

The Rose Retort--5/19/08

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An analysis of the "confidential" report by Harvey M. Rose Associates, LLC

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See the Rose Report [HERE](#)

The Rose Report dated May 5, 2007 seems to be the same report the Public Safety Unions released to the media on 5/13, in conjunction with their press conference on 5/12/08. It also seems to incorporate the Unions' final offer to the city made on 4/21/08. The City rejected this offer as inadequate to avoid bankruptcy.

Numerous Discrepancies

Unfortunately, there are many discrepancies between the Union's May 12 press release and the May 5 Rose Report, the Rose Report and city numbers, and even in the two separate sets of assumptions found within the Rose Report itself. It is also interesting to note that the report contents are not numbered consecutively, so we have to wonder if there are other provisions that have not been released to the media. This makes it very difficult to decipher exactly what the Unions are offering, what savings they are claiming to have identified for the city, whether or not their offer will help the city avoid bankruptcy, or if the numbers contained in the Unions' offer are even accurate. Also there is no mention of contract extensions although we have heard that the Unions expect an extension to 2014 along with acceptance of their offer. At any rate, it is highly unlikely the unions would make any offer without requiring contract extensions.

Confidentiality Breached?

The Rose Report, paid for by the unions, was covered by the confidentiality agreement between the Unions and the city because the Unions presented it to the Council in closed session. It is because of this that the Council has been unable to discuss it in public. Consequently, the citizens of Vallejo have not had access to its contents until the Unions decided to release data contained in the Rose Report to the press, apparently in a breach of their confidentiality agreement. It appears the unions are now trying this case in the court of public opinion rather than with concrete proposals to the city to solve the current financial problems.

Erroneous Revenue Assumptions

As we have already noted, the May 5 report itself is somewhat confusing as it contains two sets of assumptions. One assumption would result in a \$3.4 million surplus for FY 08/09 and the other assumption would net a \$4.0 million surplus.

Under both assumptions the city would have to increase taxes and fees by \$3.1 million. The report does not indicate how these taxes and fees would be raised, but the only way the City could raise most of this new revenue would be through a two thirds vote by the public. It would also require a unanimous vote of the city council (unlikely) to make it on the November '08 ballot. Is it prudent for the Unions to suggest that the City assume voters will agree to increase 911 fees, increase sales taxes or create additional landscape maintenance districts just to fund higher salaries and benefits? It seems highly unlikely these ballot measures will pass based on prior failures of voters to increase taxes to support transportation issues. And with the actual salaries of the public safety employees now a matter of public record, we believe the voters will reject any attempt to create new taxes to continue paying for these gold plated contracts.

Expenses—what exactly are they offering to give up?

On the expense side, it is difficult to truly assess all the projections without a detailed analysis from either the union or the city. The Rose Report indicates the Unions will save the City enough General Fund monies to maintain the generous Union salaries and benefits if the City adopts these and other suggestions:

- continue to operate the city without filling existing staff vacancies and the closure of two fire stations until 7/1/09;
- interest costs could be reduced by \$2.3 million;
- funding for the self insurance fund could be reduced by \$1 million;

- vehicle replacement could be reduced by \$1.7 million;
- fiscal year 08/09 salaries could be reduced by \$12 million (however \$4 million of this would be used to fund retiree medical benefits).

The salary and benefit assumptions are the most critical, so we have provided a summary of the city estimate and the projections in the Rose Report for fiscal year 08/09.

Salaries & Benefits In Millions of Dollars

City of Vallejo Projections

Rose Report

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Contract pay rates 7/1/08:

8 fire stations,

134 police officers

Mar 08 pay rates & staff:

6 fire stations,

129 police officers

Contract pay rates 7/1/08:

6 fire stations,

134 police officers

Reduced pay rates, existing staff:

6 fire stations,

134 police officers

VPOA (Police)

\$30.5

\$26.4

\$29.8

\$28.0

IAFF (Fire)

26.3

19.0

21.0

19.2

IBEW (Other)

13.6

13.4

12.7

12.2

CAMP & Admin

9.0

8.8

8.5

8.1

Other

(0.5)

(0.3)

Total

\$79.4

\$67.1

\$72.0

\$67.2

The police and fire union proposes to forgo the extra 1.7% that was due on 7/1/07 but never paid and eliminate the 5.5% expected salary increase on 7/1/08.

However there is a big catch to these savings:

- The 1.7% would not be paid to the employees, but a similar amount would be paid to PERS for future retiree medical benefits.
- The 5.5% projected increase due on 7/1/08 would also not be paid to the employees, but a similar amount would be paid annually to fund existing retiree medical benefits.

The retiree medical benefits are currently unfunded by \$135 million, so under normal circumstances, this would be a good approach to solve that funding problem. However, this does not create real savings to the city. There is no proposal to eliminate or reduce retirement or medical benefits. The money will be spent on medical benefits rather than salaries, but the money will still be spent. This is also not a true reduction taken by the Union employees since they will get the funds in retirement benefits later rather than in salary now.

Another reason to question the numbers and any savings the Unions are reporting is the conflicting information regarding cuts to raises. Are there real cuts to raises or will the money be used for retiree medical benefits? The press release indicates that the Police and Fire will forgo 11% on raises and other city employees would forego 10%. Because the city was projecting 5.5% annually for police and fire and 3% for IBEW, it appears the Unions are saying they would be giving up two years of raises (6.5% x 2 for Police and Fire, 5% x 2 for others). The Rose Report indicates these savings would be used for retiree medical benefits. Again, we used the Rose Report in our analysis.

The Unions' press release and the Rose Report contain—yet again—conflicting information, this time on cuts to raises and when they might be restored. The 05/12/08 press release indicates that the Police and Fire 6.5% cut to the 07/01/08 raise would remain in place until 3/1/09. The Rose Report—which we used in our chart and analysis below—indicates this cut will be restored for police on 7/1/08 and for fire on 3/1/09.

3 Year Net Result of All Raises

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Police

Fire

IBEW

Increase 7/1/06

5.7%

5.7%

4.0%

Increase 7/1/07

8.5%

8.5%

3.1%

Reduction 3/1/08

-6.5%

-6.5%

0.0%

Increase 7/1/08

0.0%

0.0%

0.0%

Restore reduction 7/1/08

6.5%

0.0%

0.0%

Restore reduction 3/1/09

0.0%

6.5%

0.0%

Total 7/1/06 &ndash; 6/30/09

14.2%

14.2%

7.1%

Both fire and police already agreed to reduce their raises by 6.5% from 3/1/08 to 6/30/08 as part of the effort to solve the fiscal 07/08 budget shortfall. Because under this new proposal the 6.5% reduction would actually be restored—for police on 7/1/08 and for fire on 3/1/09—it begs the question, what is the net result of all raises for the three year period 7/1/06 to 6/30/09 and how will the different unions be affected? As you can see, the Fire and Police Unions will receive a net increase of 14.2%, double of the 7.1% that the Unions’ proposal suggests the IBEW should receive.

Also consider that during the eight year period from 2000 to 2007 police and fire received a compound increase of 55.4%, or 5.7% annually including the 6.5% eliminated 3/1/08 but restored on 7/1/08 for police and 3/1/09 for fire. During this same period IBEW received a compound increase of 25.8% or 2.9% annually, the exact same amount as the CPI increase.

With such large discrepancies in raises with the Public Safety Unions—Fire and Police—and the IBEW, both historically and in the proposal, it is difficult to comprehend why the IBEW is now in lock step with police and fire in these negotiations.

The projected 5% raise for IBEW at 7/1/08 will also be set aside to pay retiree medical costs for one year. At 7/1/09 the existing formulas would be fully reinstated. The unions want the city to contribute an additional 10% to the cost of retired non safety employee medical premiums. Unfortunately, the Rose Report does not provide the detail needed to reconcile the city’s projection for IBEW salaries and benefits with the Rose report’s projections. The city projected \$13.6 million in salary and benefits assuming a 3% increase while the Rose report projected \$12.7 million assuming a 5% increase. Because it was impossible to reconcile the two reports, this \$900,000 the Unions suggest will be saved may not be real.

The Rose report assumes that the city will continue to operate 6 fire stations during fiscal 08/09 but return to 8 stations on 7/1/09. Because there are no projections for Fiscal Year 09/10 included in the report we have to wonder where the Unions expect the city will get the money, about \$5 million that will be necessary to reopen the two closed stations.

It is also interesting to observe that in 2007 the city attempted to reduce staffing for the fire department but the fire union claimed at the time that "people will die" if any reductions were made. The issue went to binding arbitration and the arbitrator ruled that the city could not reduce staff as it would impact the safety of the firefighters. As a result of this decision the city had to add \$4.3 million to the 07/08 budget, which set off our current financial crisis. If the union truly had the best interest of the citizens in mind, they would have reduced pay and benefits to allow the two fire stations to remain open.

One final note about discrepancies: The Rose Report discusses the elimination of 1.7% and 5.5% in salary increases and it appears this elimination is added to savings for the City. However, the Rose Report also appears to allocate these eliminated increases to fund future retiree health plans. This seems to lead the reader into assuming that the city will realize savings when it seems the City will pay out the same amount of money; to a retiree health fund instead of actual pay. The manner in which the report is written is quite confusing and we hope that the Rose firm and the Unions will clarify this ambiguity.

More Union Suggestions for cuts—potentially unfavorable—and not related to Union compensation.

The manner in which the Unions have been discussing the Rose Report and their offer to the City makes it appear that the total amount of savings offered and identified by the Unions consist of salary and benefit reductions. While they do offer some savings in wages and benefits, albeit unclear what that figure actually is, they also are suggesting savings to the City's bottom line with increased revenues as discussed earlier, and with cuts to other expenses as outlined below:

- Eliminating \$1.7 million from vehicle replacement: During the last budget analysis we were told our vehicle fleet was aging and in need of replacement. \$1.7 million was eliminated from the fiscal 07/08 vehicle replacement budget. The Rose report now suggests reducing it by another \$1.7 million in 08/09. At some time we simply won't have any vehicles to operate if we continue to stop funding for their replacement, which is not safe for anyone.

- Reducing interest expense by \$2.3 million: With the financial difficulties facing the city, the Rose Report does not appear to make sense when it assumes that our lenders will be charging us less to borrow money. The Rose Report states that the city used a 12% interest rate in their projections and they used 5%, but they did include a comment that the city is now projecting 9%. The financial report attached to the City Council agenda on May 6 clearly shows that the city used 9% in their interest rate assumptions, so in reality there are no savings to be realized. The Rose Report shows the city interest projections at \$3.8 million while the actual city projection was \$3.0 million.

- Reducing funding for self insurance by \$1 million: The City self insurance fund already has a deficit balance of \$2.3 million at 6/30/07. It seems very imprudent to suggest—as the Unions do—that this fund should be reduced by another \$1 million. Because if this fund does not have sufficient reserves to cover future claims—and prudent assumptions must dictate that future claims will be filed—the state could revoke the city’s self insurance status and require the City to have policies with a regular insurance company. If this happens, the city’s insurance costs would increase dramatically and put the City in an even worse financial position.
- Property tax revenue: The city used a revised projection of \$19.1 million in their May 6 analysis, while the Rose report uses \$19.8 million as the city projection. This is another \$700k difference that the City will not realize.

It seems the Rose report press release this week was more of a union publicity event than a real attempt to solve the city budget problems. The \$3.4 million surplus projected in the Rose report includes \$3.1 million in questionable new taxes and fees, \$4.0 million in salary reductions that in reality will be used to fund retiree medical benefits and are not true savings, \$2.3 million in questionable interest expense reductions, \$1.0 million reduction in self insurance funding, \$1.7 million reduction in vehicle replacement, restoring the 6.5% temporary salary reduction for police and fire that was implemented on 3/1/08 and the continued closure of two fire stations. Mayor Davis said Vallejo needs to change the way we operate and develop a long-term solution to our budget issues. The Rose report is more of the same — just another band aid justification to pay public safety employees more than the city can afford. And, our analysis shows it is highly unlikely that most of their projections of increased revenues and expense savings will even be realized.

At this late date, it is very dangerous for the City to back away from bankruptcy protection. The Rose Report is NOT a real solution, it is full of flaws. It will be pandemonium if the City Council majority votes to back away from bankruptcy protection. All of the City's creditors will file lawsuits, and you can bet the unions will too - do you think bond traders on Wall Street care more about Vallejo's fiscal stability or getting their collateral?

The City is headed towards bankruptcy. We need the protection of filing chapter 9. The unions do not want bankruptcy since there is a very real possibility that the judge will not honor their contracts, since they are so handsomely compensated and their compensation takes up most of the City's general fund budget.

It seems that bankruptcy is our only option.

See the Rose Report [HERE](#)