

# HARVEY M. ROSE ASSOCIATES, LLC

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public sector management consulting



May 9, 2008

**To:** Mr. Alan Davis  
Legal Counsel for Vallejo Employee Organizations

**From:** Harvey M. Rose Associates, LLC *HMR*

**Subject:** Updated Summary of Findings Pertaining to Our Review of the City of Vallejo Projected FY 2008-09 Budget

We have analyzed the City of Vallejo's projected FY 2008-09 budget deficit of \$16.6 million, based on the City continuing its current level of services in FY 2008-09. Given the City's conclusion that it has no option other than bankruptcy, we evaluated the City's budget and financial resources to determine the minimal FY 2008-09 budget requirements that would allow the City to continue to operate in FY 2008-09 and restructure its financial policies and procedures. The analysis we performed was an objective assessment of the City's budget and financial records, and the findings and recommendations we have made would be the same whether our firm was engaged by the City, the employee unions, or by an independent third party. The results of our analysis are described below.

It is our conclusion that the City has the financial resources and budget options available to continue operations in FY 2008-09, if the City chooses to:

- (1) accept the proposed reductions in compensation offered by the employee organizations,
- (2) reduce City services by not funding vacant positions, reducing fire station operations to six stations, and not purchasing equipment, making capital expenditures or other discretionary expenditures, and
- (3) implementing new and/or increased revenues that are at the discretion of the City Council.

The specific changes to the City's current service level FY 2008-09 budget that we identified include:

• Deletion of funding for vacant positions	\$5,133,990
• Recognize 6 months new and increased revenues	3,118,145
• Reduce estimated debt service interest to 4% to 6% vs. 12%	2,307,085
• Reduce funding for purchase of new vehicles	1,712,025
• Reduce contributions to the Insurance ISF	1,000,000
• Use existing RDA surpluses to fund annual housing set-aside	800,000
• Reduce estimated compensated absence payoffs	336,000
• Submit claims to the State for SB90 reimbursements	164,000
• Prepay the annual employer contribution to CalPERS	191,000
• Recover City of Vallejo unclaimed checks from the State	<u>11,400</u>
Subtotal	\$14,773,645

In addition, the City and the labor organizations have negotiated the temporary closure of two fire stations and elimination and/or deferral of previously agreed to employee salary increases as follows:

• Closure of two fire stations	\$1,812,743
• Employee FY 2008-09 salary reductions*	6,778,581
• Less additional employee final offer costs	<u>-682,393</u>
Subtotal	<u>7,908,930</u>
<b>Total</b>	<b><u>\$22,682,576</u></b>

\* Includes approximately \$875,000 of proposed salary deferrals and reductions for management and other employees.

**City's original projected deficit** 16,564,176

**Projected FY 2008-09 Reserve** \$6,118,400

Since the City made its \$16.6 million estimate of the FY 2008-09 budget deficit, it has reported further reductions of approximately \$759,000 in projected FY 2008-09 revenues that would reduce the projected reserve balance shown above. In addition, the City has reported that some of the salary savings on vacant positions would be offset by a loss of inter-fund reimbursements, but has not yet provided the detailed information to adjust the projected savings. Further, the City believes interest costs on outstanding debt will increase to 9 percent, compensated absence savings will not be realized, and that Fire Department salary and benefit costs may be greater than we have projected.

**PROJECTED FY 2008-09 REVENUES AND EXPENDITURES**  
(Revised May 9, 2008)

	FY 08-09 City Projection	FY 08-09 HMR Projection	Difference
<b>Existing Revenues:</b>			
Property Tax	\$ 19,804,587	\$ 19,804,587	\$ -
General Sales Tax	\$ 12,125,000	\$ 12,125,000	\$ -
Other Revenues	\$ 35,633,860	\$ 35,633,860	\$ -
Program Revenues, including PS Sales Tax	\$ 12,130,294	\$ 12,130,294	\$ -
State budget risk	\$ (1,000,000)	\$ (1,000,000)	\$ -
Receipts from Other Funds	\$ 10,259,113	\$ 10,259,113	\$ -
<b>New revenues:</b>			
One-Time Monies Due from State	\$ -	\$ 11,400	\$ 11,400
Other Pending New Revenues	\$ -	\$ 3,118,145	\$ 3,118,145
SB 90 State Reimbursements	\$ -	\$ 164,000	\$ 164,000
Use Existing RDA surplus to reimburse General Fund****	\$ -	\$ 800,000	\$ 800,000
<b>Total Revenues</b>	<b>\$ 88,952,854</b>	<b>\$ 93,046,399</b>	<b>\$ 4,093,545</b>
<b>Expenditures:</b>			
<b>Salaries and Active Personnel Benefits:</b>			
VPOA	\$ (30,481,955)	\$ (29,781,391)	\$ 700,564
IAFF*	\$ (25,795,461)	\$ (21,003,353)	\$ 4,792,108
IBEW	\$ (13,655,335)	\$ (12,674,321)	\$ 981,014
CAMP/Other	\$ (8,996,689)	\$ (8,523,642)	\$ 473,047
<b>Less:</b>			
Compensated Absences	\$ -	\$ 336,000	\$ 336,000
Prepay CalPERS Employer Contribution	\$ -	\$ 191,000	\$ 191,000
VPOA Deferred 08-09 Salary Increases (1.7% & 5.5%)	\$ -	\$ 1,771,371	\$ 1,771,371
VPOA 08-09 6.5% Salary Decrease (7/1/08- 2/28/09)	\$ -	\$ 1,205,827	\$ 1,205,827
IAFF Deferred 08-09 Salary Increases (1.7% & 5.5%)	\$ -	\$ 1,252,400	\$ 1,252,400
IAFF 08-09 6.5% Salary Decrease (7/1/08- 2/28/09)	\$ -	\$ 852,547	\$ 852,547
IBEW Deferred 08-09 Salary Increase (5.0%)	\$ -	\$ 547,492	\$ 547,492
IBEW 2.5% Salary Decrease (7/1/08-6/30/09)	\$ -	\$ 273,746	\$ 273,746
CAMP/Other Deferred 08-09 Salary Increase (5.0%)	\$ -	\$ 378,873	\$ 378,873
CAMP/Other 6.5% Salary Decrease (7/1/08-6/30/09)	\$ -	\$ 496,324	\$ 496,324
<b>Add:</b>			
Salary/Benefits Asst. Fire Chief-Training	\$ -	\$ (291,700)	\$ (291,700)
G.C. Section 21548 Death Benefit-VPOA, IAFF, IBEW	\$ -	\$ (93,157)	\$ (93,157)
Incr Emplr Mo. Retiree Hlth Ins 10% Annually	\$ -	\$ (68,364)	\$ (68,364)
Longevity Pay	\$ -	\$ (229,172)	\$ (229,172)
<b>Active Personnel Salaries and Benefits Total</b>	<b>\$ (78,929,440)</b>	<b>\$ (65,359,520)</b>	<b>\$ 13,569,920</b>
<b>Services, Supplies, Retiree Compensation and Benefits:</b>			
Vehicle Maintenance, Operation, & Replacement	\$ (4,729,896)	\$ (3,017,871)	\$ 1,712,025
Retiree Health	\$ (3,000,000)	\$ (3,000,000)	\$ -
Compensated Absences	\$ (3,450,000)	\$ (3,450,000)	\$ -
Contributions to other agencies	\$ (1,600,000)	\$ (1,600,000)	\$ -
Other	\$ (9,962,552)	\$ (9,962,552)	\$ -
<b>Service and Supply Total Costs:</b>	<b>\$ (22,742,448)</b>	<b>\$ (21,030,423)</b>	<b>\$ 1,712,025</b>
<b>Interfund Transfers Out:</b>			
General Fund Debt Service	\$ (2,545,142)	\$ (1,018,057)	\$ 1,527,085
Marina Fund Debt Service	\$ (1,300,000)	\$ (520,000)	\$ 780,000
Insurance ISF Charges	\$ -	\$ 1,000,000	\$ 1,000,000
<b>Transfers Out:</b>	<b>\$ (3,845,142)</b>	<b>\$ (538,057)</b>	<b>\$ 3,307,085</b>
<b>Total Expenditures</b>	<b>\$ (16,564,176)</b>	<b>\$ 6,118,400</b>	<b>\$ 22,682,576</b>

\* IAFF projection based on 6-station operation, including total overtime of \$4,260,785 comprised of \$2,785,963 of relief shifts plus \$1,501,822 for work out of class, hold over, emergency call back, hazmat OT training, confined space training, and administrative leave.

\*\* City projected IBEW and Camp/Other FY 2008-09 salary increases projected at 3 percent. Based on a 5 percent cost of living increase, the City's projected deficit would increase from approximately \$16.6 million to \$16.9 million.

\*\*\*This additional annual revenue was not included in April 4 analysis, but was subsequently reported acceptable by City staff.