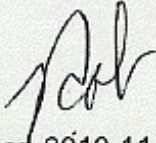


**CITY OF VALLEJO
OFFICE OF THE FINANCE DIRECTOR**

MEMORANDUM

June 9, 2010

TO: Paul Norberg

FROM: Robert V. Stout 

SUBJECT: Your Questions on 2010-11 Proposed Budget

CC: City Council
Robert F.D. Adams, City Manager
Craig Whittom, Assistant City Manager

Thank you for your interest and careful review of the Proposed 2010-11 City Budget. Responses to your questions follow below.

>>> "Pat and Paul Norberg" 6/6/2010 5:11 PM >>>

I spent some more time looking at the new budget and tried to see how the changes impact it. My summaries are attached and include a reconciliation of the current position with the no new tax budget and the 1% sales tax budget. Here are my questions and observations.

RETIREE HEALTH BENEFITS

Question:

If the existing benefits are fully funded and amortized over 30 years the cost goes up \$3.2 million. In the budgets for FY 10/11 it looks like you assume that IBEW will agree to \$300 a month to save \$1 million and other departments primarily police will also agree to \$300 a month to save another \$2.1 million. Is this correct? If those savings are not realized then it looks like you will stay on the pay as you go plan with no way to handle the unfunded balance of over \$100 million.

City Response:

Yes, the proposed budget assumes that the city will continue to move toward an across-the-board retiree health benefit of \$300/month for retirees from all bargaining groups. The IBEW benefit is under consideration in the current arbitration proceeding. The General Fund balance sheet risk from this combined VPOA, CAMP, and IBEW assumption is \$55 million, and the annual budget risk, to amortize the liability over 30 years, is currently \$3.2 million. This amount will grow annually if not funded or renegotiated.

Here is a table showing the City's progress in addressing its unfunded retiree health obligation:

\$135,000,000	City-wide obligation, at June 30, 2008, prior to contract negotiations or pendency plan reductions
\$128,000,000	City-wide obligation, at June 30, 2009, reflecting reduction for VPOA and CAMP contract concessions offset by loss from lack of 2008-09 funding
\$104,000,000	General Fund share of City-wide obligation, at June 30, 2009, at imposed pendency plan benefit levels
<u>(\$22,000,000)</u>	Reductions implemented for City Council, Executive, and IAFF
\$82,000,000	Balance, with current contract obligations
<u>(\$55,000,000)</u>	If VPOA, CAMP, and IBEW agree to \$300/month (pending IBEW arbitration and VPOA/CAMP negotiation at contract renewal)
\$27,000,000	Balance, with proposed contract reductions

PENSION BENEFITS

Question:

To fully amortize the unfunded liability over 30 years, the additional expense will be \$6.3 million. In the no new tax assumption there is still \$4.8 million additional funding, but with the 1% added sales tax the additional contribution is reduced to \$851,000. I still don't understand this logic. Why make the \$4.8 million additional pension contribution in the no new tax assumption while 17 police are being eliminated and one more fire station closed? I do understand that it is the city's goal to fully fund the pension plan. If the 1 % sales tax passes, it will generate \$10 million but only \$3.3 million will impact FY 10/11. That leaves an additional \$6.7 million for future years. \$4 million of this will be applied to additional pension funding which then leaves \$2.7 million for other programs.

City Response:

The City's pension obligations will grow and reach the proposed funding level within 2 to 3 years either with or without new taxes. The Proposed Budget has been structured to present a sustainable level of services without taxes, and to show the alternative services that could be maintained or added with new taxes. Council could, as a policy option, defer the supplemental pension contributions for a year or two, to meet a strategic purpose such as buying time until new taxes were implemented. However, the fire station and funding for 10 police officers would be short term only and could not be sustained as PERS contribution rates increase by 10% to 15% over the next three years. In that scenario, City Council would continue to face painful, annual service reductions, and ultimately pay even more for pensions with the added interest cost of deferral.

To further clarify the alternative pension funding levels, a supplemental pension contribution of \$6.3 million would amortize 100% of the unfunded liability (UAAL) over 30 years, similar to a bond payment. \$4 million would amortize 80% of the unfunded liability over 30 years, and assumes the remaining 20% might be absorbed through