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Concerns/Questions Presented to CM Nyhoff 9-19-16 Regarding General Fund Cost of Labor Contracts, Claim of \$6.5 Million in General Fund Savings, and Revenue/Expenditure Assumptions Embedded in New 10-Year Financial Forecast Models Recently E-Mailed to Council

Your office provided me and entire Oxnard City Council with the Pre and Post MOU Changes in the 10-Year Forecast Models (hereinafter referred to as the "New Model(s)") via e-mail **LESS** than five days before you scheduled Council consideration and adoption of the labor contracts with four of the seven labor groups last Tuesday, September 13, 2016.

Further, during Tuesday night's meeting, there was **NO** city staff presentation on the New Models, **NO** City Council review, questions, discussions regarding the New Models, and **NO** formal Council vote accepting your New Models. Nor was there any opportunity for the public to weigh-in on your New Models **PRIOR** to the Council's vote to approve the four labor contracts mentioned above.

Notwithstanding that, the majority of the City Council approved the labor contracts last Tuesday. And subsequently, you publically committed that you would present your New Models to the City Council at a future date so that the Council and the public could see how the estimate of \$6.5 Million in savings in pension costs you assured Council would be achieved by adopting these labor contracts during Tuesday nights' meeting was derived.

During my Council comments I expressed my belief that it was not fair to Oxnard residents, Oxnard City employees, nor Oxnard ratepayers and taxpayers for Council members to make such critically important financial decisions regarding labor contracts without adequate time to question and verify the assumptions and results in your New Models, upon which the labor contract cost estimates were based.

There are number of key questions and concerns that I have regarding the assumptions embedded in your New Models. My questions follow below. I request that you provide written answers to these questions to me and the City Council **no later than ten calendar days prior** to the date in which you plan on scheduling your presentation of your New Model(s) to the City Council:

1. **Cost of Bargaining Agreements.** Labor costs will rise compared to those in the adopted Fiscal Year 16-17 budget as a result of these employee agreements. ***Please provide the City Council and the public with a cost breakdown by each of the four employee bargaining units, by year, and by fund [i.e. General Fund and Enterprise Funds] over the lifetime of the agreements taking care that the current baseline used to compare increased labor agreement costs are the personnel costs contained in the FY 16-17 adopted budget, not speculative future costs embedded in Dave Millican's FY 15-16 Model report.***
2. **Assumptions in New 10-Year Forecast Model Are Far More Optimistic than Assumptions Presented During the FY 15-16 Budget Process:** Your New BEFORE MOU 10-Year Forecast Model recently presented to the City Council contains extremely more optimistic GF financial assumptions than those presented by Former Oxnard CFO Dave Millican during the May 4, 2015 Special City Council Meeting [See *Item F-1*]. For example, Mr. Millican's 10-Year Forecast Model analysis presented then called for years of multimillion-dollar budget cuts in the GF. ***Please provide the City Council and the public with a credible explanation as to how, in the short space of a single fiscal year, after years of financial uncertainty and fiscal chaos experienced by the city, the Oxnard's financial position has improved so markedly as to remove the need for multimillion-dollar budget cuts in the future which were embedded in Mr. Millican's ten year forecast model presented to Council last year?***

3. **Projected FY 15-16 Ending Cash Balance Figure Forensics:** Your New Model projects a \$17,588,481 ending cash balance for the General Fund as of 6-30-16, with \$6,084,016, or nearly a third of that total figure deriving from "Net Accrual to Cash Adjustments." ***Please provide City Council and the public with detailed sources of such significantly large net accrual cash adjustments to the General Fund during the fiscal year just ended. Have they been verified by the City's independent auditor?***
4. **Scope of General Fund Structural Revenue and Expense Figures Shown in New Models:** Beginning with the current fiscal year (FY 16-17), your New Models project annual growth in General Fund revenues and expenditures each year for the next nine fiscal years. It is unclear to me whether these General Fund revenue and expenditure figures include the Measure O, Golf Course and PACC Funds. After all, your FY 16-17 Recommended Budget document stated that these funds are now part of the General Fund. ***Are the Measure O, Golf Course and PACC Fund financial performance projections included in your New Model or not? If not, why not? Note that your Percentage of General Fund Reserves Compared to Expenditures Figures appear to reflect the "core" General Fund (101) only.***
5. **Annual Property Tax Growth Projection Appears High Relative to Sales and Transient Occupancy Tax Growth Rates:** In both the BEFORE and AFTER MOU Change versions of your New Model, you project average annual property tax revenue growth of 4.36% over the next nine years. Contrast this with the 2.09% average growth rate you project for Sales Tax revenues, and the 2% growth rate you project for Transient Occupancy Tax (TOT). ***What source documentation did you rely on in preparing your New Model that justified a projected annual average growth rate for property tax revenues over the next nine years that was between 2.25-2.36% HIGHER than the annual growth rate projected for Sales and TOT revenues? Was this source documentation independently verified? If so, by whom? Please provide verification citations.***
6. **Model Anticipates Economic Recession in FY 2018-19 – Yet New Model Revenue Projections Fail to Decrease:** Taxes, particularly sales taxes, are very sensitive to economic downturn. And since, property, sales tax and TOT revenues provide over 50% of the funding sources for the City's General Fund, any significant variation in such revenues will likely have major implications to the GF's financial solvency. Your new Models anticipate an anticipated recession beginning in FY 2018-19, at the earliest. ***Yet your New Models showed no dip in projected General Fund revenues beginning that fiscal year or continuing beyond. Why?***
7. **Projected Employee Vacancy Rates Contained in the New Models Appear Low Compared to Actual Recent City Experience:** Your New Models projects employee vacancy savings rates of 6% in FY 16-17, decreasing to 4% thereafter. Yet in FY 15-16, actual vacancy rates reported by Mr. Millican to the City Council reached 16% in the General Fund [113 of 704 positions vacant], and a staggering 21% in All Funds [263 of 1268 positions vacant]. These numbers are three and four times higher than the figures projected by City Management in last year's budget! ***What is the estimated average annual dollar cost/value for each 1% of employee vacancy savings experienced by the General Fund, and All Funds, over the life of the Model? Please provide the City Council with a list of current vacant positions, per fund and the dollar value of those positions so that the Council and the public fully understand the importance of this issue. Additionally, this Councilman requests that once prepared, that list of vacant positions per fund and their dollar value be updated and presented to the City Council quarterly.***
8. **New Models Project Ongoing General Fund Structural Deficits in Seven of the Eight Future Fiscal Years:** Both the BEFORE and AFTER MOU Change versions of the New Models project structural expenditures exceeding structural revenues for seven of the eight future fiscal years in the modelling period. ***What are main drivers of these projected structural deficits? How do you, as City Manager, plan on eliminating these ongoing future structural deficits to ensure that Oxnard complies with applicable State laws requiring the submittal of balanced future city budgets to the Oxnard City Council by the City Manager, and their adoption by the City Council?***

GENERAL FUND REVENUE & EXPENDITURE ASSUMPTIONS AND 10-YEAR FORECAST

10-YEAR FORECAST BEFORE MOU CHANGES

101 GENERAL FUND	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Total Revenue	121,096,882	122,087,846	125,872,185	127,989,431	130,656,170	134,975,025	139,610,086	143,738,182	147,586,177	151,452,484
Total Expenditures	119,415,213	122,482,797	125,189,532	129,097,019	132,856,821	136,742,058	140,752,673	144,842,775	149,076,396	153,750,920
Net Revenue (Expense)	1,681,669	(394,951)	682,653	(1,107,588)	(2,200,651)	(1,767,034)	(1,142,588)	(1,104,593)	(1,490,219)	(2,298,436)
Net Accrual to Cash Adjusts	6,084,016	-	-	-	-	-	-	-	-	-
Beginning Cash Balance	9,822,796	17,588,481	17,193,530	17,876,183	16,768,595	14,567,944	12,800,910	11,658,322	10,553,729	9,063,510
Ending Cash Balance	17,588,481	17,193,530	17,876,183	16,768,595	14,567,944	12,800,910	11,658,322	10,553,729	9,063,510	6,765,074
Balance as % of Total Expend	14.7%	14.0%	14.3%	13.0%	11.0%	9.4%	8.3%	7.3%	6.1%	4.4%

10-YEAR FORECAST AFTER MOU CHANGES

101 GENERAL FUND	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25
Total Revenue	121,096,882	122,087,846	125,865,659	127,983,233	130,656,829	134,984,738	139,629,380	143,767,602	147,626,306	151,503,922
Total Expenditures	119,415,213	123,135,372	125,150,229	128,405,114	131,952,055	135,793,678	139,759,357	143,801,348	147,985,596	152,477,978
Net Revenue (Expense)	1,681,669	(1,047,526)	715,430	(421,881)	(1,295,226)	(808,939)	(129,977)	(33,745)	(359,290)	(974,056)
Net Accrual to Cash Adjusts	6,084,016	-	-	-	-	-	-	-	-	-
Beginning Cash Balance	9,822,796	17,588,481	16,540,955	17,256,385	16,834,504	15,539,278	14,730,339	14,600,362	14,566,617	14,207,327
Ending Cash Balance	17,588,481	16,540,955	17,256,385	16,834,504	15,539,278	14,730,339	14,600,362	14,566,617	14,207,327	13,233,271
Balance as % of Total Expend	14.7%	13.4%	13.8%	13.1%	11.8%	10.8%	10.4%	10.1%	9.6%	8.7%

REVENUE & EXPENDITURE ASSUMPTIONS BEFORE MOU CHANGES

REVENUE ASSUMPTIONS

- Property Tax average growth of 4.36%
- Sales Tax Forecast based on HdL economic sector data and trended over several years; average growth of 2.09%
- Transient Occupancy Tax (TOT) average growth of 2%
- Recession not anticipated until FY 2018-19 at the earliest, based on accepted economic forecasts
- No new fees built into budgeted revenues

EXPENDITURE ASSUMPTIONS

- Adopted FY16-17 budget for non-personnel line items
- Vacancy Savings Rate budgeted at 6% in FY16-17 (with exception of Grant funds) and 4% thereafter
- No change in current FY16-17 budgeted General Fund staffing levels
- 2% annual wage increase (COLA) starting with FY17-18 (equal to assumed 2% CPI growth)
- Annual impact from merit increases for eligible employees to be aggregate of 2% of payroll

- Overtime level grows with wage and merit increases
- 2% Increase to City health contribution (equal to assumed 2% CPI growth)
- No other changes in benefit levels
- PERS pickup remains at 9% for Safety and 7% for Miscellaneous employees

REVENUE & EXPENDITURE ASSUMPTIONS AFTER MOU CHANGES

REVENUE ASSUMPTIONS

- No changes to assumptions; minor increase in revenues due to positive impact on interest income resulting from increase in cash balance (decrease in personnel expenditures)

EXPENDITURE ASSUMPTIONS

- Excludes OMMA & IUOE from Changes – Leaves Them at Original Forecast
- The following changes to labor MOUs were assumed:

OPOA & IAFF- Both Safety and Miscellaneous (Expires 8/31/18), Police Management (Expires 8/31/18), Fire Management (Pending Resolution)

- Pay period after Council Adoption- PERS Contribution decreases by 3% and wage increases by 2%
- January 1, 2017- \$60 per month toward health cafeteria plan
- July 1- PERS Contribution decreases by 1% and wage increases by 3%
- January 1, 2018- PERS Contribution decreases by .5% and wage increases by 2%
- June 30- PERS Contribution decreases by .5% and wage increases by 1.5%

SEIU – Expires 6/30/19

- Pay period after Council Adoption- PERS Contribution decreases by 3% and wage increases by 2%
- July 1, 2017- PERS Contribution decreases by 1% and wage increases by 2%
- July 1, 2018- PERS Contribution remains unchanged and wage increases by 2%
- January 1, 2019- PERS Contribution decreases by 3% and wage increases by 3%

Confidential and Unrepresented (Pending Resolution)

- Pay period after Council Adoption- PERS Contribution decreases by 3% and wage increases by 2%
- July 1, 2017- PERS Contribution decreases by 1% and wage increases by 2%
- At End of Contract (assumed 6/30/18)- PERS Contribution remains unchanged and wage increases by 2%

- Negotiations are continuing with OMMA and IUOE, but since agreement has not yet been reached with these groups, this analysis leaves the original budget forecast assumptions in place for them: no COLA in FY16-17, and 2% annually thereafter (equal to CPI assumption), and no change in PERS pickup or other benefits.

It is assumed that in the years following expiration of the revised MOUs:

Wages will increase 2% (COLA) each July 1 (except no increase if wages were raised the preceding January 1).

Merits will cost in the aggregate of 2% of payroll annually, and that staffing levels will remain constant (all future wage and benefit changes are of course subject to negotiation).