, 2012, October 2013



# Critical Issue 1: Health Benefits

- Significant Cost Savings
- 5-Year Business Plan
- Preserved Pension in Bankruptcy
- Internal Equity
  - Two of the three organized units in the City have agreed to the \$300 PEMHCA contribution
    - IAFF – March 2010
    - IBEW – December 2010
  - Consistent with the 5-Year Business Plan, the City is seeking to achieve the \$300 PEMHCA contribution with CAMP
  - Why \$300? – PEMHCA Bay Area Region monthly rate of \$294.97 per month for Kaiser individual coverage for Medicare Supplement
- External Comparability



# Critical Issue 1: Health Benefits

## Internal Equity - Retired Employee Health Benefits

- Retired Employee Health Insurance

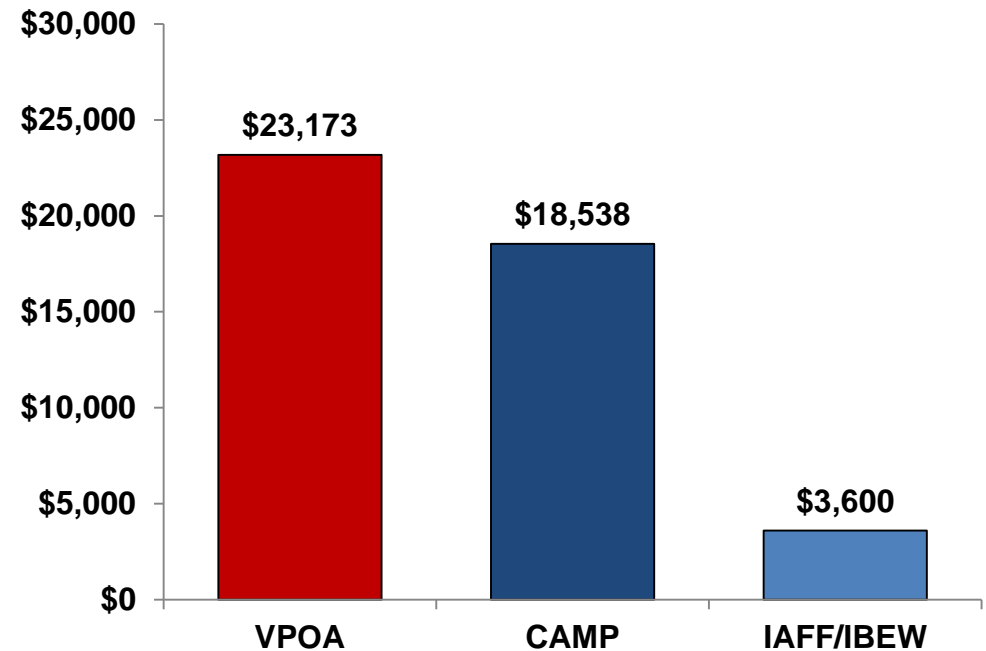
- VPOA / CAMP / IAFF / IBEW

- The City contributes the same amount towards eligible retirees' PEMHCA premiums as it does for active employees

- Under current contracts this is equal to:

- VPOA: 100% of Kaiser Bay Area premium
    - CAMP: 80% of Kaiser Bay Area premium
    - IAFF/IBEW: \$300 per month

**Retiree Medical  
City's Annual Contribution  
Bay Area - Kaiser Family Premiums**



*Notes: Vallejo IAFF members hired pre- 3% @ 50 retirement formula are eligible for retiree medical benefit equal to 75% of Kaiser Bay Area rate; 2014 Kaiser Medical Premium for employee with 2 or more dependents is \$1,931.07 per month*



# Critical Issue 1: Health Benefits

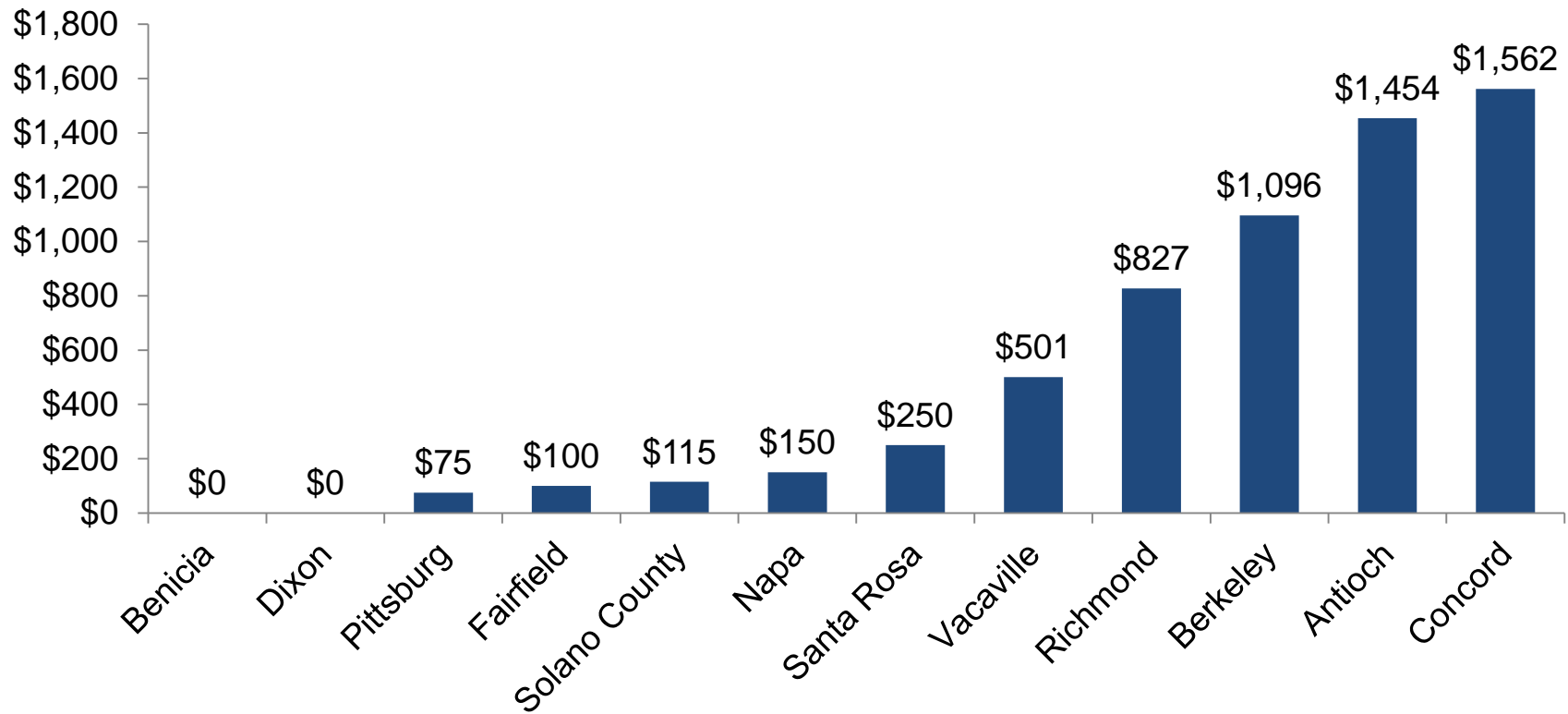
- Significant Cost Savings
- 5-Year Business Plan
- Preserved Pension in Bankruptcy
- Internal Equity
- External Comparability
  - Among the comparator jurisdictions, there is no uniform approach to funding retiree medical benefits
    - 2 jurisdictions do not contribute toward retiree medical benefits
    - 5 jurisdictions pay a percentage of Kaiser Bay Area premium based on years of service



# Critical Issue 1: Health Benefits

- External Comparability

City Monthly Contribution to Retiree Health



Source: Public Management Group





# Critical Issue 1: Health Benefits

## External Comparability OPEB

- The normal cost of current VPOA retiree medical benefit (15.7%) is higher than the majority of other safety plans, falling within the 84<sup>th</sup> percentile
- The annual required contribution (40.4%) falls within the 98<sup>th</sup> percentile, reflecting an even greater total contribution relative to other safety plans

### Retiree Medical Benchmarking - VPOA

	Safety Plans	
	Normal Cost	ARC
95th Percentile	21.6%	37.0%
75th Percentile	12.7%	22.6%
50th Percentile	5.5%	9.4%
25th Percentile	2.6%	4.2%
5th Percentile	1.4%	2.1%
<b>VPOA</b>	<b>15.7%</b>	<b>40.4%</b>
<b>Percentile</b>	<b>84%</b>	<b>98%</b>

Source: City of Vallejo, Retiree Healthcare Plan, June 30, 2012 GASB 45 Actuarial Valuation Cost Study Preliminary Results, Bartel Associates, April 15, 2013



## Critical Issue 2: Retirement

- There are **two** key components to City's pension concerns
  - **Component 1:** Increased employee contribution
    - Currently VPOA members contribute 9.0% to their pension costs
    - IAFF members contribute 13.4%
    - CAMP and IBEW members contribute 9.0%
    - Retirement costs are set to rise dramatically over the next 5 years
    - FY2013-14 savings of \$417,000 (full-year estimate) with the additional 3.4% employee contribution
  - **Component 2:** Longevity Pay



## Critical Issue 2: Retirement

- **Component 1:** Increased employee contribution
- **PEPRA Section 20516.5**
  - (a) Equal sharing of normal costs between a contracting agency or school employer and their employees ***shall be the standard***. It shall be the standard that employees pay at least 50 percent of normal costs and that employers not pay any of the required employee contribution [emphasis added]
- Supports the City's proposal to increase VPOA members' contribution to their pension expenses
  - Under the City's proposal, VPOA members will still contribute less than 50% of the normal cost of their pension benefit

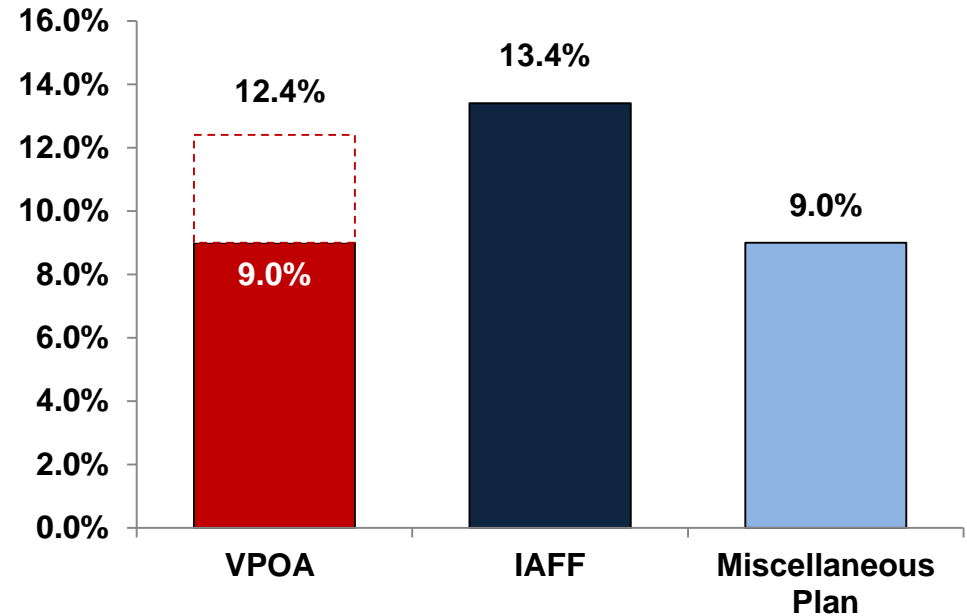


# Internal Equity

## Member Pension Contributions

- VPOA (Safety Plan)
  - Employee pension contribution: 9%
  - Total Normal cost: 27.7%
- IAFF (Safety Plan)\*
  - Employee pension contribution: 13.4%
  - Total Normal cost: 27.7%
- CAMP (Miscellaneous)
  - Employee pension contribution: 9%
  - Total Normal cost: 18.1%
- IBEW(Miscellaneous)
  - Employee pension contribution: 9%
  - Total Normal cost: 18.1%
- All groups other than VPOA are making a contribution in excess of the statutory minimum. Further, while each of the other groups' contributions are close to 50% of normal cost, VPOA is contributing less than 1/3 of its normal cost

**Member Contributions**  
**VPOA Current Member Contributions & City Proposed**



Source: CalPERS Safety and Miscellaneous Actuarial Valuation Reports as of June 30, 2012, October 2013

\* In 2010, IAFF agreed to a second pension tier, 3 years before PEPRA. While IAFF and VPOA are both part of the Safety Plan and have the same normal cost, IAFF has a lower pre-PEPRA benefit level



## Critical Issue 2: Retirement

- The employer's normal cost for the Safety Plan exceeds the employee contribution
- While the other three units are contributing close to ½ of normal cost, VPOA's contribution is less than 1/3 of normal cost

### Required Contributions for Fiscal Year 2014-15

	Safety	Miscellaneous
Total Normal Cost	27.7%	18.1%
Employee Contribution	9.0% (VPOA) 13.4% (IAFF)	9.0% <i>(including additional contribution)</i>
Employer Normal Cost	<b>18.7% (VPOA)</b> <b>14.3% (IAFF)</b>	<b>9.1%</b>

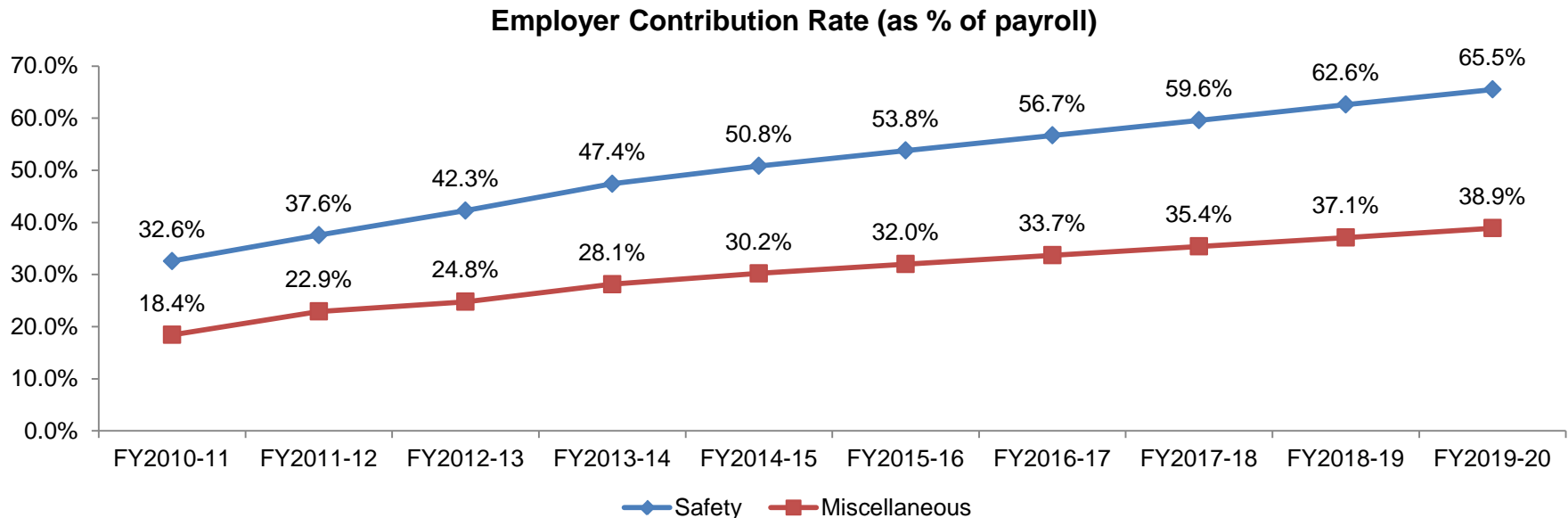
Source: CalPERS Actuarial Valuation Report as of June 30, 2012, October 2013



# Critical Issue 2: Retirement

## Employer Contributions to CalPERS

- The City's contribution to CalPERS as a percentage of payroll is projected to double as measured from FY2010-11 to FY2019-20 (projected)
  - These projections assume that CalPERS will achieve a 12% return in FY2012-13 and 7.5% per year thereafter. These rates also include actuarial assumption changes adopted in April 2013
  - These projections do not take into account potential rate increases from anticipated future assumption changes (lower discount rate & mortality changes) that would likely result in an **additional 10%** employer contribution by FY2019-20
- Using the City's FY2013-14 5-Year Financial Forecast, the City's pension costs are projected to grow from 17.4% of total General Fund expenditures (\$14.2 million) in FY2013-14 to 21.9% of total General Fund expenditures (\$18.6 million) by FY2018-19

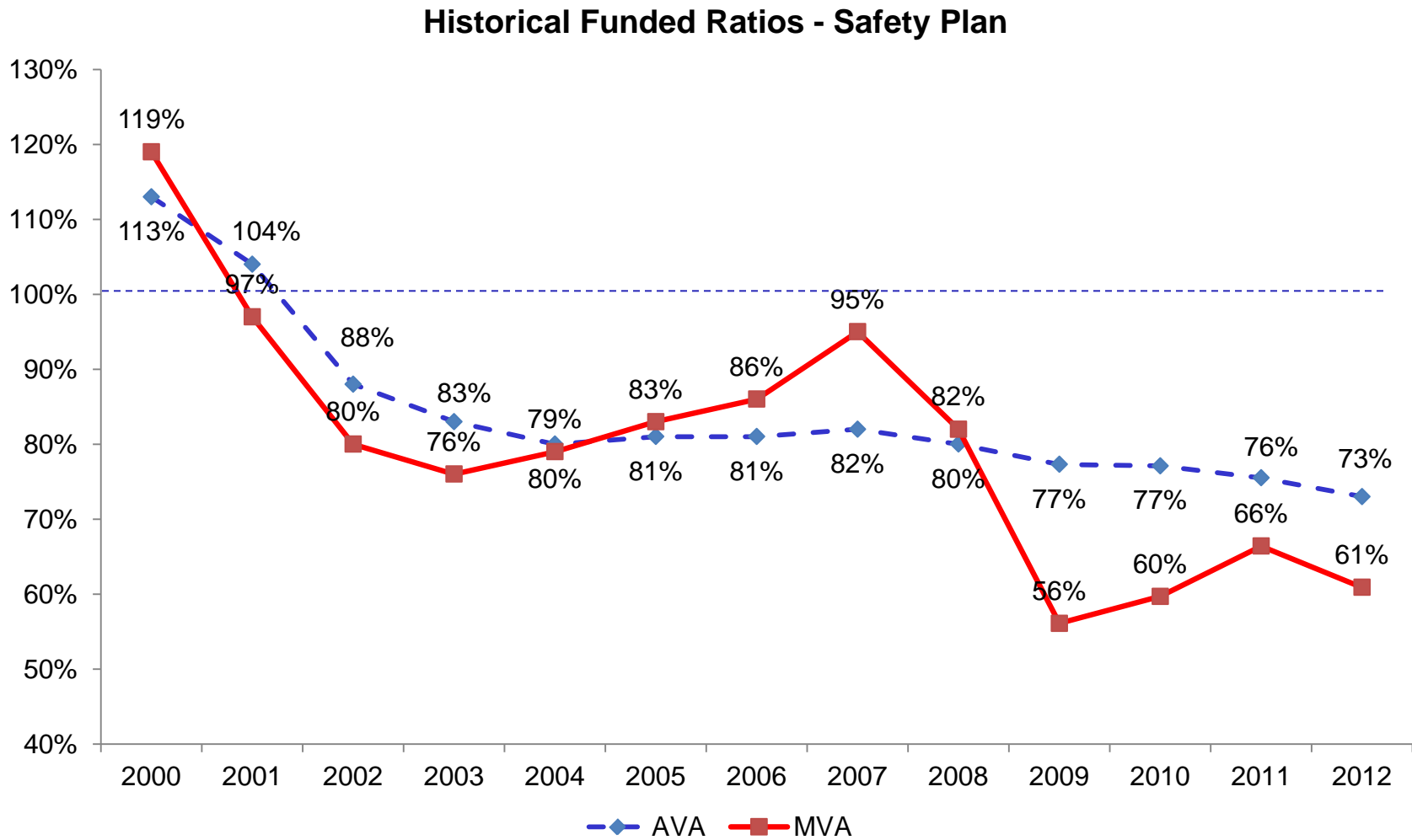


Sources: CalPERS Actuarial Valuation Reports (Estimates per the June 30, 2012 valuation released October 2013)



# Critical Issue 2: Retirement

## Historical Funded Level – Safety Plan



Sources: CalPERS Actuarial Valuation Reports (Estimates per the June 30, 2012 valuation released October 2013)



## Critical Issue 2: Retirement

- What does a funding ratio of 61% mean (73% on an actuarial basis)? As of June 30, 2012, the Safety Plan had:
  - Total liabilities of **\$387.9 million**
  - Accrued liability for retirees & survivors of **\$272.8 million**
  - The market value of assets was **\$236.3 million**
- **Difference between benefits payable to retirees & survivors and dollars saved = \$36.5 million deficit**
- **Not only are there insufficient funds to pay the benefits earned by existing retirees, there is not a single dollar saved for active employees**





## Critical Issue 2: Retirement

- There are **two** key components to City's pension concerns
  - **Component 1:** Increased employee contribution
  - **Component 2:** Longevity Pay
    - City's concern with longevity pay
      - Causes a significant **spike** in pension levels that creates an unfunded liability because it is not funded over the active service life of the employee
    - Current rates:
      - 5% of base salary for VPOA members who have been employed for 20+ years
      - 10% of base salary for VPOA members who have been employed for 25+ years
    - Previously eliminated for IAFF and reduced/eliminated for CAMP (IBEW never had longevity)
    - Non-market pay based on external comparability
      - The City agreed to exclude longevity pay from salary surveys
    - FY2013-14 wage savings of **\$428,000** (full-year estimate)
    - If the benefit were adequately funded, then the City's CalPERS contribution rate for VPOA would go up by approximately 4% of pay
    - The gross dollar impact of longevity pay on total compensation is equal to approximately \$9,000 per year, with a present value of \$180,000 per retiree. This is a conservative estimate



# Internal Equity

## Longevity Pay Pre- and Post-Bankruptcy

	Pre-Bankruptcy		Post-Bankruptcy		Change
	20-Year	25-Year	20-Year	25-Year	
VPOA	5%	10%	5%	10%	No Change
IAFF	5%	10%	0%	0%	Eliminated
IBEW	0%	0%	0%	0%	No Change
CAMP Pre-2/2009 Hires	5%	10%	2.5%	5%	Reduced
CAMP Post-2/2009 Hires	N/A	N/A	0%	0%	Eliminated



# External Comparability

	Rank-and-File Longevity Provisions
Antioch	7.5% w/19 YOS
Benicia	None
Berkeley	5% w/20 YOS
Concord	None
Dixon	5.0% integrated in 6 <sup>th</sup> salary step
Fairfield	12.5% w/15 YOS
Napa	None
Pittsburg	\$20 per YOS
Richmond	9.0% w/25 YOS
Santa Rosa	None
Solano County	5.0% w/20 YOS
Vacaville	None



## Critical Issue 3: Leave

- An element contributing to Vallejo's insolvency in May 2008 was significant leave payouts
- VPOA's current sick leave levels
  - New employees are credited with 90 hours after 6 months of employment
  - For employees hired on or after 2/1/09 sick accrual increased from 120 to 180 hours per year, with no payout option
  - Employees hired before 2/1/09 may elect to freeze their current accrued amount and be paid 50% for frozen bank with all subsequent hours accrued at higher level converted to CalPERS service credit at retirement, with no payout option for new accrual (50% of accumulated hours can be converted)
- City's Proposal
  - Reduce new employee credit to 48 hours after 6 months
  - Reduce sick leave annual accrual to 96 hours (8 hours per month)
  - Eliminate sick-leave buy-back prospectively (not intended to impact previously banked sick leave)



## Critical Issue 3: Leave

- 5-Year Business Plan
  - Forecasted General Fund compensated absences of \$800,000 in FY2012-13
  - Projected FY2013-14 total of \$3.0M, more than tripling the forecasted amount per the FY2013-14 Adopted Budget
  - Critical to City's financial sustainability to control compensated leave
- External comparability



## Critical Issue 3: Leave

- 5-Year Business Plan
- External comparability
  - Current VPOA leave policy is out of sync with market
    - 11 of 12 comparator jurisdictions have annual sick leave accruals of 96 hours
    - The remaining jurisdiction has a sick leave accrual rate of 100 hours annually for certain employees



## Critical Issue 4: Wages & General Finance

- The City is proposing to reduce base wages by 5%
- Why is the City proposing this?
  - External Comparability
    - Achieve a more appropriate position within the labor market
  - Internal Equity
  - 5-Year Business Plan
  - Significant Cost Savings



# Critical Issue 4: Wages & General Finance

## *Economic Comparability*

- There are no “perfect twins” among employers
  - In evaluating California cities, Vallejo is one of only three California municipalities to be declared bankrupt under Chapter 9
- In evaluating police officer compensation for comparability under any circumstances, key questions include:
  - What are the relevant groupings of comparable employers?
  - Within any groupings reviewed, given that ***not all employers can pay above average***, what is a reasonable relative position?
- Compensation comparisons can provide helpful points of reference for assessing market competitiveness, but such evaluations are only fully meaningful in context of factors such as relative economics, localized labor markets, and employer financial condition





## Critical Issue 4: Wages & General Finance

- The City has revised its universe of comparator cities to include jurisdictions in the broader Combined Statistical Area (CSA), adding cities in the Santa Rosa MSA and Napa MSA as well as other jurisdictions in the Vallejo-Fairfield MSA (Benicia, Dixon, Fairfield, and Vacaville) to provide a more balanced set of reference points
- Even among this changed comparison group, Vallejo ranks toward the bottom across key economic and demographic measures

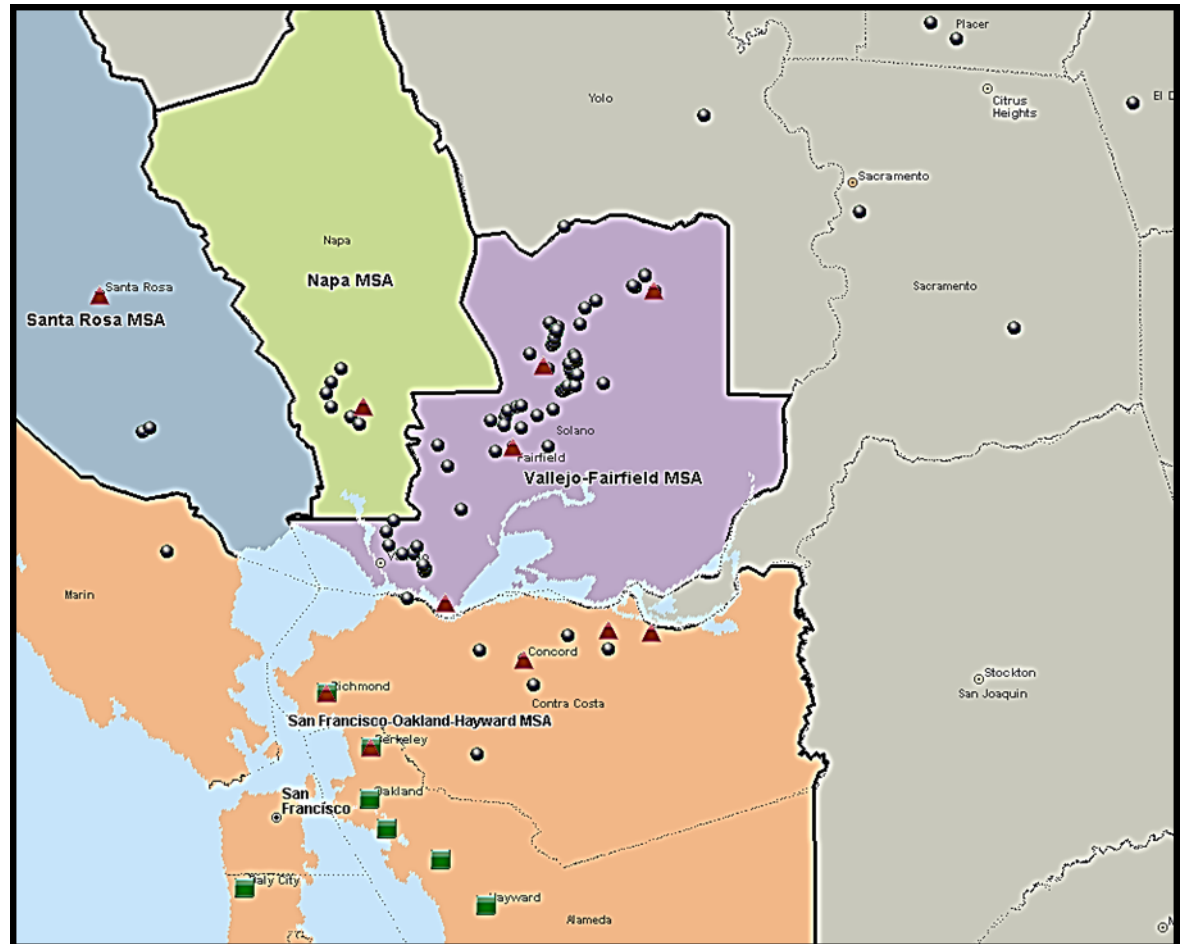
Vallejo-Fairfield MSA	San Francisco-Oakland-Hayward MSA	Santa Rosa MSA	Napa MSA
Benicia	Antioch	Santa Rosa	Napa
Dixon	Berkeley		
Fairfield	Concord		
Solano County	Pittsburg		
Vacaville	Richmond		
Vallejo			



# Critical Issue 4: Wages & General Finance

## Comparability

- The majority of VPOA members both live and work in the Vallejo-Fairfield MSA (actual VPOA member residences reflected by the “●” symbol)
- Further, the City’s proposed 12 comparison jurisdictions (reflected by the “▲” and all of Solano County) are more closely aligned with the actual residence of VPOA members, than the prior comparable cities (reflected by the “■”)



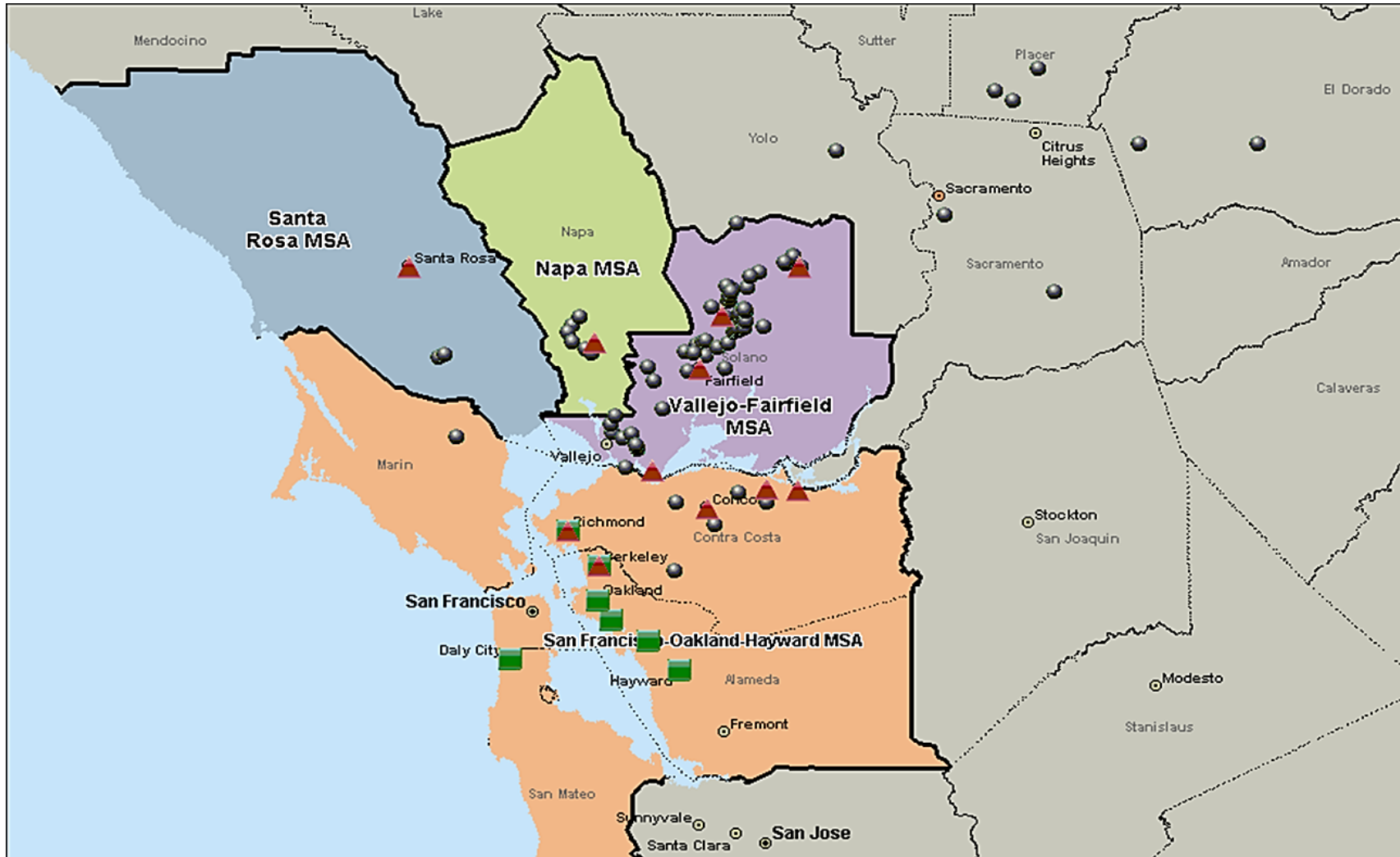
### Legend

- ▲ Current Comparable Cities Selection (2013)
- Prior Comparable Cities (2009)
- VPOA Residences






# Critical Issue 4: Wages & General Finance

## Comparability



### Legend

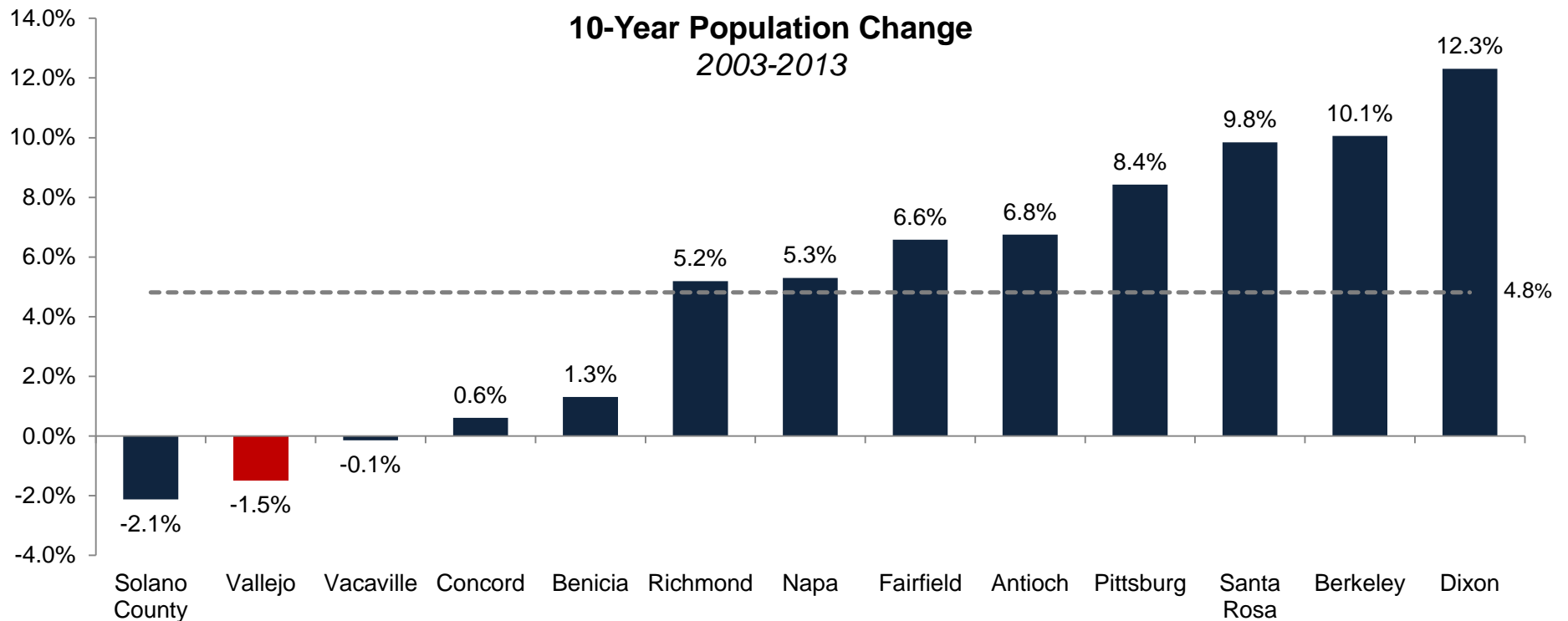
-  Current Comparable Cities Selection (2013)
-  Prior Comparable Cities (2009)
-  VPOA Residences



# Critical Issue 4: Wages & General Finance

## Population Change

- Over the last ten years (as measured from 1/1/2003 to 1/1/2013), Vallejo's population has declined by 1.5%
- Among the 13 comparison jurisdictions (reflecting the "unincorporated" parts of Solano County only), the average 10-year population change is an increase of 4.8%



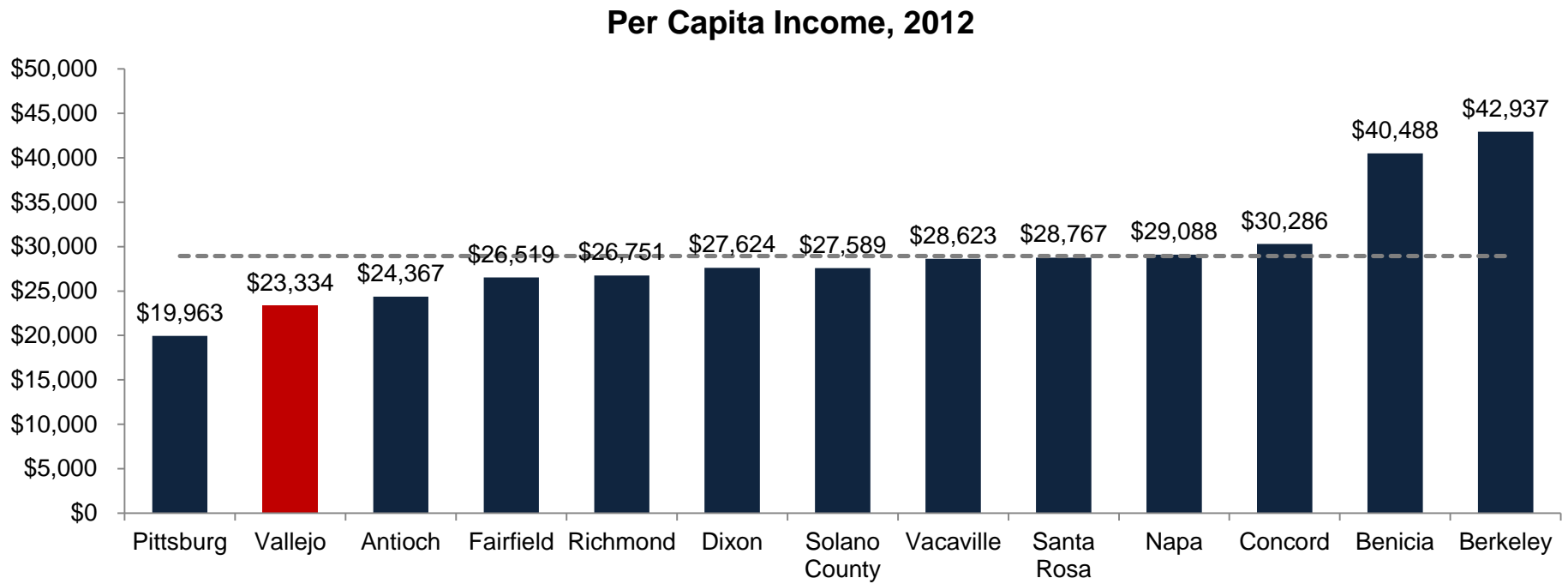
Source: California Department of Finance, E-1 and E-4 Cities, Counties, and the State Population Estimates



# Critical Issue 4: Wages & General Finance

## Per Capita Income

- Vallejo's per capita income of \$23,334 ranks 12<sup>th</sup> out of the 13 comparison jurisdictions



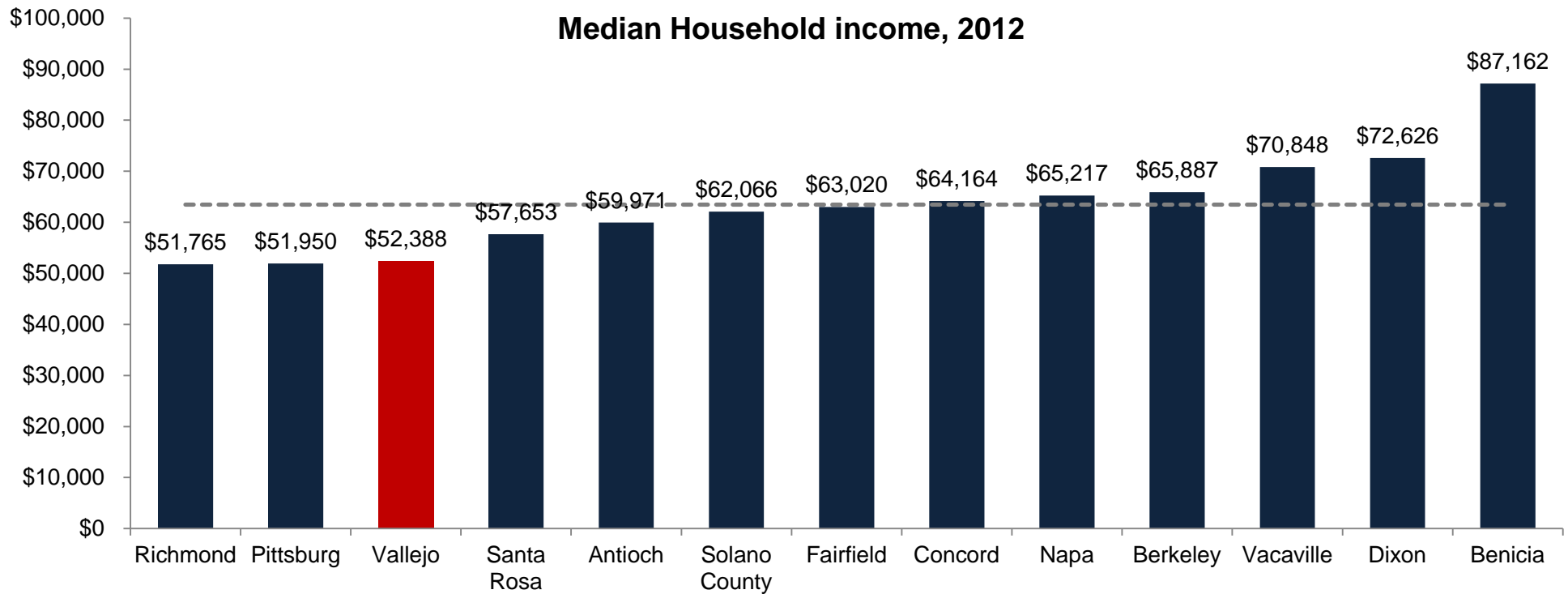
Source: US Census Bureau, 2012 American Community Survey. As 2012 American Community Survey data is not available for geographies with populations below 65,000, the 2009-2011 ACS 3 Year Estimates were used for Benicia and 2007-2011 ACS 5 Year Estimates were used for Dixon.



# Critical Issue 4: Wages & General Finance

## Median Household Income

- Vallejo's median household income is lower than 10 out of 13 comparison jurisdictions



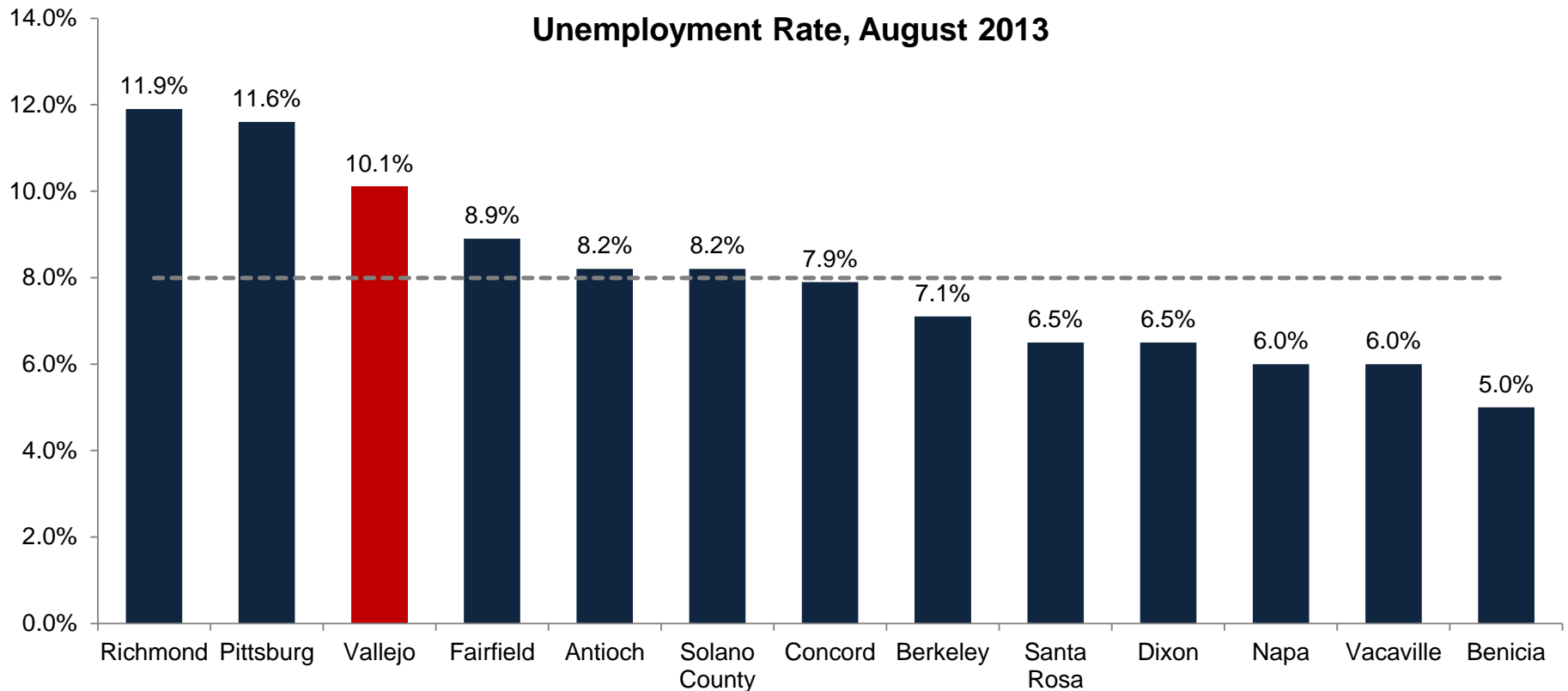
Source: US Census Bureau, 2012 American Community Survey. As 2012 American Community Survey data is not available for geographies with populations below 65,000, the 2009-2011 ACS 3 Year Estimates were used for Benicia and 2007-2011 ACS 5 Year Estimates were used for Dixon.



# Critical Issue 4: Wages & General Finance

## Unemployment Rate

- Vallejo's unemployment rate as of August 2013 (10.1%) ranks 11<sup>th</sup> out of the 13 comparison jurisdictions



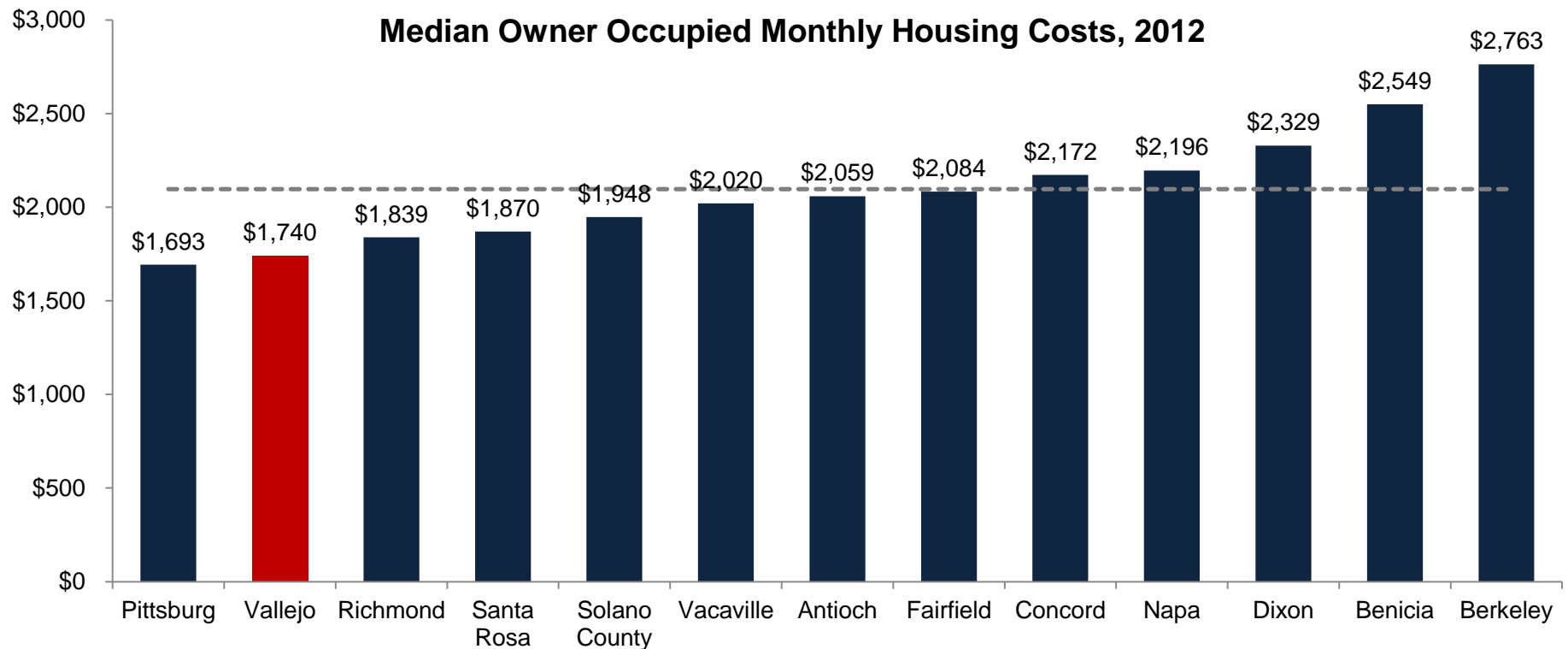
Source: California Employment Development Department, Monthly Labor Force Data for Cities and Census Designated Places (CDP), August 2013 (Preliminary)



# Critical Issue 4: Wages & General Finance

## Housing Costs

- As of the most recent 2012 Census estimates, Vallejo's median owner occupied monthly housing costs were well below the comparison group average of \$2,097



Source: US Census Bureau, 2012 American Community Survey. As 2012 American Community Survey data is not available for geographies with populations below 65,000, the 2009-2011 ACS 3 Year Estimates were used for Benicia and 2007-2011 ACS 5 Year Estimates were used for Dixon.

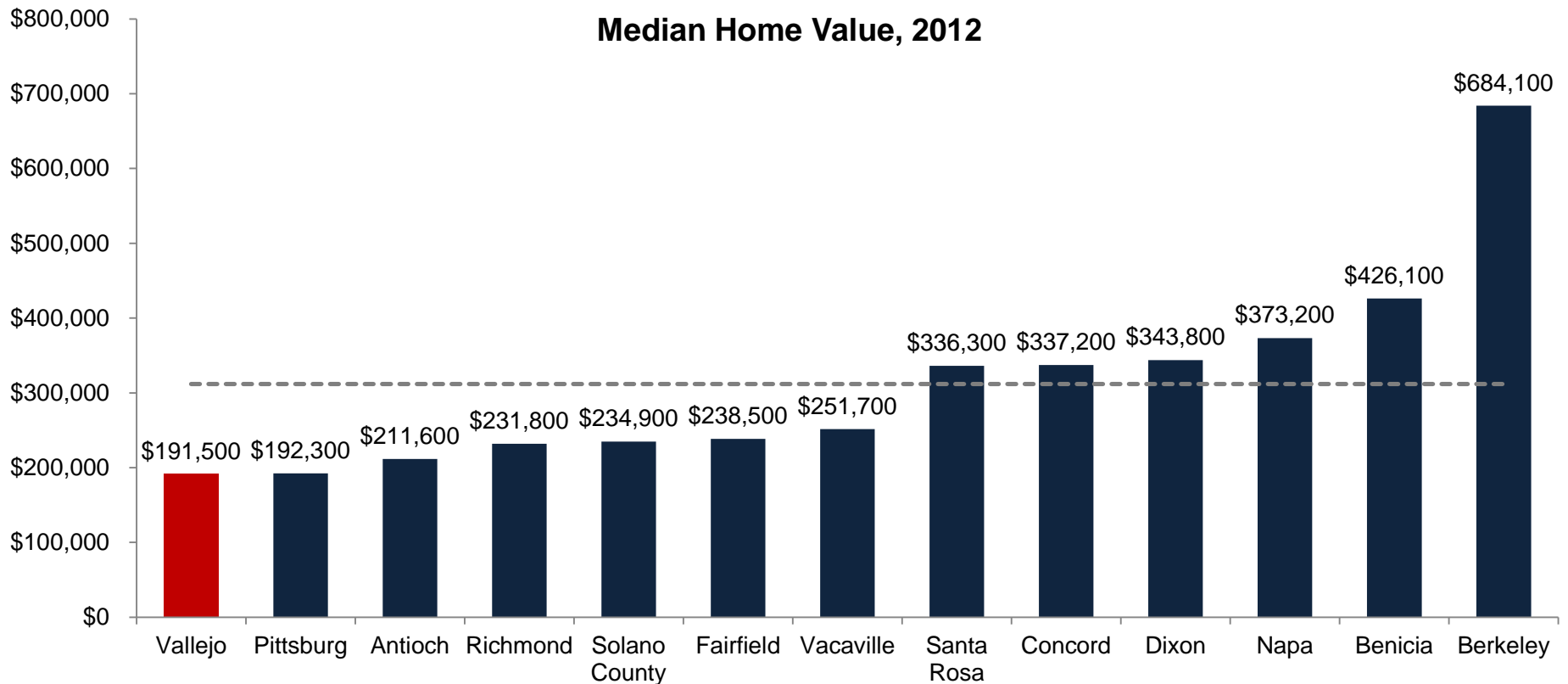




# Critical Issue 4: Wages & General Finance

## Median Home Value

- Similarly, Vallejo had the lowest median home value in 2012 according to the most recent data published by the Census Bureau



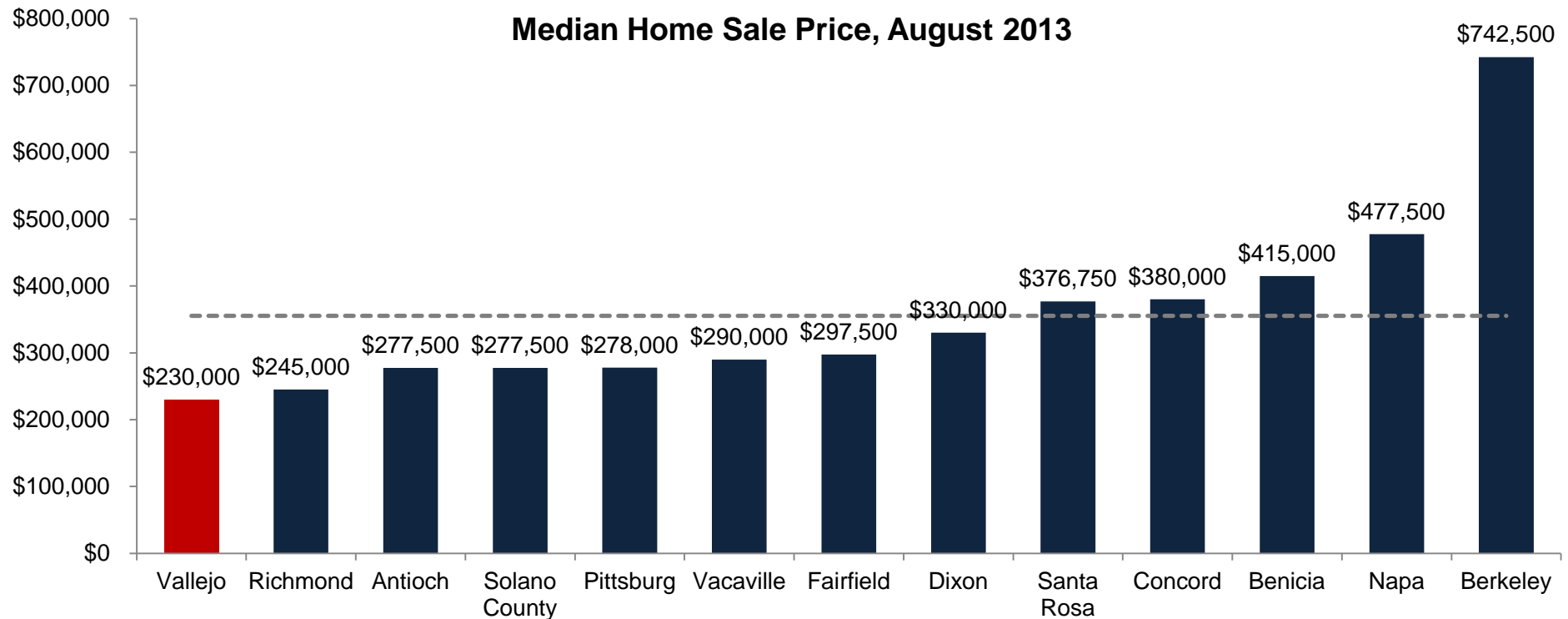
Source: US Census Bureau, 2012 American Community Survey. As 2012 American Community Survey data is not available for geographies with populations below 65,000, the 2009-2011 ACS 3 Year Estimates were used for Benicia and 2007-2011 ACS 5 Year Estimates were used for Dixon.



# Critical Issue 4: Wages & General Finance

## Median Home Sale Price

- As of August 2013, Vallejo's median home sale price of \$230,000 was ranked last out of the 13 comparable jurisdictions and more than \$130,000 below the average sale price of \$355,173 across the 13 other jurisdictions



Source: DataQuick California Home Sale Activity

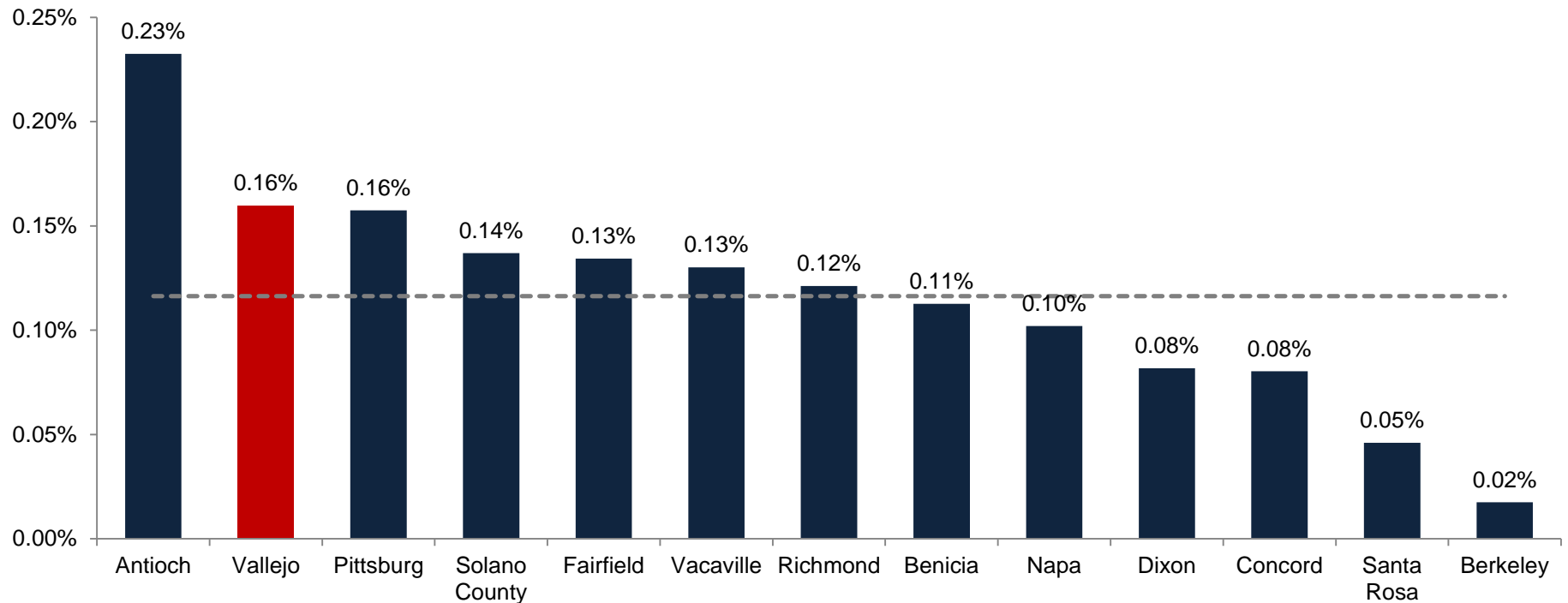


# Critical Issue 4: Wages & General Finance

## Home Foreclosure Rates

- Vallejo's foreclosure rate is among the highest across the comparable jurisdictions
- The foreclosure rate can have a significant impact on property tax revenues

Home Foreclosure Rates, September 2013



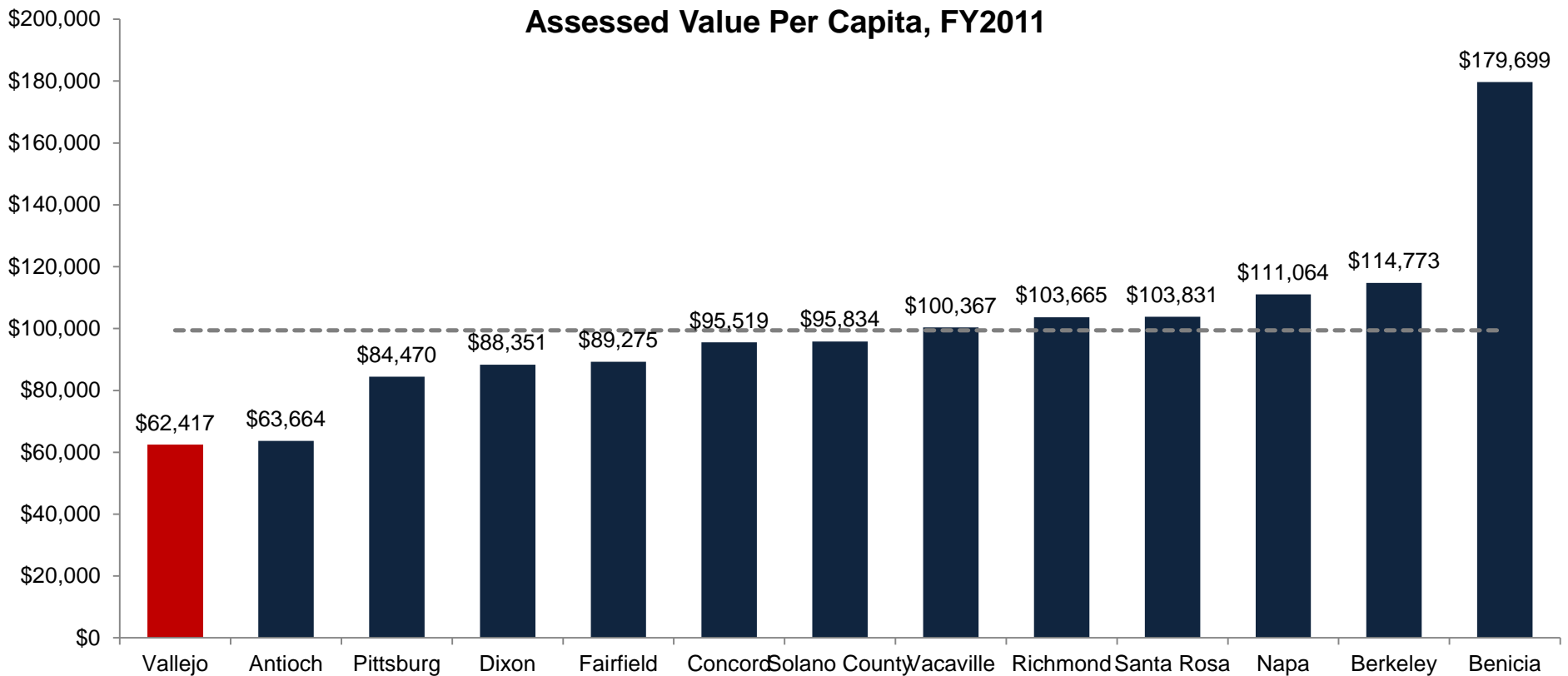
Source: RealtyTrac - Foreclosure Trend Summaries



# Critical Issue 4: Wages & General Finance

## Assessed Value Per Capita

- With lower housing costs and a largely institutional business sector, Vallejo's assessed value per capita is the lowest among the comparison jurisdictions, indicating a weaker revenue generating capacity



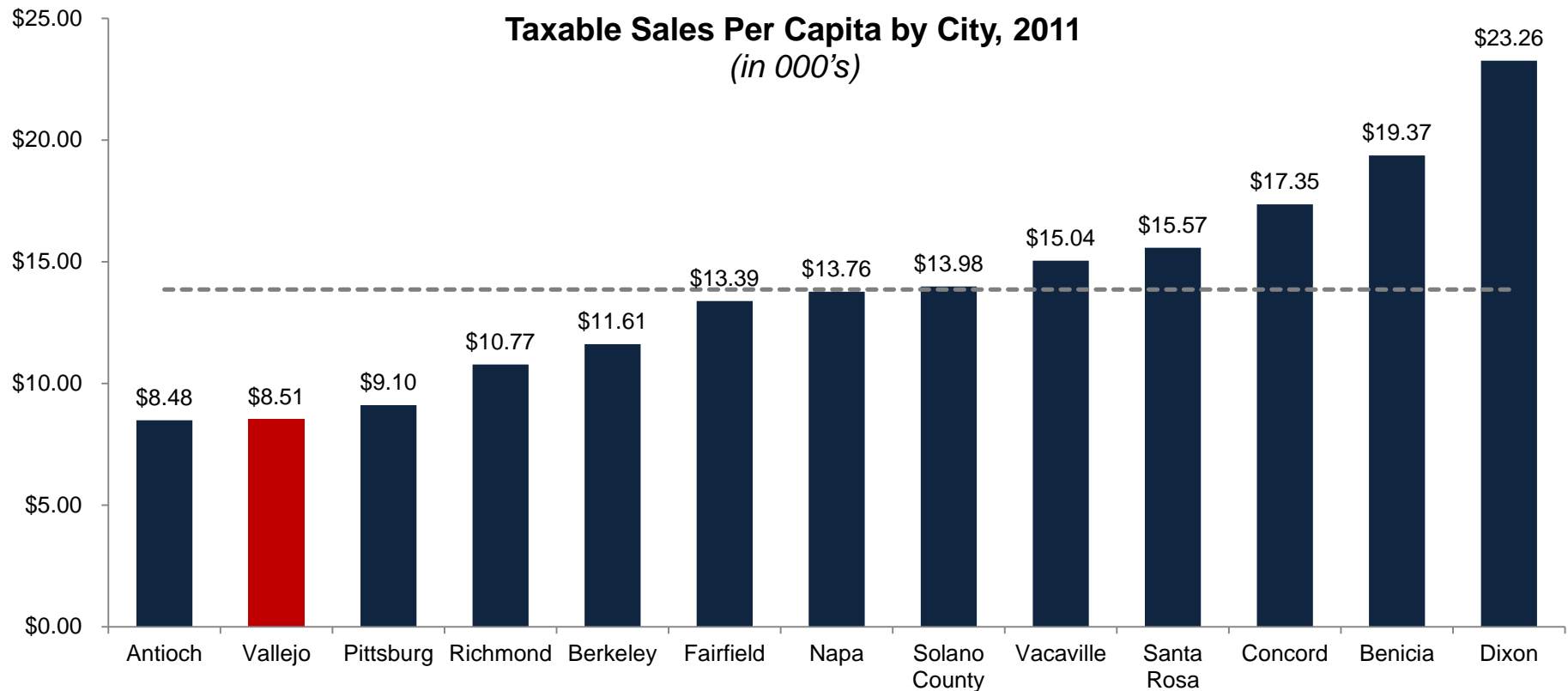
Sources: : California Department of Finance, E-1 Cities, Counties, and the State Population Estimates; State of California, Office of California Controller, Cities Annual Report Fiscal Year 2010-2011; State of California, Office of California Controller, Counties Annual Report Fiscal Year 2010-2011



# Critical Issue 4: Wages & General Finance

## Taxable Sales Per Capita

- Vallejo's taxable sales per capita are also well below the average across this group, again indicating a weaker local economy and lower revenue generating capacity



Source: : California Department of Finance, E-1 Cities, Counties, and the State Population Estimates; State of California, State Board of Equalization, Taxable Sales for Calendar Year 2011



## Critical Issue 4: Wages & General Finance

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Based on key socio-economic indicators, what should be Vallejo's market position?



## Critical Issue 4: Wages & General Finance

- Despite socio-economic indicators below the comparable jurisdictions, Vallejo generally pays Police Officers above the median
- Base Wages (as of October 25, 2013)

Classification	Base Wage Vallejo Top Step	Base Wage Median Top Step	% Above or Below Median
Officer	\$8,504.62	\$7,754.88	9.7%
Corporal	\$9,099.97	\$8,939.44	1.8%
Sergeant	\$10,199.40	\$10,417.50	-2.1%
Lieutenant	\$12,144.93	\$11,954.25	1.6%
Captain	\$14,274.07	\$13,849.90	3.1%

Source: IEDA, Compensation Survey Report of the City of Vallejo, as of June 30, 2013



## Critical Issue 4: Wages & General Finance

- Total compensation as of June 30, 2013
  - Base wage component as of October 25, 2013
  - All other components as of June 30, 2013

<b>Classification</b>	<b>Total Comp Vallejo Top Step</b>	<b>Total Comp Median Top Step</b>	<b>% Above or Below Median</b>
Officer	\$10,527.78	\$9,530.04	10.5%
Corporal	\$11,123.13	\$10,761.24	3.4%
Sergeant	\$12,222.56	\$11,642.41	5.0%
Lieutenant	\$14,168.09	\$13,423.73	5.6%
Captain	\$16,297.23	\$16,194.80	0.6%

Source: IEDA, Compensation Survey Report of the City of Vallejo, as of June 30, 2013





## Critical Issue 4: Wages & General Finance

- The City is proposing to reduce base wages by 5%
- Why is the City proposing this?
  - External Comparability
  - Internal Equity
    - VPOA is the only unit post-bankruptcy to receive increases
  - 5-Year Business Plan
  - Significant Cost Savings

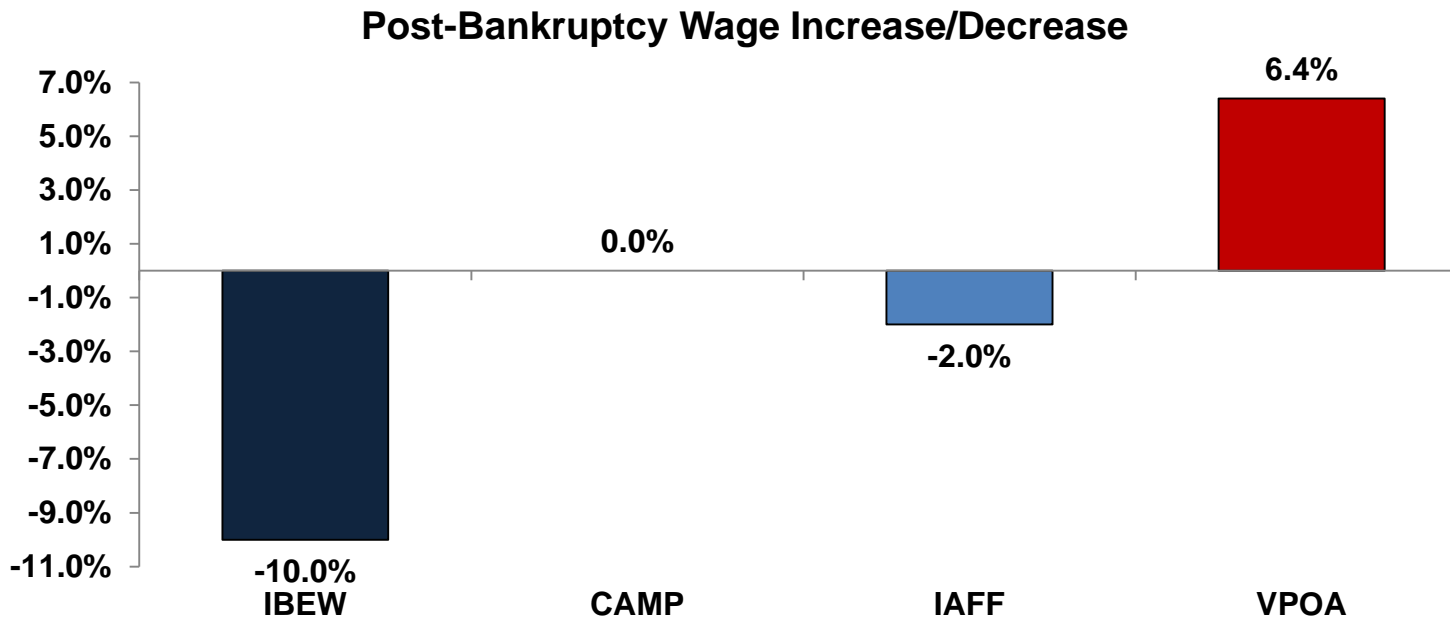


# Internal Equity

## Wage Increases/Decreases Post-Bankruptcy

### ■ Base Wage Post-Bankruptcy

- VPOA: +6.4%
- CAMP: 0.0% (6.2% increase offset in full by furloughs)
- IAFF: -2.0%
- IBEW: -10.0%





## Critical Issue 4: Wages & General Finance

- The City is proposing to reduce base wages by 5%
- Why is the City proposing this?
  - External Comparability
  - Internal Equity
  - 5-Year Business Plan
    - Reset wages to a sustainable level
  - Significant Cost Savings



## Critical Issue 4: Wages & General Finance

- The City is proposing to reduce base wages by 5%
- Why is the City proposing this?
  - External Comparability
  - Internal Equity
  - 5-Year Business Plan
  - Significant Cost Savings
    - **\$908,000** in FY2013-14 (full-year)



## Critical Issue 4: Wages & General Finance

### ■ Other wage issues

- Flat rate premiums (Bilingual/SWAT/Motorcycle Duty). Premium pays should not be tied to wage increases
  - Increases should be negotiated separately for these benefits
- Eliminate P.O.S.T. pay for new employees
  - Although a “premium,” effectively all employees become entitled to P.O.S.T. pay during their career
    - Paid as an “educational incentive” based on completion of certain **required** classes and time-in-grade
    - Classes are paid for by the City and all employees qualify for these premiums
  - P.O.S.T pay violates transparency principle and does not create an incentive to obtain additional education

# **Miscellaneous Open Issues**



# Miscellaneous Open Issues

## ■ **Dental Benefit**

- City Proposal: Clarify that the City will provide a dental plan substantially similar to the one in effect on June 30, 2013
  - The City should not be obligated to provide the same dental plan as it does currently where it has no control over whether its insurance provider alters or eliminates the current plan

## ■ **Other Supplemental Pays**

- City Proposal: Identify all pays and supplemental pays in the contract and eliminate any pays not listed therein
  - All pays and supplemental pays owing to VPOA members should be listed in its contract; if a pay cannot be identified, the City cannot legally pay it

## ■ **Telephone Expense**

- City Proposal: Eliminate current provision; VPOA members to be covered by City-wide telephone expense policy
  - Provides consistency



# Miscellaneous Open Issues

## ■ **Out of Town Expenses**

- City Proposal: Eliminate current provision; VPOA members to be covered by City-wide travel policy
  - Provides consistency

## ■ **Existing Benefits**

- City Proposal: Eliminate provision that all existing benefits enjoyed by VPOA members shall remain in full force and effect throughout the term of the contract
  - The purpose of the MOU is to define the benefits that will be paid. The language of the current provision is vague and overbroad and unnecessarily handcuffs the hands of the department

## ■ **Term**

- City Proposal: One or two-year agreement provided that 5-Year Business Plan economic goals are achieved





# Miscellaneous Open Issues

## ■ Entire Agreement

- City Proposal: Add integration clause
  - It is appropriate for the parties' entire agreement to be embodied in this contract, which has been the subject of extensive negotiations and is subject to public disclosure

## ■ Salary Increase Provisions

- City Proposal: Eliminate historical information, including survey cities
  - Majority of information to be deleted is historical
  - Because there are no salary increases contemplated in the parties proposals, the City believes it is appropriate to remove language referring to the comparator universe
  - For the reasons discussed previously, including the disparate socio-economic factors, the comparator group is inappropriate
  - The City cannot afford to be tied to formulas requiring salary increases based on the decisions of other jurisdictions
    - The City is a member of a select group – California cities that have gone through bankruptcy
    - Because of this unique circumstance, the City cannot tie itself to the decisions of other jurisdictions that have not faced the same financial issues

**Public Interest**



# Service Level Erosion

- The Business Plan’s expenditure forecast assumed that the City would maintain its staffing at current, but severely diminished, levels throughout the 5-year period
- As shown in the table below, the City’s Authorized Staffing level in FY2010-11 was 37% lower than FY2003-04 levels. For public safety workers, staffing reductions were even more severe

	FY2003-04 Authorized Staffing	FY2010-11 Authorized Staffing	FY2003-04 to FY2010-11 % Change	FY2013-14 Authorized Staffing	FY2013-14 Authorized Staffing (w/Measure B)
Police	228	121	-47%	130	143
VPOA	155	89	-43%	93	106
Fire	122	71	-42%	92	93
All Other	145	121	-17%	140	147
<b>Total</b>	<b>495</b>	<b>313</b>	<b>-37%</b>	<b>362</b>	<b>383</b>

- While there have been improvements in staffing levels since the adoption of the Business Plan as reflected in the FY2013-14 adopted budget, current levels continue to reflect a challenging and austere “new normal” environment



# Service Level Erosion

## Sworn Law Enforcement Officers

- The Federal Bureau of Investigations (FBI) publishes data annually on local police employees, including the number of sworn officers and civilians, in its Uniform Crime Report (UCR)
- As of the 2012 UCR, Vallejo's ratio of sworn police officers per 1,000 population of 0.78 ranked last among the 12 jurisdictions surveyed by the City for compensation comparability, well below the median of 1.09
- Further, while most jurisdictions experienced a reduction in their ratio of sworn police officers per 1,000 population, from 2008 to 2012 Vallejo's 23.1% ratio decline was particularly severe (only Antioch experienced a greater ratio reduction)

Sworn Police Officers per 1,000 Population

	2008 Ratio	2012 Ratio	% Change
Richmond	1.64	1.71	4.2%
Berkeley	1.85	1.49	-19.5%
Benicia	1.37	1.24	-9.7%
Concord	1.37	1.15	-15.9%
Dixon	1.35	1.12	-17.1%
Fairfield	1.17	1.09	-6.8%
Pittsburg	1.19	1.03	-13.0%
Vacaville	1.21	0.95	-21.8%
Santa Rosa	1.15	0.94	-18.5%
Napa	0.99	0.85	-14.3%
Antioch	1.17	0.82	-30.1%
<b>Vallejo</b>	1.01	<b>0.78</b>	-23.1%
<b>Median (excluding Vallejo)</b>	<b>1.21</b>	<b>1.09</b>	<b>-9.9%</b>

Source: U.S. Federal Bureau of Investigations, Uniform Crime Report, Police Employee Data, 2012



# Measure B

- On November 8, 2011, voters in the City of Vallejo approved Measure B which temporarily added 1% to the City’s sales tax to help address unmet needs in the community
  - Measure B was adopted by a margin of just 159 votes, with 50.4% of voters in favor and 49.6% opposed
  - Despite the contentious vote, approval of Measure B showed the community’s willingness to shoulder additional sacrifice to help address the City’s continuing financial challenges
  - Voters were specifically told that Measure B would enhance emergency response and police patrols, fire and paramedic services, youth and senior programs, street and pothole repairs, economic development, and other general services
  
- **Measure B is set to expire after ten years on March 31, 2022**

## MEASURE B

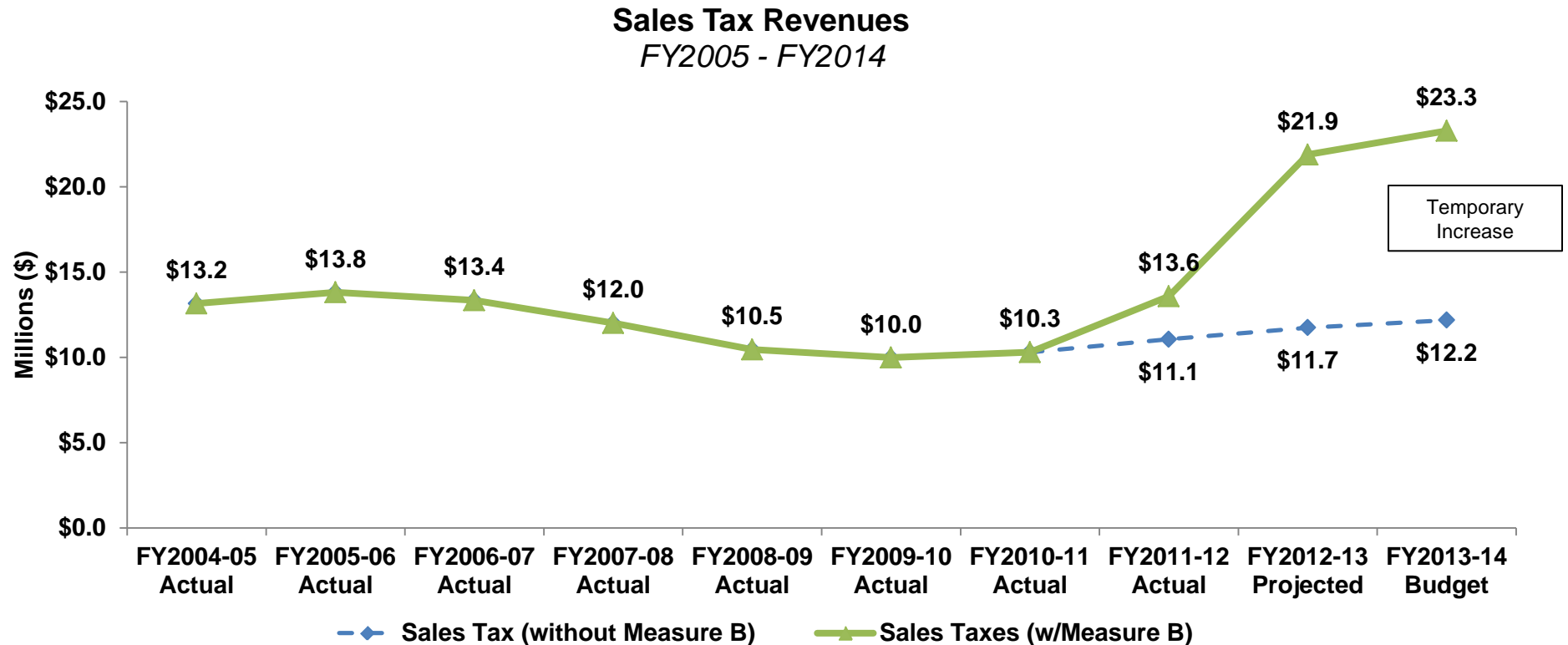
To enhance funding for 9-1-1 response, police patrols, firefighter and paramedic services, youth and senior programs, street and pothole repairs, graffiti removal, economic development, and general City services, shall the sales tax be raised one cent, expiring after ten years, with all revenue and expenditures subject to annual independent audits and all revenue legally required to stay in Vallejo?	YES
	NO

*Sources: Solano County, Registrar of Voters; Measure B Report to Vallejo Residents, 9/15/2011*



# Sales Taxes – Impact of Measure B

- Measure B has had a significant impact on the City’s total sales tax revenues (partial year impact in FY2011-12)
- As shown in the table below, the temporary tax revenues generated by Measure B essentially doubled the City’s total sales tax collection. Without Measure B, however, the City’s sales tax revenues are projected to grow only modestly



Sources: City of Vallejo, Adopted Budget, FY2013-14; Historical City Budget Documents

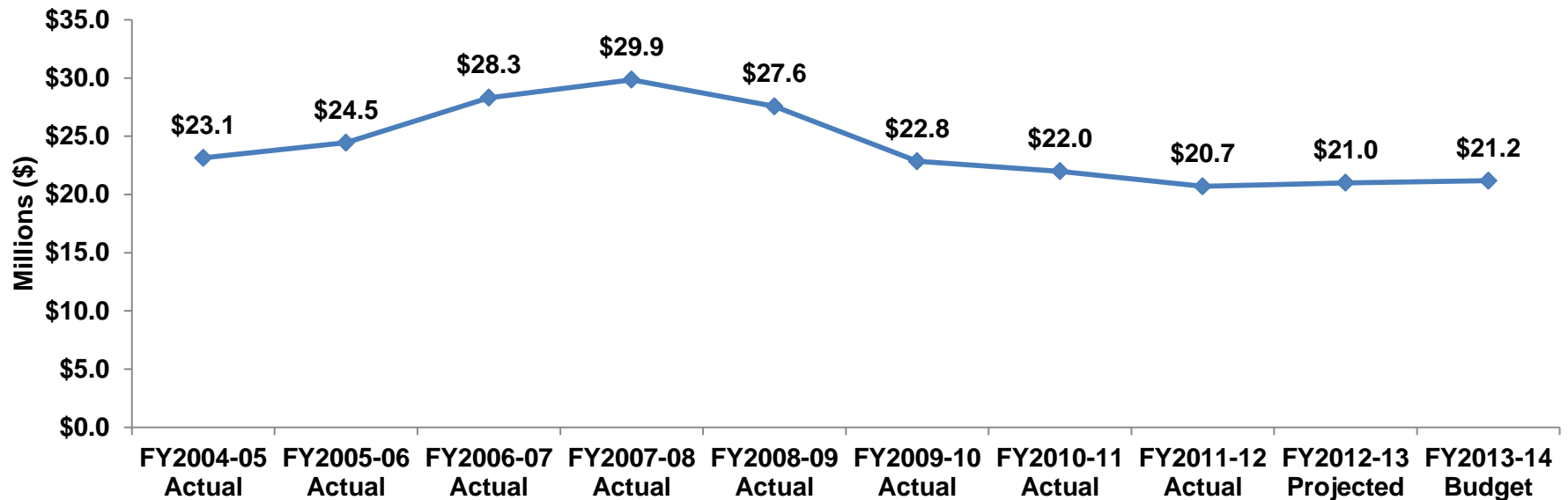


# Other Revenues

## Property Taxes

- Despite the additional revenue provided by Measure B, the City's other revenue sources, such as property taxes, continue to be depressed
- Property taxes account for the largest source of General Fund revenues. As of FY2013-14, property tax revenues were \$21.2 million, more than **29%** below the peak level of \$29.9 million achieved in FY2007-08
- Due to high foreclosure rate and Prop 13, property taxes have not rebounded in the short-term

Property Taxes (including Motor Vehicle License Fees)  
FY2005 – FY2014



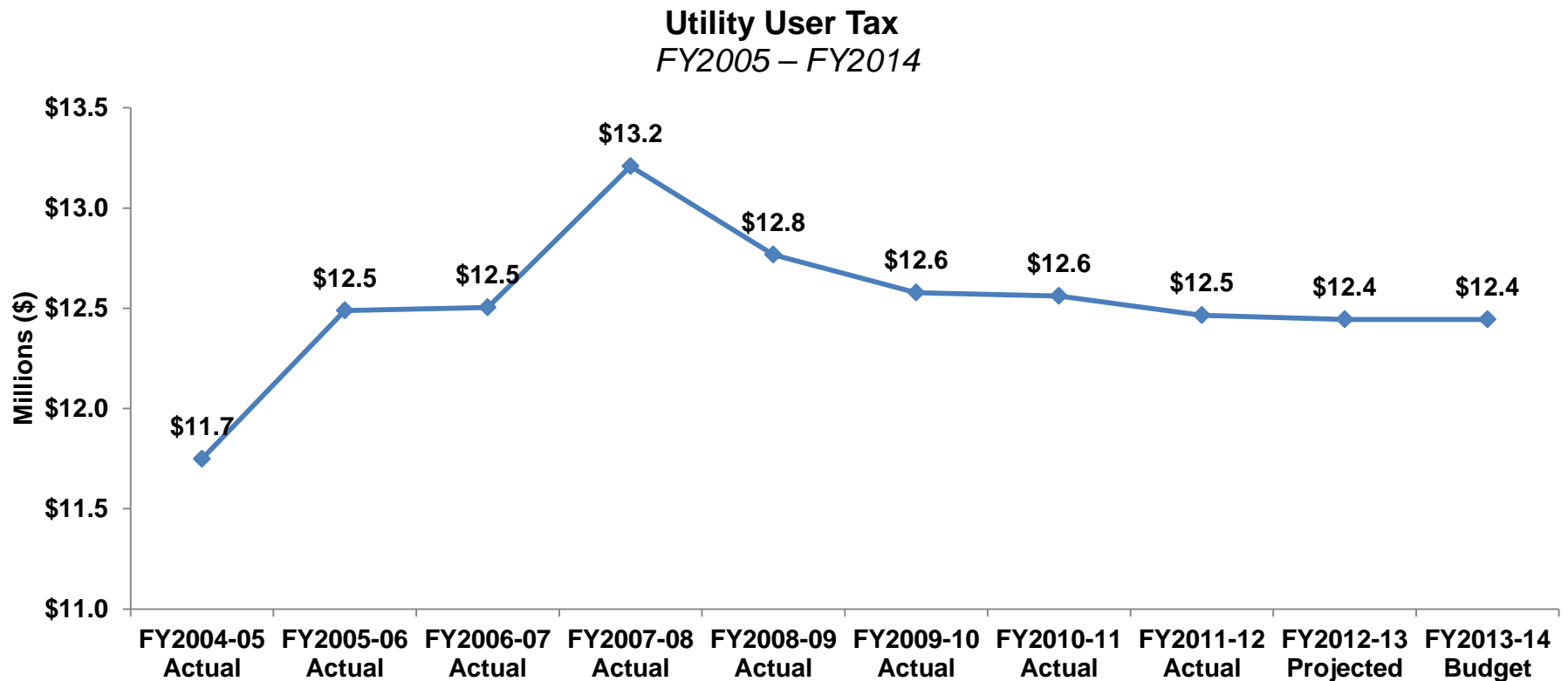
Sources: City of Vallejo, Adopted Budget, FY2013-14; Historical City Budget Documents



# Other Revenues

## Utility User Tax

- Utility user taxes (UUT) account for 22% of General Fund revenues per the FY2013-14 Adopted Budget (excluding Measure B). Budgeted UUT tax revenues as of FY2013-14 remain **6%** below their peak level of \$13.2 million achieved in FY2007-08



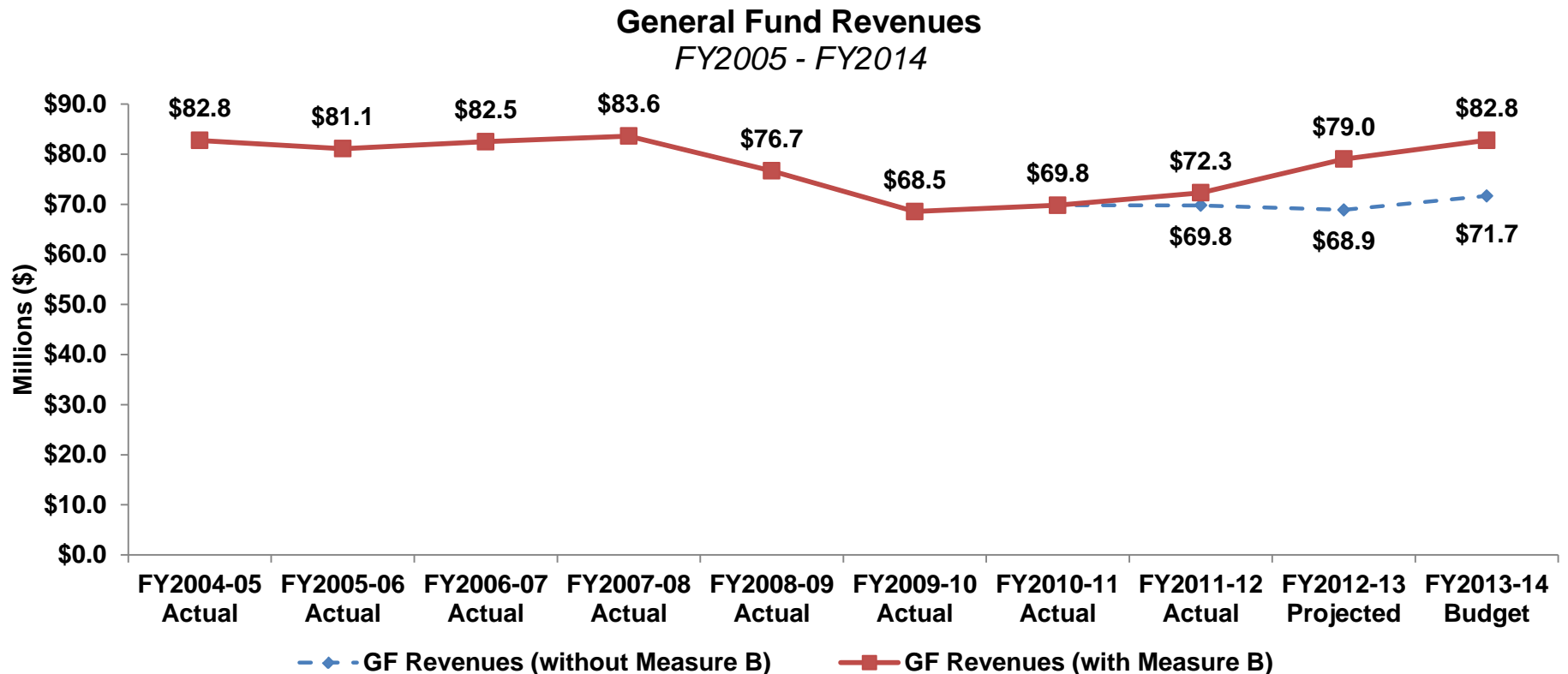
Sources: City of Vallejo, Adopted Budget, FY2013-14; Historical City Budget Documents





# Total Revenue Perspective

- Without the temporary sales tax revenue provided by Measure B, the City's total General Fund revenues would be significantly lower
  - Even with the additional revenues provided by Measure B, the City's General Fund revenues are still below peak levels achieved in FY2007-08



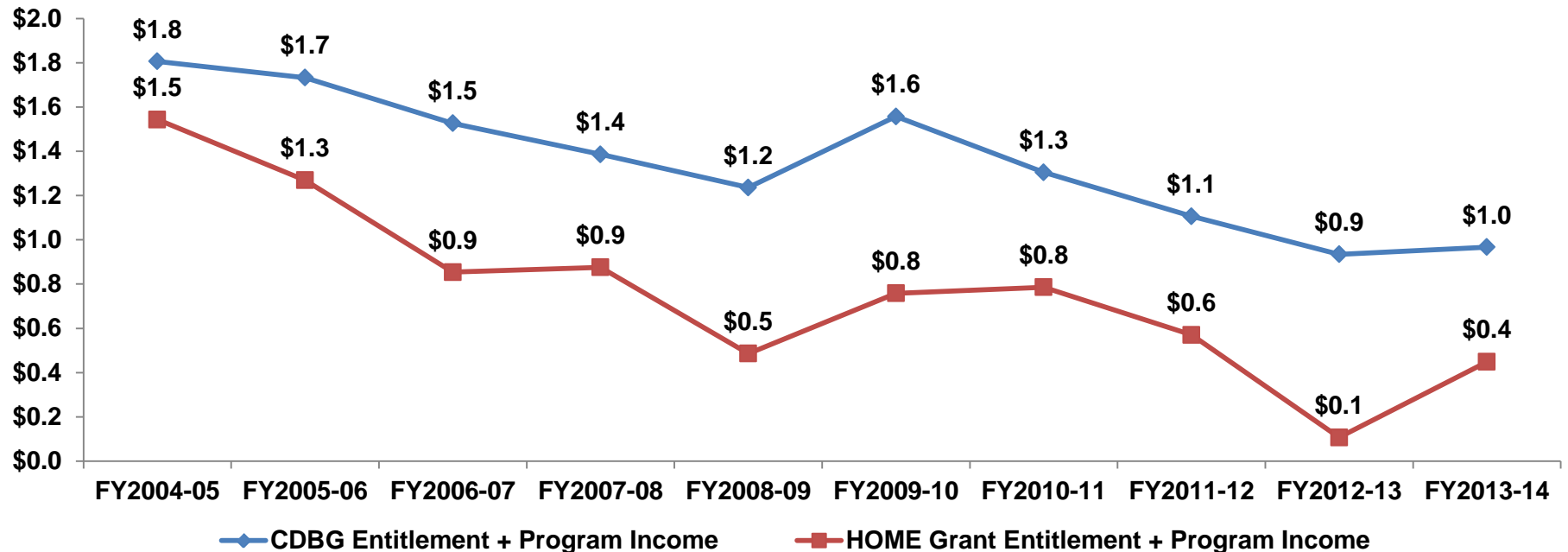
Sources: City of Vallejo, Adopted Budget, FY2013-14; Historical Budget Documents



# Federal Funding Reductions

- The Federal budget remains under tremendous pressure. Sequestration has caused major reductions in programs that once provided greater funding to the City of Vallejo, and the loss of these sources enhance the pent-up service demands that continue to pressure the City's General Fund
  - As shown in the graph below, from FY2005 through the FY2014 (budgeted) the City's Community Development Block Grant (CDBG) and HOME program funding declined significantly, dropping by 46.5% and 71.0% respectively over the 10-year period

**CDBG & HOME Grant Entitlement**  
*FY2005 - FY2014*



Sources: City of Vallejo, Finance Department



# Sales Tax Volatility and Risk

- Sales taxes can be a volatile revenue source, driven largely by broader economic conditions that impact consumer spending
  - In Vallejo, sales taxes account for approximately **21%** of the City's General Fund revenues for Fiscal Year 2013-14 (excluding Measure B)
- In addition to being volatile, Vallejo's sales taxes are **highly concentrated**. According to data published in the FY14 Adopted Budget:
  - The top 10 sales tax-paying businesses produce nearly **40%** of the City's sales tax. The top 30 businesses produce **60%**
  - Such concentration makes the city vulnerable to negative revenue impacts should any of these business experience financial troubles despite broader economic recovery



# Uses of Measure B Revenues

- As stated previously, Measure B revenues are set to expire after ten years on March 31, 2022. Accordingly, the majority of these revenues should only be used to invest in rebuilding the City's long-term stability, and not to solve ongoing, structural budget problems
- The City Council adopted the following guidelines for use of Measure B revenues in the FY2013-14 Adopted Budget:
  - Improve reserve levels
  - Restore some of the services reduced during bankruptcy, including adding a modest number of critical positions to rebuild police staffing levels
    - It is important to note that positions funded with Measure B revenues are limited term in nature and will be eliminated in future budgets when this revenue source expires
  - Fund programs which will ultimately grow the City's tax base (long-term growth strategy) and address deferred maintenance



# Measure B Expenditure Plan

## *FY2013-14 Adopted Budget*

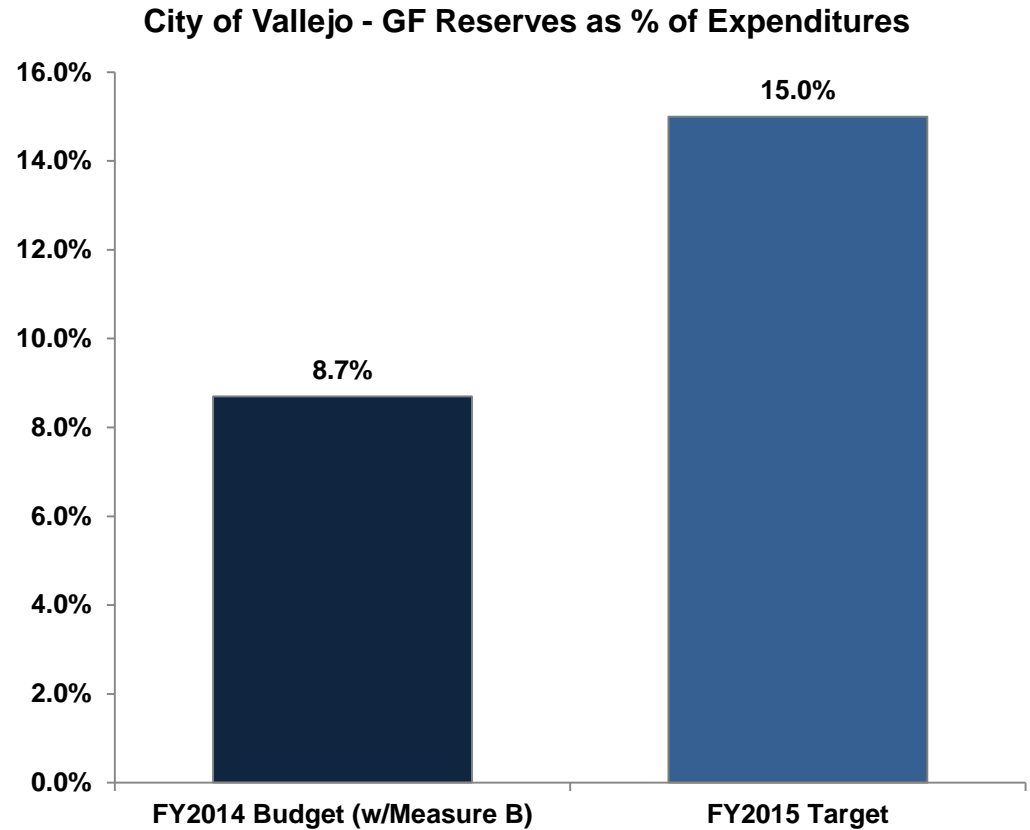
- The FY2013-14 Adopted Budget includes the following Measure B expenditures:
  - Rebuild Reserves: \$2.0 million
  - Preserve and Enhance Public Safety: \$3.03 million to hire additional Police officers and public safety staff, expand emergency preparedness resources and training, address blighted properties, retain fire department positions when grant funds expire
  - Enhancing and Reconstructing Infrastructure: \$2.8 million to rehabilitate residential streets, restore the Vallejo Marina, and address tree maintenance citywide
  - Improve Community Aesthetics: \$695,000 to address removal of dilapidated vacant structures, graffiti abatement, and increase productivity in City departments
  - Economic Development: \$900,000 to update the City's General Plan to position the City for future economic development
  - Generate New Revenue & Enhance Government Efficiency: \$259,256 to improve efficiency and document management and replace critical technology
  - Participatory Budgeting: \$2.0 million



# City of Vallejo

## Reserve Level Financial Policy

- In August 2010, the City Council reaffirmed its financial policy of restoring reserves to **15%** of expenditures by 2015
- Per the FY2013-14 Adopted Budget, the City's fund balance including Measure B revenues is 8.7%, significantly below the Council's target FY2014-15 level of 15%



Sources: City of Vallejo, Adopted Budget, FY2013-14; City of Vallejo, General Fund Five-Year Business Plan FY2010-11 to FY2014-15, November 30, 2010;



# Reserves

## *Industry Standards*

- The Government Finance Officers Association (GFOA) recommends that governments establish a formal fund balance policy that defines an appropriate fund balance level as it relates to their specific financial circumstance
  - At a minimum, GFOA recommends that governments maintain a General Fund reserve of no less than 2 months of General Fund operating revenues or expenditures. For most governments, this minimum target would fall somewhere between 15-20% of General Fund revenues or expenditures
- Nationally, credit rating agencies view reserve levels as an important factor in their rating methodologies. A healthy fund balance can be reflective of a structural budget balance and provide a local government with additional financial flexibility during uncertain economic times

Sources: GFOA Best Practice Appropriate Level of Unrestricted Fund Balance in the General Fund, 2009; City of Vallejo, General Fund Five-Year Business Plan FY2010-11 to FY2014-15, November 30, 2010; City of Vallejo, Adopted Budget, FY2013-14; Moody's Investor Services, California Cities Will Remain Pressured Despite Revenue Growth, May 2013



# Reserves

## *Industry Standards*

- In California, cities typically seek to maintain higher Fund Balances than local governments in many other regions, due to higher exposure to economically sensitive revenue streams, significant constraints on the flexibility to adjust revenues, and a history of State action to capture local revenues
  - In addition, the prospect of a one-time event (such as a natural disaster) has caused many California governments to seek General Fund reserve levels at even higher levels. A recent report by Moody's reflected a median General Fund balance of approximately 32% of revenues among 32 California cities that it rates as of 2012
- Recognizing the inherent financial risks facing the City and the need for stability, the City Council adopted a long-term goals to achieve a General Fund reserve of 25% by FY2021-22

Sources: Moody's Investor Services, *California Cities Will Remain Pressured Despite Revenue Growth*, May 2013

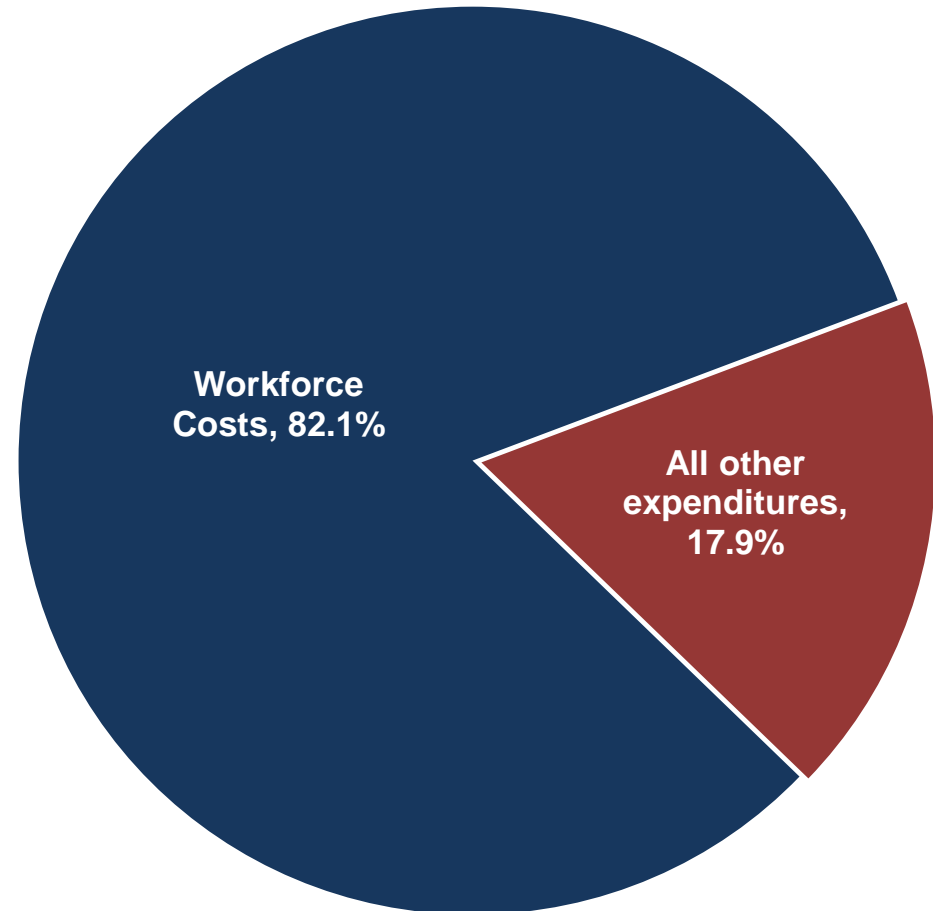




# Labor Costs

- Workforce related costs (salaries, active and retiree medical, pensions, compensated absences, workers' compensation, etc.) account for 82% of the City's total General Fund expenditures
- As such, workforce cost reductions must be part of any effort to move Vallejo toward a structurally sound and sustainable operating budget

**Workforce Costs as % of GF Expenditures**  
*FY2013-14 Budget*



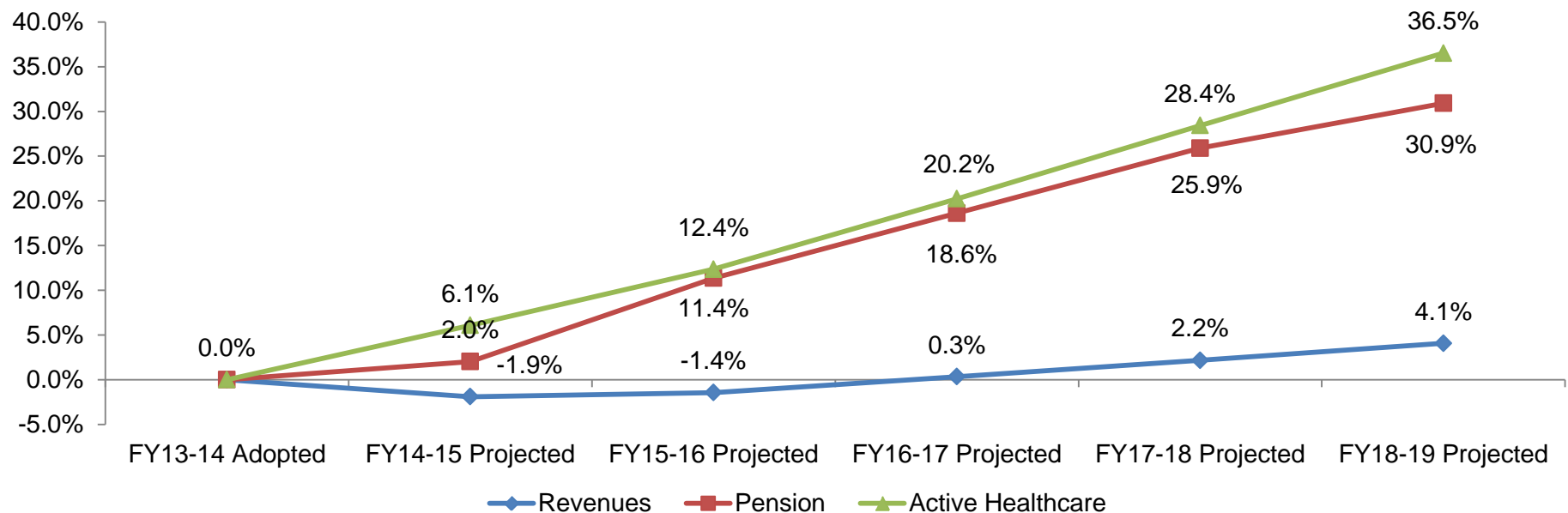
Sources: : City of Vallejo, Adopted Budget, FY2013-14



# Pension & Health Benefits

- According to the City's 5-Year Financial Forecast (published with the FY2013-14 Adopted Budget), the City's General Fund revenues (including Measure B and program revenues) are projected to grow by **4.1%** cumulatively from FY2013-14 to FY2018-19
  - Over the same time period, pension and active employee health care costs are projected to grow by **30.9%** and **36.5%** respectively, far outpacing revenue growth

**Five Year Financial Forecast  
Cumulative Revenue Growth v. Pension and Healthcare Growth**



Sources: : City of Vallejo, FY2013-14 Adopted Budget

# **The Imperative of Staying on Course Toward Recovery**



# Staying on Course

- Standard & Poor's recently raised its underlying rating for Vallejo's 1999 certificates of participation (COPs) from C to CCC+ with a stable outlook, basing such action on the City's financial policies that have:
  - Contained growing workforce costs through ongoing reductions
  - Maintained and rebuilt General Fund reserves that will provide a cushion against delays in implementing further structural budget corrections or sharp revenue declines
  - Despite these improvements, S&P notes that depletion of GF reserves could result in a subsequent downgrade
- While trending favorably as the City begins to emerge from bankruptcy, Vallejo's rating is still below investment grade ("junk bond" level) and among the lowest in California

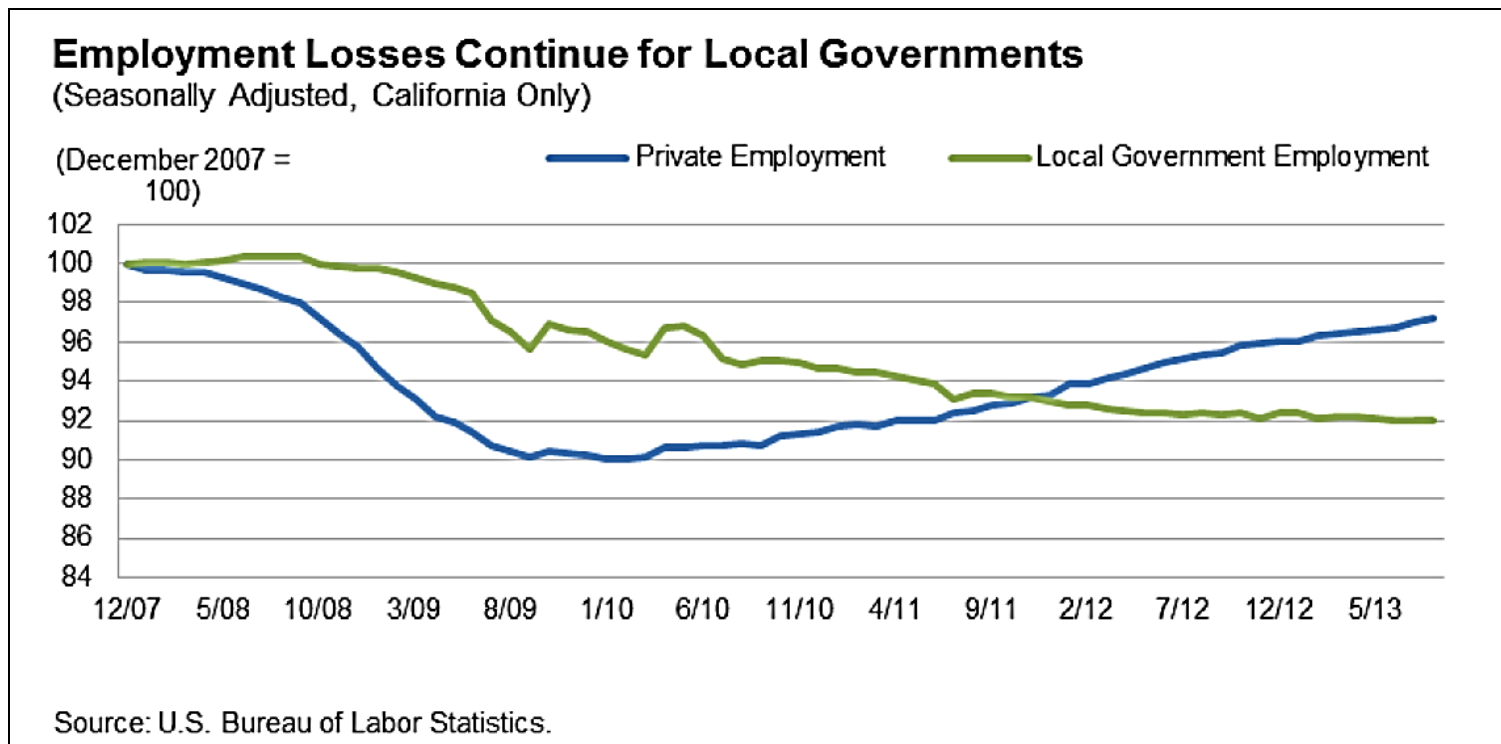
"In our view, the city's general fund performance has improved due to significant expenditure reductions, resulting in reserves that we consider strong, at 10.9% of expenditures for fiscal 2011. In addition, we understand that the city council's reserve policy is to maintain a minimum unrestricted general fund balance equal to 15% of expenditures, which it anticipates rebuilding with the proceeds of a 1% sales tax (Measure B) approved by voters in November 2011. However, in our view, budget pressures persist, including the city's forecast deficit spending starting in fiscal 2013, expiring labor agreements, and a five-year general fund forecast that includes anticipated compensation reductions to salaries and benefits" *[emphasis added]*

*Standard & Poor's Ratings Services, Vallejo, California:  
Appropriations, February 23, 2013*



# Staying on Course

- As shown in the graph below, local government employment levels in California have dropped significantly underscoring the need to begin to bring services to a more appropriate level



Source: FitchRatings, "Rising Labor Demands Challenge Local Governments in San Francisco Bay Area," November 6, 2013

**Conclusion**



# Conclusion

## *Application of AB 646 Criteria to Critical Issues*

### ■ *Critical Issue 1: Health Benefits*

#### — *Policies*

- 5-Year Business Plan, which enabled the City to emerge from bankruptcy, is predicated on \$300 PEMHCA contribution

#### — *Financial Ability*

- Will help mitigate the effect of skyrocketing pension costs and reduce the City's unfunded OPEB liability by \$66.6 million
- City's unfunded OPEB liability has increased from \$81.2 million as of 6/30/2009 to \$106.6 million as of 6/30/2012, driven largely by the VPOA

#### — *Internal Equity*

- This reduction is the same as provided to IAFF and IBEW
  - Treated as a trade-off for the maintenance of pension benefits through bankruptcy

#### — *External Comparability*

- To the extent there is a market rate for retiree health benefits, the City's proposal is higher than many of its comparator jurisdictions and lower than others

#### — *Public Interest*

- Critical to the City's ability to restore services, which were decimated during the City's bankruptcy and have yet to stabilize at an appropriate level

### ■ *Critical Issue 2: Retirement*

### ■ *Critical Issue 3: Leave*

### ■ *Critical Issue 4: Wages & General Finance*



# Conclusion

## Application of AB 646 Criteria to Critical Issues

- *Critical Issue 1: Health Benefits*
- **Critical Issue 2: Retirement**
  - *Policy*
    - PEPPRA Section 20516.5: Employee payment of at least 50% of normal cost “shall be the standard”
  - *Financial Ability*
    - Significant cost savings
      - \$417,000 based on additional 3.4% pension contribution by VPOA members
      - \$428,000 in wage savings based on elimination of longevity pay
        - » Estimated reduction in pension liability has a present value of \$180,000 per retiree
    - The City’s contribution rate will rise to at least 65.5%, and may grow as high as 75%, by FY2019-20
    - Based on current funding levels, there is no money saved to pay the pensions of active employees
  - *Internal Comparability*
    - Each of the City’s other bargaining units pay (i) more than the statutory minimum towards their pension and (ii) nearly 50% of normal cost
  - *Public Interest*
    - The public has an interest in employees’ reasonably sharing in the cost of their pension
    - Even with proposed contribution increase, the City will be responsible for a contribution rate of up to 75% by FY2019-20
- *Critical Issue 3: Leave*
- *Critical Issue 4: Wages & General Finance*





# Conclusion

## *Application of AB 646 Criteria to Critical Issues*

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- *Critical Issue 1: Health Benefits*

- *Critical Issue 2: Retirement*

- ***Critical Issue 3: Leave***

- *Policies*

- 5-Year Business Plan is based on modest forecasts for compensated absences
    - Excessive leave cash-outs was an element that contributed to Vallejo's bankruptcy filing

- *Financial Ability*

- Reduction in sick leave accrual/cash-out is expected to save the City \$116,000 in FY2013-14 (full year estimate)
    - Large leave accruals continue to pose a risk to the City's financial stability

- *External Comparability*

- VPOA's leave policy is out of sync with the market

- *Critical Issue 4: Wages & General Finance*



# Conclusion

## *Application of AB 646 Criteria to Critical Issues*

- *Critical Issue 1: Health Benefits*
- *Critical Issue 2: Retirement*
- *Critical Issue 3: Leave*
- ***Critical Issue 4: Wages & General Finance***
  - *Policy*
    - Critical to the success of the 5-Year Business Plan, which allowed the City to emerge from bankruptcy, is resetting wages for City employees to a sustainable level
  - *Financial Ability*
    - Wage reduction will result in an estimated \$908,000 in savings for FY2013-14 (full year estimate)
    - Without concessions the City has asked for, the City will spend more than it takes in
  - *Internal Comparability*
    - VPOA is the **only** bargaining unit in the City to receive net salary increases since bankruptcy
  - *External Comparability*
    - Vallejo's market position, after proposed changes, will still be reasonable given that it is at the bottom of comparator cities socio-economically
    - In light of the City's bankruptcy filing and continuing fiscal recovery, the City is not in a position to match or exceed wages offered by more affluent jurisdictions

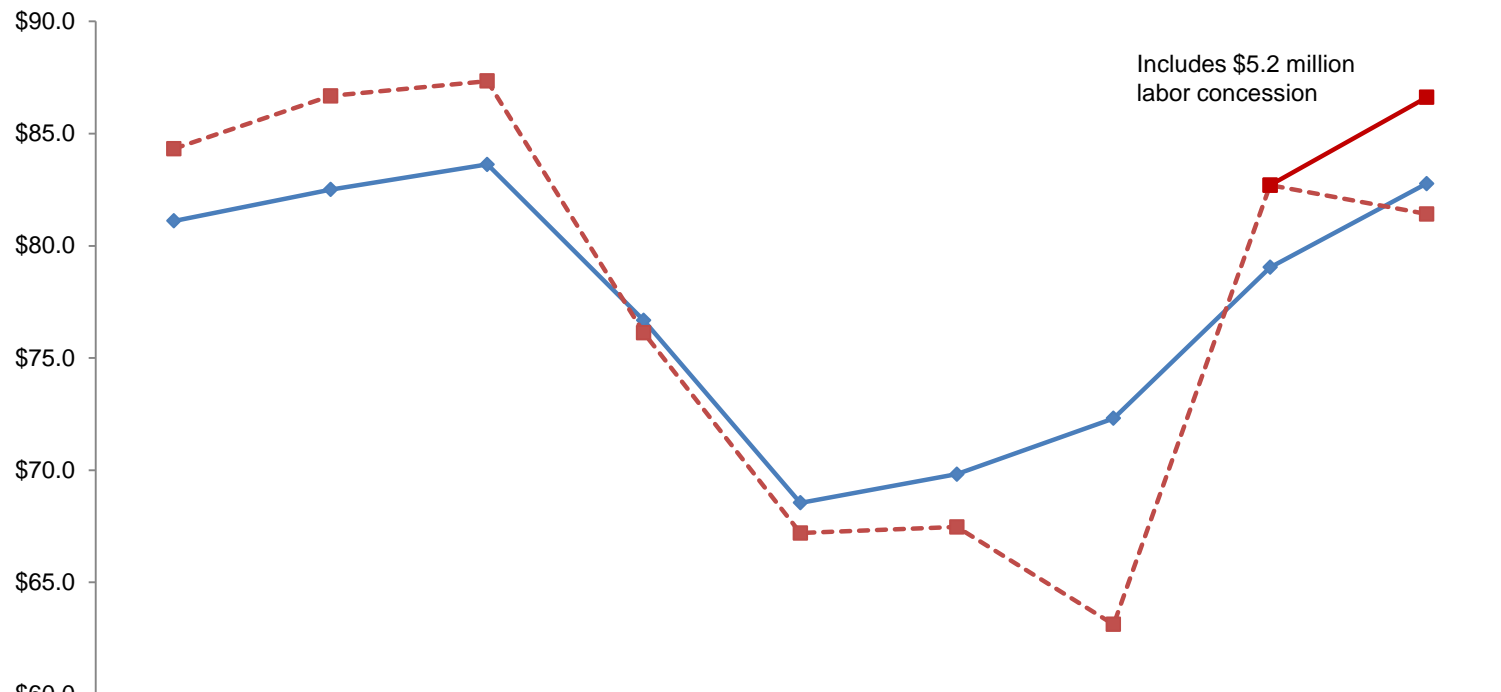


# Conclusion

## Expenditures Exceed Revenues

- Even considering the additional temporary revenue from Measure B, absent the concessions in the City's proposal, the City's expenditures will continue to exceed revenues

General Fund Revenues & Expenditures



	FY2005-06 Actual	FY2006-07 Actual	FY2007-08 Actual	FY2008-09 Actual	FY2009-10 Actual	FY2010-11 Actual	FY2011-12 Actual	FY2012-13 Projected	FY2013-14 Budget
Revenues	\$81.1	\$82.5	\$83.6	\$76.7	\$68.5	\$69.8	\$72.3	\$79.0	\$82.8
Expenditures	\$84.3	\$86.7	\$87.3	\$76.1	\$67.2	\$67.5	\$63.1	\$82.7	\$81.4
Expenditures (w/o concessions)								\$82.7	\$86.6