



**League of California Cities  
2015 Annual Conference  
Thursday, October 1, 2015 8:00am**

**Yes, Reducing Costs of Employee Benefits IS Possible!**

**Presented By: Vanessa Burke | Managing Principal | Public Management Group**

**UFI URBAN FUTURES | Incorporated**

# Speaker Bio – Vanessa Burke, CPA

After serving the City of Stockton since 2011, Vanessa Burke, CPA has joined the Urban Futures, Inc. (UFI) team as Managing Principal for the Public Management Group. Ms. Burke has built a reputation of sound leadership and decisive action in the face of difficult financial circumstances. The ability to facilitate organizational change and to access financial performance will serve UFI as the company moves into the future.

Ms. Burke moved from the Assistant Director of Administrative Services to the CFO of Stockton in October of 2012, a few months after the City of Stockton came to grips with their financial woes and filed for chapter 9 Bankruptcy Protection. Under her leadership, more than two dozen audits were managed and directed. She was also the front-line manager in the citywide strategic priority to “get its fiscal house in order.” As CFO, Ms. Burke performed integral functions in the Bankruptcy/AB 506 process and also refunded several bonds, saving the City \$13 million and upgrading its bond rating while in Bankruptcy.

Vanessa career of 24 years has spanned auditing governmental, nonprofit, healthcare, and technology clients while at PricewaterhouseCoopers, Moss Adams LLP and local firms. Vanessa has also been a Controller and CFO in private industry for technology and consulting companies whose primary customer base was government. Vanessa has had the unique experience to work on complex transactions in her career including a leveraged buyout, mergers & acquisitions, bankruptcy, municipal finance transactions, and equity transactions including stock based compensation.

Member of the AICPA, CalCPA, Co-Chair of the Planning Committee for the CalCPA Government Conference, GFOA, and CSMFO.

# Outline

- Tale of Two (or More) Cities
- Compensation and Fiscal Health
- Cities in Fiscal Distress – Key Statistics
- Purpose of Chapter 9
- Long Range Financial Planning

# A Tale of ~~Two~~ <sup>Three or More</sup> Cities

## Stockton

- Filed for BK June 28, 2012
- Precipitous declines in major revenue sources (ie. property tax, sales tax)
- Slow to react to revenue declines
- Unemployment rates exceeded national average
- Decline in median income
- Housing bubble burst
- Declines in median home prices
- Deficit general fund spending/negative cash
- Reserves are insufficient
- Long-term contractual commitments
- Growing Pension & OPEB Costs
- Legal Settlements
- Growing deferred maintenance
- Legislative changes (ie. RDA Dissolution)
- Weak internal controls
- Lacked financial information
- Antiquated financial system
- Organizational management/tone at top
- Interfund borrowings
- High crime rate and service solvency issues

## Vallejo

- Filed for BK May 23, 2008
- Closure of Mare Island Naval Shipyard in 1996
- Booming housing market helped paper over the loss of the city's economic engine
- Housing bubble burst
- City councils continued approving raises and benefits for workers
- OPEB benefit for life after one year of service
- Deficit general fund spending/negative cash
- By 2008, City faced a \$16 million deficit general fund balance
- Unable to reach an agreement after 11 mediation sessions with public employees
- Antiquated financial system
- Organizational management/tone at top
- Weak internal controls
- Growing deferred maintenance
- 6<sup>th</sup> most dangerous California City in 2014



### Service Solvency:

Ability to pay all costs of providing service at a level & quality required for community health, safety, and welfare



**Budget Solvency:** Balanced budget with sufficient revenues to pay for fiscal year's expenses



### Cash Solvency:

Ability to maintain cash sufficient to pay bill when they come due

# How Does Local Government Go Bankrupt?

- Majority of a local governments revenues is fixed
  - Consequences of Proposition 13
    - Severely restricted revenues
    - Took power away from local govt to levy taxes
    - Made local revenue more complicated
      - » AB 1600
      - » Special vs. general taxes (ie. sales tax)
      - » Allocation of property taxes by Legislature
      - » Generational issues – shifted burden of costs of government to young
      - » Reassessments are limited to turnover of property or new construction
  - Residential housing is often seen as a revenue drain for a city as can't cover cost to service those families
  - Competition between cities for retail sales tax dollars
  - Fees and charges are not to make a profit

# State Takings & RDA Elimination

- **State Budget Takings:**
  - Started in 1981-82 with VLF, which were subsequently restored in 1984-85 via constitutional amendment
  - Current takings included:
    - ERAF;
    - VLF;
    - Booking Fees;
    - Cigarette Tax Subventions;
    - SB 90 Reimbursements;
    - Bank In-Lieu Subventions;
    - Liquor License Subventions;
    - Highway Carriers Subventions;
    - State Gas Tax Subventions; and
    - Dissolution of Redevelopment.



Revenue streams developed for specific purposes like infrastructure and economic development are being allocated to fill the void of State takings and rising pension costs leaving our communities with limited resources to prepare ourselves for future opportunities



# Local Revenue Ballot Measures to Fill Budget Gaps

- November 2012
  - 109 non-school local revenue measures <sup>1</sup>
    - 7 general obligation bonds
    - 36 special taxes and parcel taxes
    - 35 measures to extend or increase transactions and use taxes
    - 24 to increase or extend parcel taxes
- November 2013
  - 34 non-school local revenue measures
    - 4 general obligation bonds
    - 10 special taxes requiring 2/3 voter approval
    - 12 proposals to extend or increase local sales tax
- June 2014
  - 34 non-school local revenue measures
    - 17 parcel tax proposals
    - 11 sales tax proposals
- November 2014
  - 147 non-school local revenue measures
    - 32 parcel tax proposals
    - 55 sales tax proposals

<sup>1</sup> Totals include miscellaneous measures not listed here.

# General Fund Budget



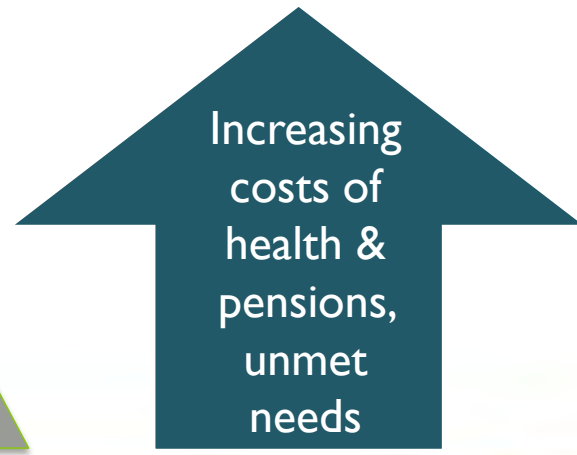
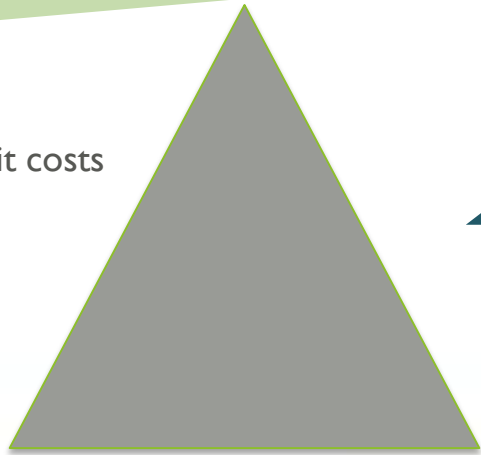
## Revenues:

- Property taxes
- Sales taxes
- Utility users taxes
- Franchise fees
- Grants – Federal & State & Local
- Fees, fines & charges
- Investment Income

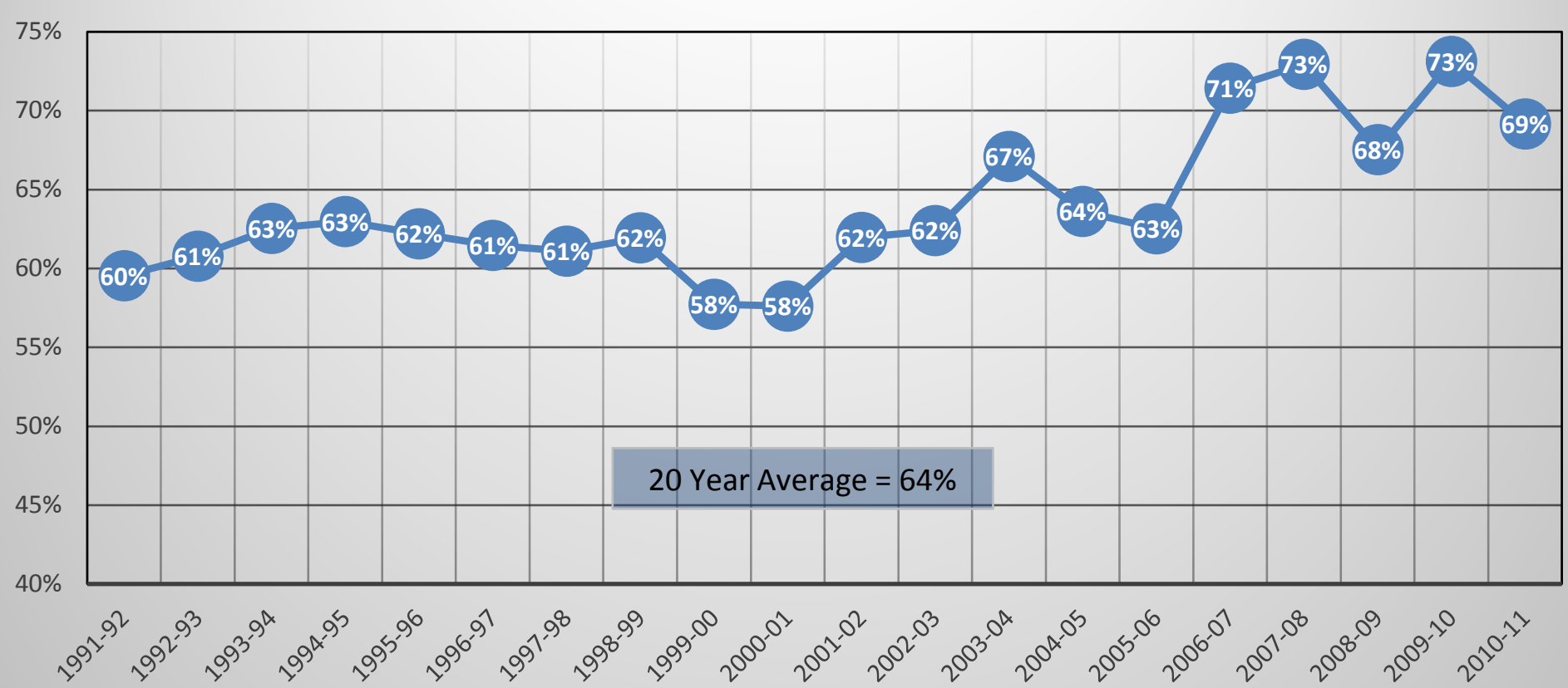


## Costs of Service:

- Active employee labor & benefit costs
- Retiree benefit costs
- Insurance/Self-insurance
- Capital Outlay
- Contract Services
- Materials & Supplies



# Police and Fire Total Expenditures as a Percentage of General Revenues - California Cities



Source: Computations by CaliforniaCityFinance.com from State Controller data.

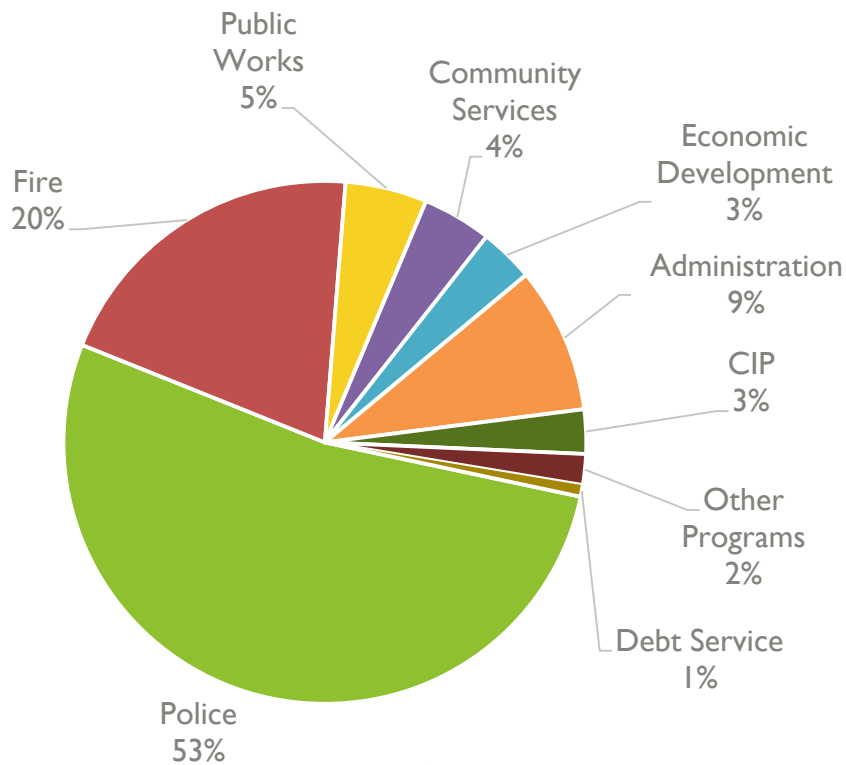
# Benefits Under Fire!

The information presented is posted as submitted by the reporting entity. The State Controller's Office is not

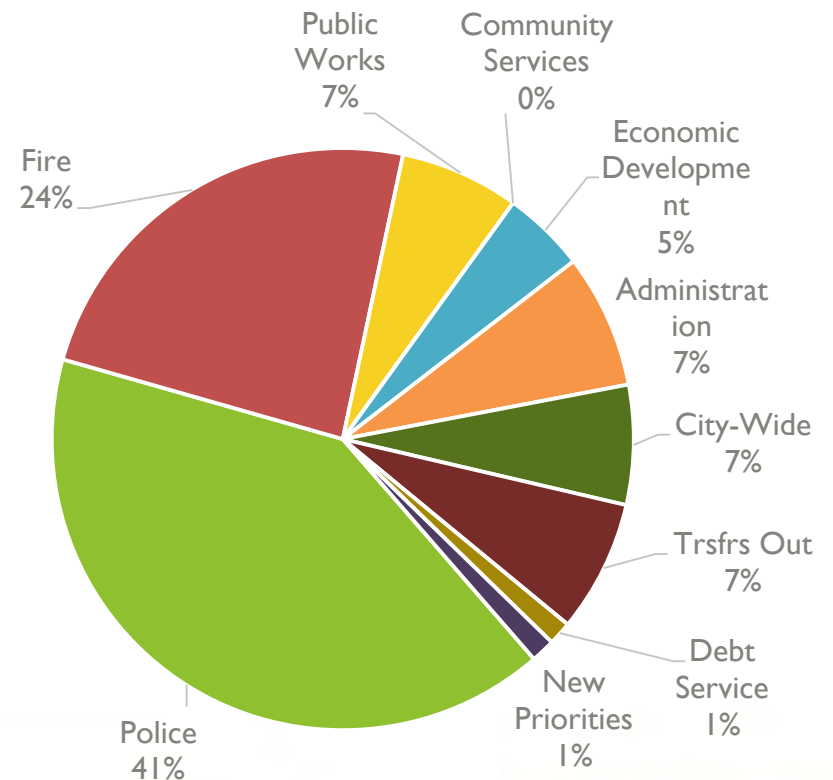
City	County	Residents	Employees	Average Wages	Avg. Ret. & Health Cost	Total Wages	Total Ret. & Health Cost	Average Ret & Health/Wages
Industry	Los Angeles	438	26	<b>\$67,741</b>	\$59,342	\$1,761,259	\$1,542,900	87.6%
Inglewood	Los Angeles	111,795	838	<b>\$56,480</b>	\$45,181	\$47,330,079	\$37,861,907	80.0%
San Jose	Santa Clara	1,000,536	7,402	<b>\$63,816</b>	\$40,964	\$472,366,281	\$303,218,828	64.2%
Yountville	Napa	3,017	71	<b>\$28,228</b>	\$17,132	\$2,004,176	\$1,216,381	60.7%
San Rafael	Marin	58,566	678	<b>\$52,848</b>	\$30,211	\$35,830,610	\$20,483,012	57.2%
Hermosa Beach	Los Angeles	19,750	218	<b>\$55,791</b>	\$31,705	\$12,162,487	\$6,911,637	56.8%
Willows	Glenn	6,154	86	<b>\$20,454</b>	\$11,447	\$1,759,055	\$984,411	56.0%
St. Helena	Napa	5,943	134	<b>\$33,046</b>	\$18,324	\$4,428,193	\$2,455,481	55.5%
Ojai	Ventura	7,594	102	<b>\$21,334</b>	\$11,618	\$2,176,102	\$1,185,005	54.5%
Patterson	Stanislaus	20,922	183	<b>\$30,387</b>	\$16,161	\$5,560,833	\$2,957,516	53.2%
482 Count							Average	34.5%

# General Fund Budgets

**Stockton General Fund  
FY 2015-16 Proposed Budget**



**Vallejo General Fund  
FY 2015-16 Adopted Budget**



# Total Compensation Package

**Workforce Costs 75%-85% of the Budget**

**Formula is: Total Workforce Costs = # of Employees X Avg Cost/EE**

## Cash

- Base salary
- Overtime
- Special Pay – StandBy, Court, Motorcycle
- Longevity
- Uniform Allowance
- Shift Differentials
- Leave Payouts
- POST Pay
- Educational Incentives
- EPMC
- Step

## Benefits

- Active Health Benefits (Medical, RX, Dental, Vision, Chiro)
- Retiree Health
- Plan Designs
- Defined Pension Benefit (Plan Design, Vesting, Tiers)
- Other Retirement Sponsored Plans
- Paid Leave Benefits (vacation caps, sick leave)
- Disability Programs
- Life Insurance
- Workers' Compensation


# CITIES IN FISCAL CRISIS! SELECTED KEY STATISTICS







# USA Today Article May 2013

- 
- Atwater
  - Azusa
  - Compton
  - Fresno
  - Hercules
  - Mammoth Lakes
  - Monrovia
  - Oakland
  - San Jose
  - Vernon

# Cities in Fiscal Crisis!

## Selected Key Statistics

DESCRIPTION	Cities Filed for Bankruptcy			
	California			Michigan
	Stockton	San Bernardino	Vallejo	Detroit
Fiscal Year	2012	2012	2007	2013
<b>FUND FINANCIAL STATEMENTS</b>				
<b>General Fund</b>				
Cash and Cash Equivalents	\$ 10,678,348	\$ -	\$ -	\$ 3,745,156
Fund Balance Unassigned (Deficit)	\$ -	\$ (12,304,390)	\$ 797,195	\$ (132,560,895)
Ratio of Public Safety Expenditures to Total Expenditures	75.5%	70.7%	74.4%	57.2%
Reserves as % of Total Expenditures	\$ -	\$ -	1%	\$ -

Source: Audited CAFRs

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DESCRIPTION	Cities Filed for Bankruptcy			
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Fiscal Year	2012	2012	2007	2013
<b>GOVERNMENT WIDE FINANCIAL STATEMENTS</b>				
Long-Term Liabilities	\$ 857,977,282	\$ 201,541,344	\$ 236,853,544	\$ 9,535,458,032
<b>Debt per Capita</b>	<b>\$ 2,901.44</b>	<b>\$ 960.07</b>	<b>\$ 1,955.90</b>	<b>\$ 13,359.16</b>
Unrestricted Net Assets (Deficit)	\$ (69,581,392)	\$ (86,104,115)	\$ 13,047,564	\$ (2,355,364,693)
Net Cost of Government Services to Taxes	\$ (6,961,410)	\$ (42,844,434)	\$ (21,251,821)	\$ (10,778,844)
Ratio of Net Expenditures to Taxes	104%	138%	127%	101%

Source: Audited CAFRs

# Cities in Fiscal Crisis!

## Selected Key Statistics

DESCRIPTION	Cities Filed for Bankruptcy			
	California			Michigan
	Stockton	San Bernardino	Vallejo	Detroit
<b>Fiscal Year</b>	2012	2012	2007	2013
<b>PENSION AND OPEB COST AND OBLIGATIONS</b>				
<b>Pension Plans</b>				
Annual Pension Cost	\$ 29,168,995	\$ 19,364,501	\$ 12,332,457	\$ 92,275,956
Unfunded Actuarial Accrued Liability	\$ 176,942,000	\$ 178,712,000	\$ 88,684,849	\$ 230,900,000
Percentage Funded	87.2%	83.5%	81.0%	86.8%
<b>OPEB Plans</b>				
Annual OPEB Cost	\$ 31,974,000	\$ 9,334,857	\$ 10,849,489	\$ 371,079,731
Unfunded Actuarial Accrued Liability	\$ 416,738,000	\$ 78,244,208	\$ 145,818,127	\$ 5,727,200,000
Percentage Funded	0.0%	0.0%	0.0%	0.0%
<b>Annual Total Pension and OPEB Cost</b>	<b>\$ 61,142,995</b>	<b>\$ 28,699,358</b>	<b>\$ 23,181,946</b>	<b>\$ 463,355,687</b>
<b>Pension and OPEB Unfunded Actuarial Accrued Liability</b>	<b>\$ 593,680,000</b>	<b>\$ 256,956,208</b>	<b>\$ 234,502,976</b>	<b>\$ 5,958,100,000</b>
<b>Per Capita</b>	<b>\$ 2,007.66</b>	<b>\$ 1,224.04</b>	<b>\$ 1,936.49</b>	<b>\$ 8,347.28</b>

Source: Audited CAFRs

# Design and Purpose of chapter 9

- A. Designed to Enable a Municipality that is Unable to Pay its Debts as They Come Due to Continue to Provide Essential Services to Residents While Working Out a Plan to Adjust its Debts
- B. Allows Debt Adjustment in Order to Foster the Continuance of Insolvent Municipalities Rather Than Their Dissolution
- C. Also Designed to Balance the Powers Provided Under Federal Bankruptcy Law to Restructure a Municipality's Debt Against the Mandate of the Tenth Amendment to the U.S. Constitution Guaranteeing State Sovereignty
- D. Intended to be Used Only as a **Last Resort** – Eligibility Requirements and in CA. AB 506
- E. The Goal of Chapter 9 is Confirmation of a Plan of Debt Adjustment

# Significant Opinions from chapter 9 Cases

## Judge Rhodes (Detroit - December 2014)

In the Court's eligibility opinion, it held that because of the Bankruptcy Clause of the U.S. Constitution, the federal bankruptcy power could be used to impair pension rights in this case, even if the Michigan constitution protects them. *In re City of Detroit, Mich.*, 504 B.R. 97, 150-54 (Bankr. E.D. Mich. 2013). The Court stands by that decision.

## Judge Klein (Stockton - February 2015)

Although pensions may, as a matter of law, be modified by way of a chapter 9 plan of adjustment and although a CalPERS pension serving contract may be rejected without fear of an enforceable termination lien, the City's choice to achieve savings in total compensation by negotiating salary and benefit adjustments rather than pension modification is appropriate.

Total compensation, of which pensions are a component, has been reduced. Indeed, the City's employees and retirees have surrendered more value in this chapter 9 case than the capital markets creditors. The plan is feasible and is in the best interests of creditors.



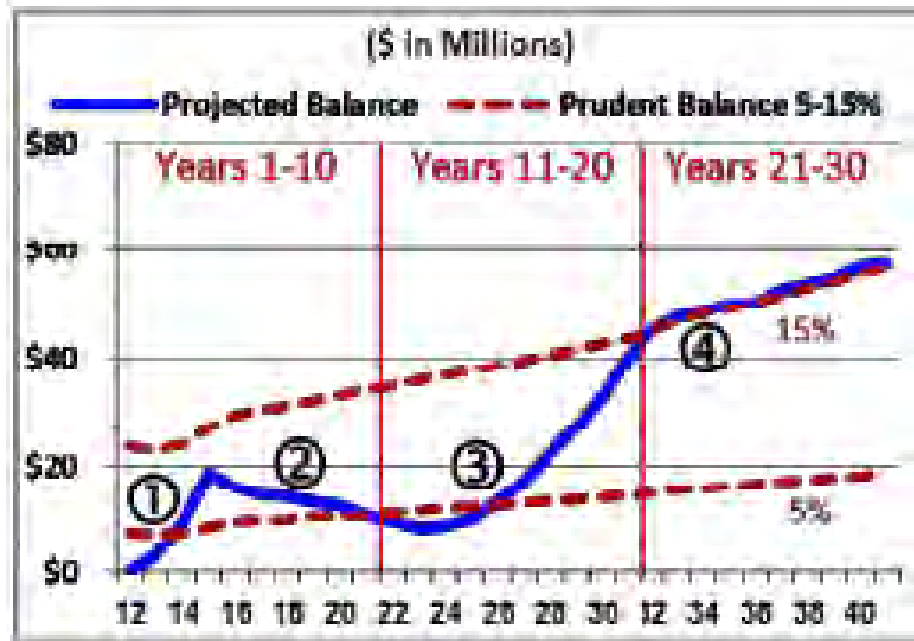
# Long-Range Financial Planning

*Table 1A. Long-Range Financial Plan With Restructuring Savings (FY11-12 to FY 20-21)*

(\$ in 000)	<u>11-12</u>	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Total Baseline Revenues	160,268	160,655	159,519	161,354	165,590	170,453	175,456	180,591	185,922	191,109
Total Baseline Expenditures	159,254	173,819	184,702	190,450	202,611	210,492	214,599	220,371	226,519	231,835
Net Annual After Baseline	1,013	(13,163)	(25,184)	(29,097)	(37,021)	(40,038)	(39,142)	(39,780)	(40,597)	(40,725)
Fiscal Stabilization Expenditures	-	-	-	18,995	24,526	22,691	23,032	24,215	25,409	26,719
Net Annual After Stabilization	1,013	(13,163)	(25,184)	(48,092)	(61,547)	(62,729)	(62,175)	(63,995)	(66,006)	(67,444)
Total Restructuring	653	20,362	31,987	57,120	58,823	61,535	61,843	62,936	65,251	65,713
Net Annual After Restructuring	1,666	7,199	6,804	9,028	(2,724)	(1,194)	(331)	(1,059)	(755)	(1,731)
Beginning Available Balance	6,639	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769
Transfer to Bankruptcy Fund	(5,592)	(6,913)	-	-	-	-	-	-	-	-
AB 506 Carryover	(2,713)	2,713	-	-	-	-	-	-	-	-
Ending General Fund Balance	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769	11,038
Balance as % of Total Exp	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%

# Long-Range Financial Planning

Figure 1. General Fund Balance with Revenue Growth as Forecasted



1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
2. Balance declines with higher PERS rates and new Marshall Plan spending.
3. Balance stabilizes and then increases as (a) PERS rates level off and then decline due to impact of reforms and (b) with cumulative impact of lower debt expenditures.
4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs (projected at \$253 million through FY40-41), while maintaining a stable reserve.



# Summary

- Budgets Are Limited
- Know What You Have and Need
- Know How to Get Help
- Take Steps to Improve Your Financial Awareness
- Consider a Broad Array of Potential Solutions
- Systematic Method to Prioritize Programs and Services
- Build a Long Range Plan to Evaluate Options Against
- Hire The Best Help
  - ❑ Attorneys – Bankruptcy, Bond, Labor
  - ❑ Auditors
  - ❑ Consultants – Financial, Real Estate, Insurance & Benefits
  - ❑ Actuaries
  - ❑ Others – Valuation Experts
  - ❑ Management Team and Staff
- Hard Decisions Require Political Courage
- We Likely Cannot Solve these Issues One City at a Time

*“The viable community--one that embraces healthy children, strong families, good schools, decent housing, and work that dignifies, all in the cohesive, inclusive society that cares about all of its people--is a dream that lies before us”....*

Frances Hesselbein, Chairman  
Peter F. Drucker Foundation for  
Nonprofit Management

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