

# The Gadfather--Unions' flawed Proposals come to light in Bankruptcy Declarations-- 7/6/08

Unions' flawed Proposals come to light in Bankruptcy Declarations

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(With Glitter Sprinkles from Katy Miessner--Aging Disco Queen)

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## SUNSHINE ON THE CLOSED SESSIONS!

Now that the city has filed for protection under the bankruptcy act the actual proposals made by the unions have been filed as a public record. Much of the information was previously disclosed in our analysis of the Rose Report and now the objections filed by the Unions against bankruptcy exposes the flawed reasoning behind their proposals. And the Union proposal is more of the same that has been offered year-after-year-after-year. They are easing up on the city only enough to balance the budget for one year.

As we suspected, the Unions' proposal was not sufficient to avoid bankruptcy. The Unions again are attempting to use their proposal to extend their contracts and bloated pay. The unions' proposal offers only the smallest concessions; just enough to balance the budget for the 2008/2009 fiscal year. But in return, they demand their contract--currently set to expire in June, 2010--be extended until June, 2014.

And there were essentially no real cuts to current Public Safety employees; only cuts to new employees hired on or after July 1, 2008, creating a two-tiered system. But compensation for new Public Safety employees would still be substantial.

And on top of all this, in actuality, the unions' proposal is flawed from the get-go because it proposes tax increases. These tax increases require two very difficult hurdles to overcome in order to be implemented: They require a unanimous vote by the City Council (or a sufficient number of voter signatures in a ballot initiative) in order to get on the ballot—very doubtful in getting—and they require a 2/3 majority by the voters in order to ultimately be approved and implemented. They also suggest adding landscape maintenance districts, which would require a majority vote of property owners, also doubtful in obtaining. Voter history in California illustrates just how rare it is to pass landscape maintenance fees on existing neighborhoods. And, any new landscape maintenance district revenues could not be spent on union compensation; it would be required by law to be spent on the landscapes that are supposed to be maintained.

#### CONTRACT EXTENSIONS — A DANGEROUS TRAP

The unions want their contract extended for an additional four years, but they offer no real projections on how the budget would be balanced in these outlying years. It's the same old, same old: they want the City to agree to contracts we can't afford. This time, the City is at the end of its rope and no offer is a real solution without a long range program to balance revenue with expense at a level that is in-line with reasonable income expectations and this is the pattern that has led us to bankruptcy. We have contracts incredibly lopsided on the side of the Unions and against the City and taxpayers. Extending contracts to 2014 makes no sense and leaves the city—yet again—in the clutches of the union leaders for the foreseeable future.

And the real danger—if the City agreed to an extension—is the four year extension they want would give them leverage in any city spending until 6/30/2014, or 6 years from now, and it could give them priority claims in any future bankruptcy action until 2014. The Unions could have even more control over our City budget than they do now. Instead what the city needs is a long term plan to match revenue with expense.

#### "SAFETY VALVE" OR PRESSURE COOKER?

According to Fire Union President Kurt Henke, if the City had accepted his union's offer but then found themselves again in the situation where they could not afford to pay firefighter compensation, the City has at their discretion a "safety valve": binding arbitration.

We all know what binding arbitration got us into last year. The City, faced with bankruptcy and a deficit of millions, did the

absolute only thing they could do to avoid filing for bankruptcy: they chose binding arbitration, to see if they could reduce the amount of fire personnel. After spending many dollars in fees to arbitrate staffing levels, the City lost. What happened? Binding arbitration was NOT a safety valve: the lid exploded on the City's budget and the City was forced to file for bankruptcy. And after all of that time and expense—adding insult to injury—the Fire Union eventually did agree to reduce their staffing.

Henke stated that raises in future years would be contingent on Vallejo's achieving a reserve and Vallejo's ability to have quality of life expenditures in the general fund budget. But how does he suggest that the contingency be achieved? Henke offers up his "safety valve": binding arbitration. Enough said&hellip;

#### SUMMARY OF UNION PROPOSALS:

##### Police and Fire Unions:

- Extend the existing contracts expiring 6/20/10 to 6/30/14.
- If the city was still imperiled financially or developed unanticipated surpluses the salary increases would be subject to mediation/arbitration. (Note: this is the current situation and again, the situation that got us into the place we're in now).
- The 6.5% reduction in their 07/08 pay raise effective 3/1/08 would remain until 3/1/09, and continued to 7/1/09 if the city was facing difficulty at 3/1/09. But—big caveat here folks—if the fire unions did not believe the city was "facing difficulty"; the City would be forced to arbitrate this!
- The 1.7% raise due to the Safety Unions on July 1, 2008 would not be implemented. But this 1.7% raise would instead be applied to pre-fund future retiree medical benefits on July 1, 2010.
- The estimated 5.5% raise that will be due to them on July 1, 2008 and another 5.5% due to them on July 1, 2009 will be instead be applied to retiree medical benefits

These give backs in the form of the 1.7% increase due now but deferred until 7/1/10 when it would be applied to pre-fund future retiree medical benefits and the 5.5% estimated increases due 7/1/08 and 7/1/09 would also be applied to current retiree medical benefits are not real savings. While these amounts do reduce salaries, they don't reduce the city overall expense as the money must be spent on retiree medical benefits.

And, if the City was to approve it, this clause has the consequence of giving the Unions even more control over our tax dollars, by locking in these benefits when the city may need to eliminate them entirely or scale them back severely.

- Keep union business leave to 400 hours per year. Remember, the union business leave abuse report was suppressed by the Council majority when they voted on the four month "band-aid" plan. So, will the unions—with city approval—drink alcohol, dive for abalone on the coast, sleep after drinking too much alcohol, stretch local meetings into paid 24 hours of time-off, swim in a dunk tank for "charity", mingle into the wee hours of the night, mislead City Officials on what Union Leave is to be used for, attend to other cities' union business, attend conferences in Palm Springs, play political games with the City and fight with the City, all on the Vallejo Taxpayer dime and now with City Council sanction?
- Although this is currently how it is, the firefighters would "agree" to a 3-person staffing per engine for any newly opened fire station beyond the 6 currently open, as if this is some kind of concession.

- The city could continue to staff 6 fire stations for the next two years. (How nice of the unions to allow the city this). And where would the money come from to reopen the two closed stations?
- Fairfield and Vacaville will be substituted for Daly City and Palo Alto in the comparable city analysis. (Both Fairfield and Vacaville have higher pay rates than Daly City and Palo Alto). Will this in effect increase Vallejo's pay rates since these new cities are paid more than the ones they are replacing?
- Annual increases would be capped at 5%, but they would be guaranteed an increase of no less than 3%.
- New employees hired on or after July, 2008 would have their retiree medical insurance paid for in full after they have worked in Vallejo for 15 years. Once they reach ten years of employment, 50% of their retiree medical benefits would be paid for by the City.
- New employees hired on or after July 1, 2010 would have their medical plan capped at the rate of the Kaiser North plan.

To reduce overtime the firefighters would reduce the leave slots by one comp time and one holiday slot for the next two fiscal years or until the city opens another fire station.

#### IBEW union:

- Accept a 3% cut in pay for fiscal year 7/1/08 to 6/30/09 and take a cut as a work furlough (unpaid time off) that could be banked by employees, meaning they would not have to take the 3% this year, but could hold off and take it in a future year. Its unclear then how this could possibly help the city now.
- Give up raises due on 7/1/08 and 7/1/09 and apply that amount to pay for existing employee medical benefits.
- Match the police and fire union's cap and floor for salary increases for the period 7/1/10 to 7/1/14. The IBEW has never received more than a 5% pay raise over the past seven years, but it has been less than 3% in some years, so this proposal is actually detrimental to the City since it now guarantees their raises be at least 3% whether or not the City can pay for it.

#### REVENUE INCREASES REQUIRED

The union proposal that they say would balance the budget requires increases to revenues, much of it from taxpayers. The unions have suggested that \$3.5 to \$3.8 million could be generated in fiscal 7/1/08 to 6/30/09 with only city council approval and another \$7.5 to \$13.7 million could be generated with voter approval:

#### Revenue voted on by the City Council.

- The unions suggest that the landscape maintenance districts be expanded and this would generate \$1.4 million. They say that this only requires a council vote but in reality these increases and creation of new landscape maintenance districts must be approved by property owners in each district. It is unlikely increased assessments would pass without districts receiving additional services, and in any new districts, they are unlikely to pass because of so many absentee landlords, some who barely maintain their own properties.
- Add an Emergency Medical Service (EMS) fee to utility bills to generate \$1.8 million. This has been done in other cities, but would be very unpopular in Vallejo where residents already feel that the EMS services provide by the fire department are too expensive.
- Add other business taxes, roadway impact fees, corporate sponsorships and cell tower fees to generate \$471,700. These fees may be possible but would not by themselves generate sufficient money to balance the budget.

#### Voter Approved Revenue Enhancements

We view these as very unlikely to pass with current voter unhappiness over gold plated public safety union salary and benefit programs. These also require a unanimous vote by the City Council to get on the ballot, and we see that as highly

unlikely as well.

- Increase sales tax - \$4.2 million
- Add a 911 Emergency Communications Access fee to telephone bills - \$3.5 million.
- Extend the utility user tax - \$2.0 million
- Add ticket surcharges to entertainment venues \$850,000
- Increase the Transient Occupancy Tax (Hotel tax) \$73,000

The unions also suggest other ways to generate funds, including selling off assets that might not even be legal. Also, if the City is to sell off our assets—which then would be lost forever—the better use for any proceeds would be for capital expenses to improve our City’s infrastructure. Using one-time proceeds from the sale of assets to pay for ongoing services would be foolish for the City. What happens when those assets are gone? We will still have the ongoing bloated Public Safety Union compensation to pay.

- They claim that sales of surplus City property would generate proceeds of \$2.3 to \$3.0 million. Highly unlikely given the current plummeting real estate market. This also would be the worst time for the City to sell any property. If we were to sell, the City should wait until the market recovers.
- They want us to sell 1100 acres of “Lake Properties” bordering Solano and Napa counties, further degrading open space between our cities and fostering sprawl.
- Sell the city owned golf courses
- Sell off waterfront property and parking lots — waterfront property is in a redevelopment area and most likely this would not be legal. The City needs to develop this property so that tax increments are generated to pay off bond commitments.

The two suggestions below illustrate just how dubious the Union proposal is. When you are attempting to balance a budget that has a deficit of \$16 million and climbing, cobbling together pots of money that are only available once and that are such a small percentage of our deficit shows just how questionable their entire proposal is.

- Recovery of \$11,400 in unclaimed property held by the state. This is 0.07% of the budget deficit.
- Recovery state funds due to Vallejo estimated to be from \$164,000 to \$553,000. Even at the high end this is only 3% of the budget deficit.

The unions also identified other potential cost savings in the 7/1/08 to 6/30/09 fiscal year.

- They want us to leave all vacant positions unfilled and claim it will save \$5.1 million. The City needs to fill positions, especially in the Planning and Economic Development Department if we are to ever create a long-term recovery plan for our dire financial situation.
- They want the City to eliminate all vehicle replacements at a savings of \$2.55 million. This actually puts the union employees in danger because they would be forced to drive aging vehicles so it is very odd that they would suggest this.
- They want the City to transfer \$1.0 million from the self insurance reserve, but this fund already has a deficit balance of \$2.3 million at 6/30/07. The City needs this to pay claims and is able to avoid the high cost of private insurance because they self-fund.
- They want us to pre-fund CALPERS pension payments to save \$191,000 in interest, but don’t suggest where we are to get the money for this pre-funding.
- They want us to reduce the budget for vacation and sick leave payment to departing employees by \$191,000, which would be ridiculous given how many employees are leaving, especially Public Safety which we have seen from prior retirements have a lot of vacation and sick leave saved up that the City has to pay.
- They want us to budget interest costs at 6% instead of 9% and they say it will save \$812,246. The City has already done this in their Pendency Plan, so this is a moot point.

Speaking of the City's Pendency Plan, stay tuned for our next article on that subject.