CITY OF OAKLAND

MEMORANDUM

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Finance Director

SUBJECT: Labor Negotiations – Fiscal Update

DATE: December 5, 2017

The Finance Department has been an active partner with the City Administrator's Office and Human Resources Department in developing and crafting the City's economic proposals for bargaining with IFPTE, Local 21 ("Local 21") and SEIU, Local 1021 ("Local 1021"). The City's Last, Best Final Offer ("LBFO"), in the Finance Department's view, stretches the City's financial capacity and will likely require corrective actions in the near-term.

Staff strongly recommends against any labor agreement that is less than two (2) years in duration for the following reasons:

- Stability of workforce and city services;
- Based on the progress of negotiations, staff must anticipate negotiating beyond the Mid-Cycle Budget which results in financial instability and uncertainty;
- The lack of a clear long-term labor strategy could signal management's weakness to control growing personnel costs, including pension and OPEB unfunded liabilities which could impact the City's credit rating;
- Effect of bargaining during an election cycle threatens to derail ballot measures and other potential revenue enhancements that are critical to the City's long-term financial stability;
- These negotiations have cost the City nearly $750,000 (not including backfill overtime or management staff time) for Local 21 and Local 1021.

Financial Analysis of City's Last, Best Final Offer for Wages

The City is offering Local 21 and Local 1021 a two-year contract that provides a 4.0% wage increase retroactive to July 1, 2017, and a 2.0% wage increase effective with the second full pay period in June 2019 if certain General Purpose Fund revenue growth rates are achieved. A key consideration in the City moving to 4.0% was that the ongoing cost would be relatively unchanged from the City's initial offer of 2.0% in year one and an additional 2.0% in year two.

As shown in Table 1, the guaranteed 4.0% wage increase – if applied to all Miscellaneous employees and IAFF, Local 55 ("Local 55") will cost the City an additional **$21.87 million** in the General Purpose Fund ("GPF") over the two-year MOU term [(A) + (B)]. If the 2.0% revenue trigger is met, the two-year MOU cost increases slightly to **$22.11 million** [(A) + (C)]. The total ongoing cost of the 4.0% wage increase is **$11.90 million** per year [(B)]. Because the 2.0% wage increase is effective at the end of FY 2018-19, the ongoing annual cost of **$18.09 million** [(D)] would not be recognized until FY 2019-20, which is outside of the City's proposed two-year term.

Table 1. Cost of City's 2-Year LBFO in the GPF (4%, Y1 + 0%/2%, Y2)

	FY 2017-18 (A)	FY 2018-19 (B)	FY 2018-19* (C)	FY 2019-20** (D)
Local 21	$3,108,179	$3,239,285	$3,304,071	$4,923,714
Local 1021	$3,352,395	$3,496,286	$3,566,211	$5,314,354
IBEW	$16,278	$16,869	$17,207	$25,641
CMEA	$175,547	$187,139	$190,882	$284,451
Unrepresented	$406,633	$423,061	$431,522	$643,053
L55	$2,911,290	$4,537,351	$4,628,098	$6,896,774
Total	**$9,970,322**	**$11,899,991**	**$12,137,991**	**$18,087,987**

** Includes the cost of 2.0% wage increase linked to revenue growth in second pay period of June 2019.*
*** Reflects full on-going cost of 2.0% wage increase linked to revenue growth in FY 2019-20.*

Table 2 shows a funding gap of **$6.96 million** in the GPF under the City's two-year proposal. Included in the available resources used to arrive at this figure are nearly $2.5 million in unobligated contributions to the Vital Service Stabilization Fund ("VSSF"). The availability of these funds is contingent upon Council approving an amendment to the Consolidated Fiscal Policy concerning Excess Real Estate Transfer Tax ("RETT") revenues. Use of these funds would result in a lower VSSF reserve balance than current estimates. More specifically, Council would need to increase the Excess RETT threshold from 14.0% to 15.0% of General Purpose Fund revenues.

This policy change will add an additional element of risk to the City's finances by increasing our reliance on a volatile, economically sensitive revenue stream. It is unclear at this point, how the credit rating agencies will react to such a change, but given their focus on liquidity and reserves, it will likely be viewed as a credit negative. Further, while this policy change would free up unobligated VSSF contributions in the current biennial budget, it does not mean we will have "new" revenue. Instead, it would allow the City to recategorize approximately $5 million of one-time funds as ongoing.

As an alternative to amending the Excess RETT policy, City Council could authorize the use of one-time funding for ongoing costs consistent with the Consolidated Fiscal Policy. Further, depending on the deficit, Council could authorize the use of the VSSF reserve to prevent staff reductions. Both actions will require a 6/8 vote of Council, however. Regardless of the preferred approach, it should be clear that substantial modifications will be required at Mid-Cycle to bring the budget into balance if further wage increases are authorized.

Table 2. Proposed Funding of City's 2-Year LBFO in the GPF

	FY 2017-19
2-Year MOU Cost (w/o Trigger)	**$21,870,313**
FY 2017-19 One-Time Resources Available	$10,450,000
Additional One-Time Authorized by Council	$2,000,000
FY 2017-19 Unobligated VSSF (Excess RETT Policy Change)	$2,458,586
Surplus / (Deficit) of Funds in GPF*	**($6,961,727)**

* *To be funded with anticipated GPF revenue growth/fund balance.*

As discussed with Council previously, the deficit caused by the City's LBFO is expected to be funded with revenue growth and use of fund balance. There are several key concerns with this approach. First, second quarter revenue projections are preliminary at best. It is not certain that GPF revenue growth will be sufficient to cover the immediate two-year deficit caused by the City's LBFO. In addition, even if the revenue growth is sufficient to cover the two-year deficit, it is unclear whether the growth in ongoing revenues will be sufficient to cover the ongoing costs of this proposal. Second, as demonstrated in the City's fourth quarter revenue and expenditure report, our current unobligated fund balance puts us at risk of not meeting our 7.5% economic contingency reserve. Using fund balance to cover these costs will compound the challenge of meeting this reserve target.

If revenue growth and fund balance are not a viable option to fund the $6.96 million deficit, service level reductions will likely be required. Based on the average personnel costs for Local 1021 and Local 21, closing this gap would require staff reductions of approximately **53.83 FTE**. **In order to close the full ongoing cost of the City's proposal ($11.89 million without the 2.0% trigger), staff reductions of 92.02 FTE would be required.**

Analysis of the SEIU's 2-Year Proposal for Wages

Local 1021's two-year proposal would provide for a 4.0% wage increase retroactive to July 1, 2017, and an additional 4.0% wage increase effective July 1, 2018. As shown in Table 3, if these terms were applied to all bargaining units in the City, this proposal would cost **$34.24 million** over the two-year contract [(A) + (B)]. The total ongoing cost of Local 1021's proposal is **$24.28 million** [(B)].

Table 3. Cost of Local 1021's 2-Year Proposal in the GPF (4%, Y1 + 4%, Y2)

	FY 2017-18 (A)	FY 2018-19 (B)
Local 21	$3,108,179	$6,608,142
Local 1021	$3,352,395	$7,132,422
IBEW	$16,278	$34,413
CMEA	$175,547	$381,764
Unrepresented	$406,633	$863,045
L55	$2,911,290	$9,256,196
Total	**$9,970,322**	**$24,275,982**

As shown in Table 4, Local 1021's proposal would result in a two-year deficit of **$19.34 million**. Funding of Local 1021's guaranteed wage increases, absent sufficient revenue growth, would almost certainly require service level reductions and use of fund balance. Under this scenario, staff does not anticipate meeting its 7.5% economic contingency reserve target even with severe staffing reductions.

Table 4. Proposed Funding of Local 1021's 2-Year Proposal in the GPF

	FY 2017-19
2-Year MOU Cost (w/o Trigger)	**$34,246,304**
FY 2017-19 One-Time Resources Available	$10,450,000
Additional One-Time Authorized by Council	$2,000,000
FY 2017-19 Unobligated VSSF (Excess RETT Policy Change)	$2,458,586
Surplus / (Deficit) of Funds in GPF*	**($19,337,718)**

* *To be funded with anticipated GPF revenue growth/fund balance.*

In order to bring Local 1021's two-year proposal into balance (deficit of $19.34 million), the City would require staff reductions equal to approximately **149.54 FTE.** **Balancing Local 1021's ongoing costs ($24.28 million), would require staff reductions of approximately 187.73 FTE.**

Conclusion

For the reasons outlined in this report, staff recommends against accepting Local 1021's one year proposal. In addition, of the proposals under consideration, the City's LBFO that provides a 4% wage increase retroactive to July 1, 2017, and up to 2.0% in year 2 linked to revenue growth, is the more fiscally prudent. The estimated deficit the City's LBFO creates ($6.96 million) is more manageable over the next two-years, but will still likely require Council to make difficult budgetary decisions in the near-term.

In contrast, Local 1021's proposal – if applied to all bargaining units across the city – creates a deficit of $19.34 million over the next two-years. **Balancing this two-year deficit would require a staff reduction of approximately 149.54 FTE. Balancing the full ongoing cost of Local 1021's proposal would require a reduction of 187.73 FTE.**