

City of Oceanside Municipal Analysis

Released February 2010

(analysis conducted January 2010)

Key Findings

- Property tax revenues increased 92% from 2004 to 2007.
- Total pension costs have increased approximately 114% between 1999 and 2009.
- The City recently increased pension benefits by 35% for non-public safety employees while other governments having been working to reduce costly retirement and fringe benefits.
- Last year, the City drew down on reserves by \$4 million and cut \$13 million from the budget.
- Oceanside public safety employees currently pay nothing toward their pensions. If all City employees were required to pay their fair share of pension costs, the City would save approximately \$4 million in 2010.
- The City of Oceanside still faces an additional budget shortfall it must resolve.

Revenues vs. Expenditures

The following graph outlines revenues and expenditures within the City of Oceanside (City) for the last 10 years. Between Fiscal Year (FY) 1999 and FY 2009, average annual total General Fund revenues increased 3.24%, while total General Fund expenditures experienced average annual increases of 3.73% during the same period. With the exception of FY 2004 and FY 2008 in which the City experienced General Fund deficits, revenues and expenditures have been within \$4 million of each other. In FY 2009 and FY 2010, the City expected General Fund revenues to increase 2.68% and 4.02%, respectively, while General Fund expenditures were expected to decrease 2.61% in FY 2009 before increasing by 4.11% in FY 2010.¹ Revenue projections were overly generous as the City's revenue (not accounting for transfers) was .31% less in FY 2009 than in FY 2008. Expenditures (not accounting for transfers), however, increased beyond projections to 3.42% more than in FY 2008.

A financial audit released in January 2010 found that in FY 2009, the City of Oceanside received \$19.6 million less in revenue (citywide) than in FY 2008 but expended \$19.9 million more. For its General Fund, the City took in over \$4 million more in FY 2009 than in FY 2008 (when accounting for transfers and General Fund revenues), but the City's expenditures still outpaced this growth by nearly \$3 million.

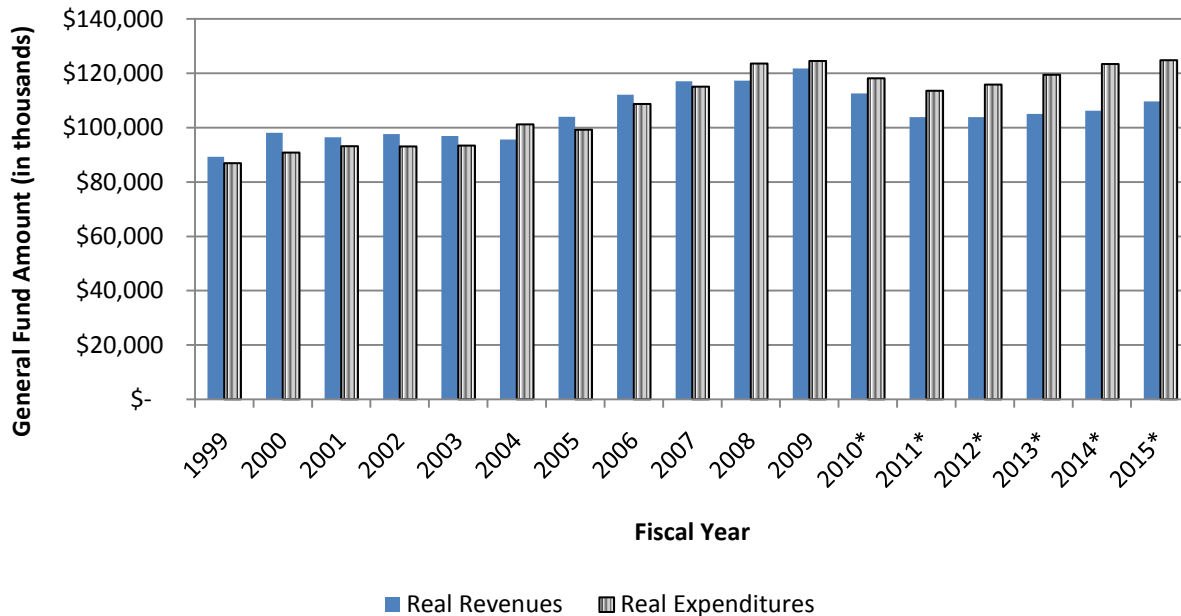
¹ June 2008-2010 adopted budget.

City of Oceanside Actual General Fund Revenues and Expenditures
(including transfers)

FY 1999 - FY 2009, Projected Through FY 2015

(in 2008 dollars, adjusted for inflation)

Source: FY 1999 - FY 2009 CAFRs, FY 2008-2010 Budget, and Financial
Forecast



Throughout the year, the City of Oceanside has faced significant budgetary deficits. When the City adopted its budget in June 2009, the City made \$7.2 million in reductions.² In September 2009, the State “borrowed” local government funds to fill the state budget gap. The City of Oceanside initially lost \$9.5 million from its \$331.7 million operating budget (\$112.6 million General Fund).³ The City Council voted to dip into reserves to make up for \$5.3 million lost and used Prop 1A Securitization for the remaining \$4.2 million.⁴ Following the state takeaways, the City determined there was an additional two-year operating deficit of \$10 million. This deficit was attributed to revenue reductions and employee salary and benefit increases. On October 21, 2009, the Council voted to cut over \$6 million in services and draw on over \$4 million of reserves to resolve this gap. The City will still have additional cuts to make to ensure future stability.

The City of Oceanside established a *Healthy City* reserve policy for “emergency” uses, which requires reserves to be a minimum of 12% of the City’s General Fund Operating Expenditures. The FY 2008-2010 Operating Budget noted that the City had a reserve level of \$42 million; however, much of these reserves were restricted for other uses. The *Healthy City* fund ended FY 2009 with \$14.5 million (or 12.76% of the City’s General Fund expenditures). Including the *Healthy City* fund, the City actually began FY 2010 with \$24.6 million in “available” reserves. Although much of the reserves were drawn on for State takeaways

² SDCTA staff interview with Finance Director Terri Ferro. December 2, 2009.

³ Number revised to reflect updated amounts in the September 2009 issued Five Year General Fund Financial Forecast.

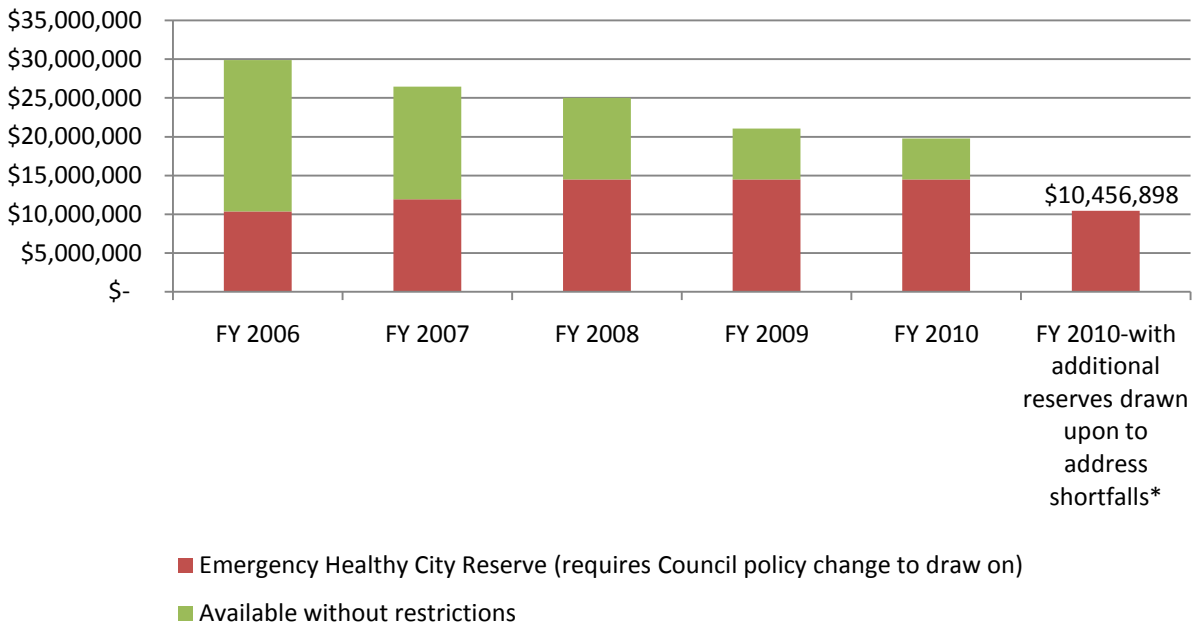
⁴ Prop 1A Securitization is a third party program that allowed cities to maintain a part of their “takeaways” by selling bonds and charging the State for the interest.

and the operating deficit, the City incurred additional expenses such as a special election which drew down reserves by even more. The impact of dipping into reserves to cover the City’s shortfalls has left the City with less than their minimum reserve level requirement.⁵ The chart below outlines what FY 2010 reserves are as of now as well as what they are projected to be if the City draws down reserves by the additional \$9.3 million noted above to cover State takeaways and budgetary shortfalls.

City of Oceanside Reserve Levels between FY 2006 and FY 2010*

(in 2008 dollars, adjusted for inflation)

Sources: City of Oceanside financial statements, City of Oceanside General Fund
Financial Forecast, and City of Oceanside Financial Outlook



Tax Revenues

In FY 2009, property taxes accounted for over 61% of the City’s total tax revenues, and they have experienced average annual increases of 10.73% between FY 1999 and FY 2009. According to the FY 2008-2010 budget, property tax revenues for FY 2009 were expected to increase by 5.97% and by 5.47% in FY 2010. However, FY 2009 property tax revenue came in with only 2.31% growth over FY 2008.

The second largest source of revenues for the City of Oceanside is sales and use taxes. During FY 2009, sales and use tax revenues accounted for 23.13% of tax revenues for the City. Since 1999, sales tax revenues have experienced an average annual growth of 2.68%, reaching approximately \$18.6 million in FY 2009. In FY 2003 and FY 2008, sales and use taxes experienced declines of 2.94% and 4.67%, respectively. Despite the economic downturn, the City originally anticipated sales and use tax revenues

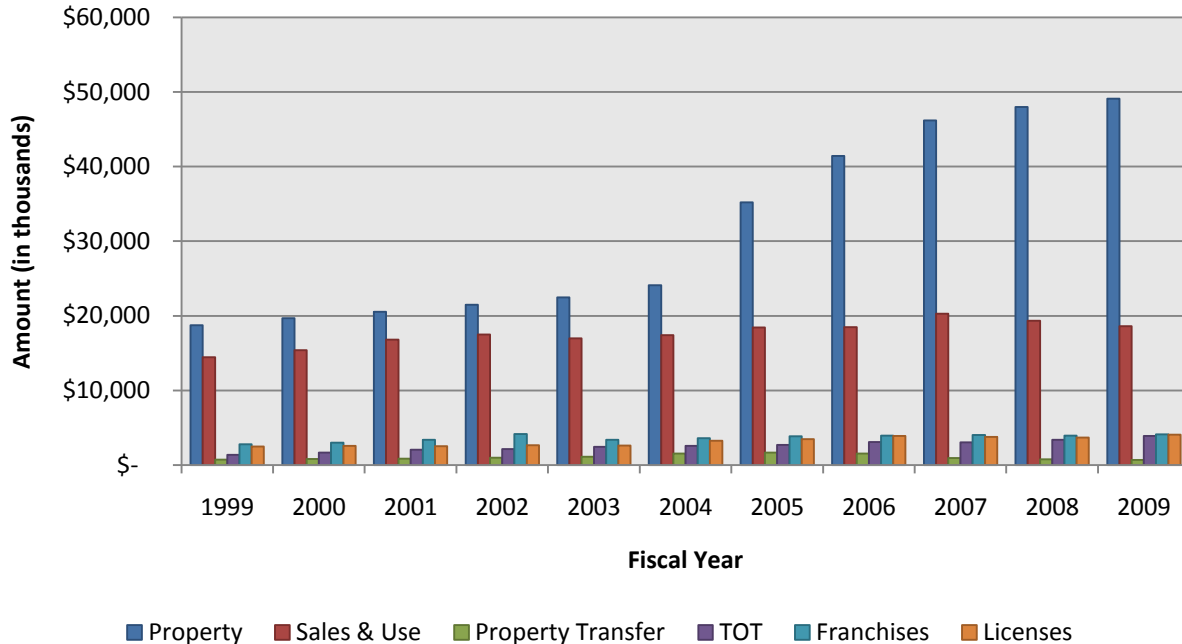
⁵ An October 21, 2009 Council meeting noted that there was approximately \$24.5 million remaining in available reserve funds.

would increase by 3.65% in FY 2009 and remain stagnant in FY 2010. However, FY 2009 actual sales and use tax revenue came in at a 3.85% decline over FY 2008.

Governmental Tax Revenue Sources FY 1999 - FY 2008

(in 2008 dollars, adjusted for inflation)

Source: City of Oceanside FY 1999 - FY 2009 CAFRs

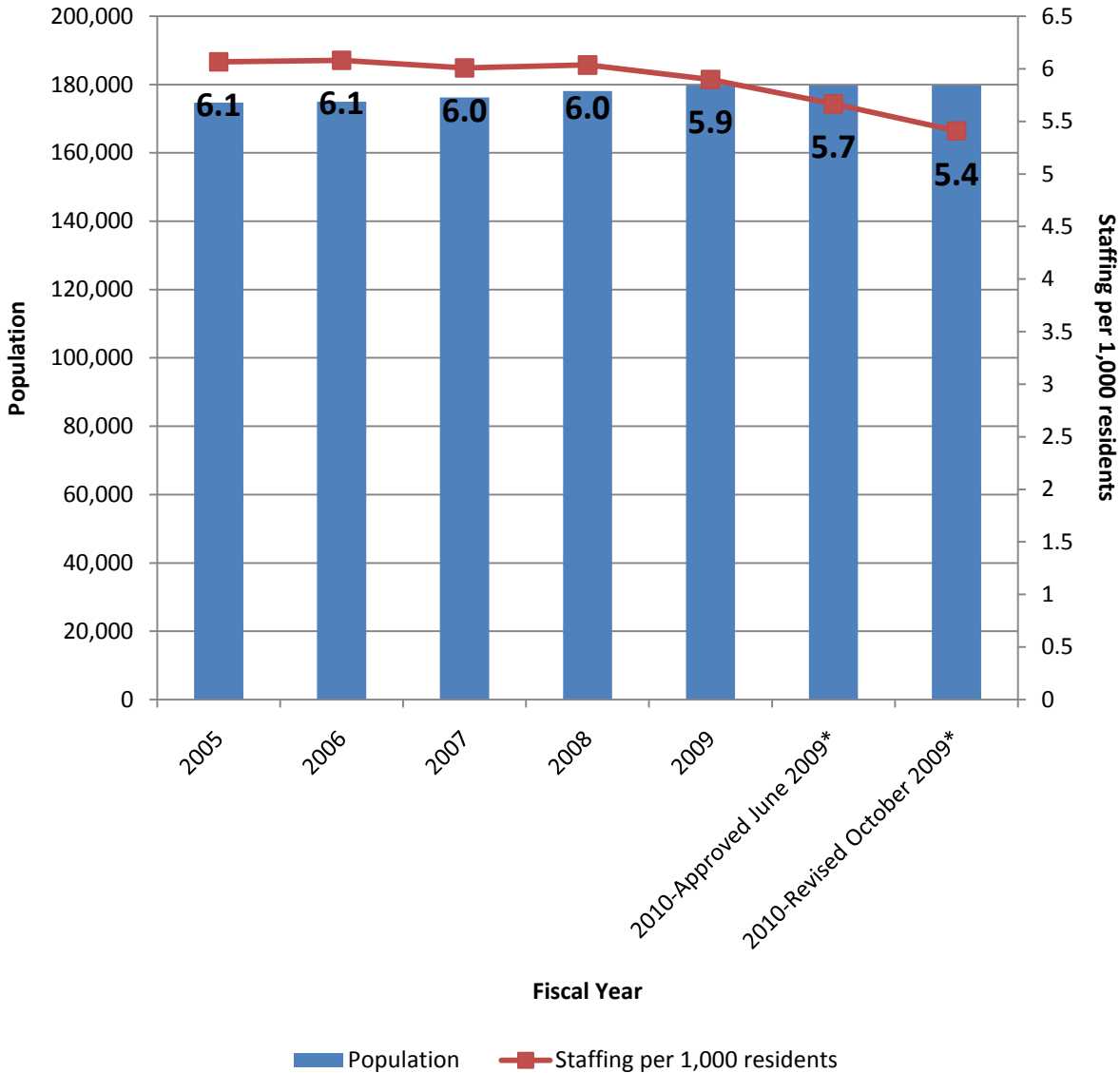


Staffing Levels

Prior to FY 2005, the number of full time employees varied widely from year-to-year. For instance, between FY 2004 and FY 2005, the City hired 120 full time employees—or increased its workforce by nearly 13%. These variances do not exist in such severity over the past five fiscal years (FY 2005 – FY 2009).

Staffing Levels vs. Population

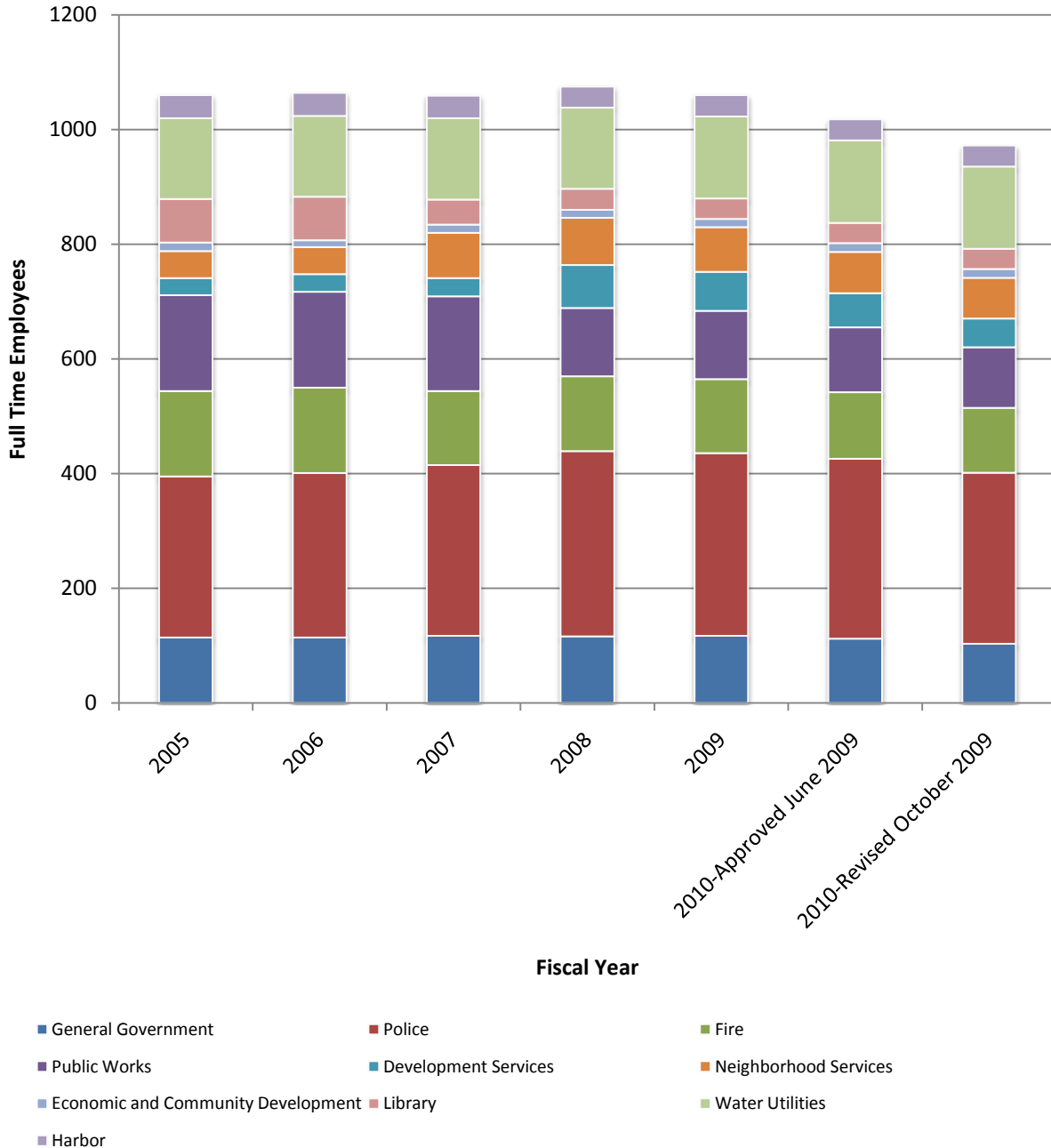
Source: FY 2009 CAFRs and FY 2009 Budget
Note: Assumes no increase in population for FY 2010



In FY 2009, the greatest staffing fluctuations occurred among development services and neighborhood services, which experienced 9.33% and 4.88% declines from FY 2008, respectively. In FY 2009, staffing levels for most of the service categories were reduced relative to FY 2008 levels. The staffing levels adopted in June 2009 for the FY 2010 budget were 4% less than FY 2009, and they were lowered an additional 4.5% when revised in October 2009.

City of Oceanside Staffing By Service Between FY 2005 and FY 2010

Source: City of Oceanside FY 2005 - FY 2009 CAFRs, FY 2009/FY 2010
Budget, Authorized Position Schedule for October 21, 2009



Pension Costs

The city currently has Memorandums of Understanding (MOU) with various labor groups. These MOUs outline all of the benefits that the respective groups of city employees receive, including salary increases and pension benefits.

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and personal disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

To pay off some of the unfunded liability associated with the City's public pension plans, the City issued Pension Obligation Bonds (POBs) in 2005. The City makes annual payments on this bonded debt. The value of these POBs in 2005 was \$42,780,000.

Oceanside active plan members are "required" by State statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer picks up 0%-5% and 9% of the contribution required of City employees for miscellaneous (nonsafety employees) and safety employees, respectively (this is known as Employer Paid Member Contributions, or EPMC). This means miscellaneous employees are responsible for 3%-8% of their annual pension contributions and safety members are not responsible for their pension costs. On October 21, 2009, the City Council approved increasing their office's contribution to CalPERS to 8%.

Public Safety Employee Example	
Single Highest Year Salary	\$100,000
Inclusion of EPMC	\$9,000
Total Calculated Salary	\$109,000
Service Years	30
Benefit Factor	3%
Total Pension Benefit	\$98,100

Miscellaneous Employee Example	
Single Highest Year Salary	\$85,000
Inclusion of EPMC at 3%	\$2,550
Total Calculated Salary	\$87,550
Service Years	30
Benefit Factor	2.7%
Total Pension Benefit	\$70,916

The City also reports the value of EPMC as additional compensation to CalPERS for all employees. This additional contribution allows safety employees to earn 98% of their highest year's salary after thirty years of service and miscellaneous members to earn anywhere between 83% and 84% of their highest year's salary.

City of Oceanside Employee Retirement Benefits
CalPERS Formula: 2.7% @ 55 for miscellaneous employees and 3% @ 50 for public safety
Employee Contribution: City pays 0-5 % of the employee contribution for miscellaneous members and 9% for safety (i.e. safety employees contribute nothing to their pension plan)
Single highest year benefit for final compensation
EPMC is reported as income for purposes of calculating compensation at retirement for all employees

A summary of the benefits afforded to each labor unit is presented in the following table:

Labor Unit	Benefit Formula	Employees pay	City picks up
Management Employees	2.7% @ 55	4%	4%
Elected Officials	2.7% @ 55	8%*	0%
Oceanside City Employees' Association	2.7% @ 55	3%	5%
Oceanside Fire Management Association	3% @ 50	0%	9%
Oceanside Firefighters' Association	3% @ 50	0%	9%
Oceanside Harbor Police Officers' Unit	3% @ 50	0%	9%
Oceanside Police Management Association	3% @ 50	0%	9%
Oceanside Police Officers' Association-nonsworn	2.7% @ 55	3%	5%
Western Council of Engineers	2.7% @ 55	3.5%	4.5%
Oceanside Police Officers' Association-sworn	3% @ 50	0%	9%
Unrepresented Safety	3% @ 50	0%	9%
Unrepresented Management	2.7% @ 55	4%	4%
Unrepresented Confidential and Technical	2.7% @ 55	4%	4%

*Elected officials paid 0% prior to October 21, 2009.

A summary of pension costs since FY 1999 is presented in the following table:

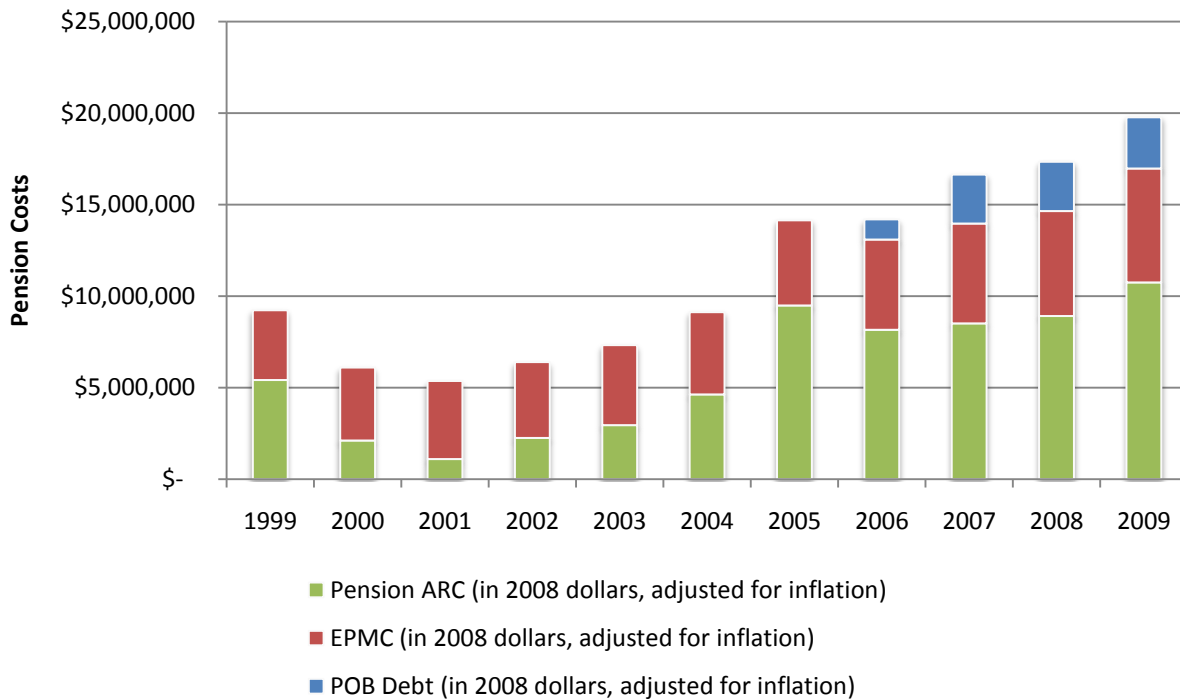
City of Oceanside Annual Pension Costs (not adjusted for inflation) <i>Source: City of Oceanside FY 1999 - 2009 CAFRs & Public Records Act Requests</i>					
Fiscal Year	City Annual Required Contribution (ARC)	EPMC	Pension Obligation Bond Debt Payments	Total Pension Costs	Ratio of Total Pension Costs to General Fund
1999	\$3,866,884	\$2,714,722	\$0	\$ 6,581,606	10.62%
2000	\$1,587,227	\$3,016,351	\$0	\$ 4,603,578	6.72%
2001	\$871,505	\$3,356,313	\$0	\$ 4,227,818	5.75%
2002	\$1,835,598	\$3,390,547	\$0	\$ 5,226,145	6.87%
2003	\$2,497,765	\$3,707,401	\$0	\$ 6,205,166	7.84%
2004	\$4,065,349	\$3,955,723	\$0	\$ 8,021,072	9.02%
2005	\$8,640,714	\$4,232,005	\$0	\$12,872,719	14.25%
2006	\$7,691,694	\$4,641,515	\$ 1,029,871	\$13,363,080	13.06%
2007	\$8,204,220	\$5,243,020	\$ 2,587,251	\$16,034,491	15.67%
2008	\$8,917,132	\$5,731,920	\$ 2,691,772	\$17,340,824	15.65%
2009	\$10,754,780	\$6,218,547	\$ 2,799,691	\$19,773,018	16.23%

When adjusting for inflation, the city's total pension costs have increased 114.26% between FY 1999 and FY 2009. During much of this time, the city's pension fund was super-funded (where assets far exceeded liabilities), which meant that the city had a very low payment on its required contribution to CalPERS. During this time, however, payment toward EPMC did not stop.

The aforementioned budget report provided to Council in October of 2009 notes that property and sales tax revenue reductions paired with rising employee salaries and benefits are the reason for the \$10 million operating budget deficit. This past fiscal year, CalPERS lost nearly 1/3 of its portfolio. These rates, in return, get pushed back onto cities in the coming years through higher rates. The City of Oceanside alone lost \$155.3 million of assets. In September 2009, the City released a report performed by Bartel Associates that highlighted the lack of sustainability in their public pension system. In this report they stated that “the increase in CalPERS rates are such that the City cannot continue to fund these increased costs without reducing costs centers elsewhere.”⁶

City of Oceanside Pension Costs FY 1999 - FY 2009

Sources: FY 1999 - FY 2009 CAFRs & Public Records Act Requests



For a more comprehensive look at public pensions in the region, please review SDCTA’s Phase I report issued in October of 2009.

⁶ City of Oceanside, Financial Services Department. “Fiscal Exchange.” Volume 1, Issue 4. October 12, 2009.