

## CITY MANAGER'S REPORT



I am pleased to submit the Annual Report for 1976. During this year the City Council and Administration confronted many problems as the City continued to emerge from the recession years of 1973 through 1975. Major concerns were to control the growth of municipal expenditures so as to create as favorable a climate as possible for local economic recovery. Secondly, there was the initiation of a new City Manager into all of the many facets of Dover City Government.

In dealing with the first problem of controlling the growth of municipal expenditures to be contained within the tax base growth limitations of the community, a four part strategy was adopted. First, the overall City labor force was reduced by 10% as the only major alternative remaining to keep a projected \$14.00 tax increase within much more reasonable limits. Secondly, new or additional sources of revenues were sought, particularly for the support of a growing Parks and Recreation Program. Thirdly, steps were undertaken to automate City fiscal and accounting procedures to minimize the need for future staff expansions within finance departments. The largest single factor affecting the Finance Office producing the greatest strain were the capital improvement programs of the Coheco Separation Project and Community Development replacing the previous separate functions of Planning and Building Inspection.

To deal with the problems of tax base development and the possible loss of existing local industry a hasty and successful effort was made to develop an industrial park on the Knox Marsh Road under the auspices of the Dover Industrial Development Authority. All parcels were sold by year end with promised development of new industrial facilities for Eastern Air Devices, Inc., Estes Industrial Machine, Inc., GFS Company, and Jotko Enterprises, Inc. In addition to retaining many valuable jobs and providing for additional expansion of these industries, the tax base development afforded by this industrial park has helped to reduce future tax increases by 20%.

Becoming familiar with the City's operating procedures, boards and commission appointments, the \$9,000,000 Coheco Separation Project, design contracts for a Secondary Sewage Treatment Plant, the development of a new personnel policy, the negotiations of new contracts with AFSCME Local 572 of the Public Works and Parks and Recreation Departments and Local 1312 of the International Association of Firefighters and conclusion of negotiations with both groups and the Dover Police Association all proved major assignments in the first year of my administration as the City Manager of Dover.

# Fat pensions spell doom for many cities

**Vallejo, Calif., took the extreme step of filing for bankruptcy to get out of generous obligations to public employees. Other cities and states are watching.**

By Janice Revell, Money Magazine senior writer  
June 3, 2008: 5:49 AM EDT

NEW YORK (Money Magazine) -- The jig is up. For years, politicians have been playing what amounts to a multi-trillion-dollar shell game with state and local pensions. They've doled out lush retiree benefits to their heavily unionized workforces, knowing that they could shove the cost for those benefits onto future generations of taxpayers.

But a recent financial bombshell dropped by a San Francisco suburb shows why that shell game is now starting to unravel in a nasty way. And it's a cautionary tale that you can't afford to ignore.

Here's the skinny: In late May, Vallejo, Calif., became the largest city in California history to declare bankruptcy. Its financial demise was brought about partly by the real estate crash, which decimated home prices in the area and put a major dent in the city's tax revenues.

But the real nail in Vallejo's coffin was the city's labor costs. Under the current labor agreement, the average police officer walking the beat in Vallejo will be paid \$122,000 this year before overtime, according to city documents. An average sergeant will make \$151,000; a captain, \$231,000. The average firefighter, meanwhile, will bring in \$130,000 before overtime.

That's just the salaries, though. The final budget-crusher was the city's pension plan. Thanks to retroactive benefit enhancements approved by the city council in 2000, police officers and firefighters can now retire at age 50 and receive an annual pension equal to 90% of their final pay (assuming 30 years on the job), an amount that gets increased every year to help keep pace with inflation. The old plan had given the workers a pension equal to 60% of their final pay at age 50.

So a Vallejo police sergeant making \$150,000 a year can now retire at age 50 and receive an annual pension of \$135,000, increased each year for inflation. To put that amount in context, you would need to amass a retirement nest egg equal to about \$3.5 million to produce a similar retirement income on your own.

It wasn't just police and firefighters who benefited from the city's largess. The annual pensions for rank-and-file city employees were jacked up from 60% of final pay at age 55 (after a 30-year career) to a whopping 80% of pay, increased each year for inflation.

6/3/2008

Other towns in trouble

Here's the scary part: What's going on Vallejo isn't unique.

Back at the turn of this century, when the stock market was still booming, public pension plans across the country were suddenly overflowing with surplus money. Politicians responded by handing out heavily sweetened pensions.

Then, even though the stock market collapsed, politicians couldn't stop the trend. In 2001 alone, pension benefits were increased in at least 17 state plans, as well as some major cities.

For a while, inflated housing prices came to the rescue, handing many municipalities a windfall in increased property tax revenues.

Now that bubble has collapsed and the stock market is floundering. State pension plans alone are about \$360 billion short of the assets they should ideally hold for future retirees, according to a recent report by the Pew Center on the States. And that's not including city plans.

Cities and states that enriched their benefits in the past few years are especially at risk. That's because no matter how badly a pension plan's investments perform, the enhanced pension benefits promised to state and local employees back in the boom times can't be taken away, or even modified - they are locked in by constitutional and legal guarantees.

There is, however, one potential option for cutting back on public pension benefits: bankruptcy. And that's what it has now come to in Vallejo. Elected officials in other struggling areas will surely be watching.

Of course, nobody wins in a bankruptcy. Vallejo must now slash services and lay off workers to make ends meet - a sad outcome for both the city workers and residents. Bankruptcy will also wreak havoc on the city's credit rating, making it much more expensive to borrow money for building roads and schools and maintaining the city's infrastructure.

So what's the lesson here? I'm certainly not suggesting that state and local workers be deprived of the pensions they were promised when they started their careers. That was part of the deal they signed up for and it should be honored. The police and firefighters of Vallejo, for example, were told they'd get a pension equal to 60% of their pay at age 50, and so they should.

But the practice of retroactively boosting public sector pensions without any serious debate or approval by taxpayers has got to stop. As the Vallejo debacle illustrates, the stakes are simply too high.

Historically, the justification for these types of pension enhancements has been that public sector workers are forgoing the salaries they would have otherwise received in the private sector, in exchange for better retirement benefits.

But that no longer seems to hold true. According to the federal Bureau of Labor Statistics, the hourly salary (before benefits) of public-sector professionals (including teachers and lawyers) was \$31.51 in December 2007, virtually identical to the \$31.75 for private-sector professionals. Public-sector service employees (including many blue-collar jobs) averaged \$16.72 an hour in salary, compared to \$9.87 for private-sector employees.

This is an election year. As such, many states and municipalities are under heavy pressure to sweeten the pension plans for their workers - Massachusetts, South Carolina and Pennsylvania are but three high-profile examples. And ironically, just a few hours south of Vallejo, the city of Rialto, Calif., recently approved a similar retroactive pension increase that will give police officers a pension equal to 90% of their salaries at age 50.

The bottom line: If similar changes are being considered in your city or state, the Vallejo disaster tells you that it's well worth your while to get the facts.

Maybe you'll discover that your local pension fund is flush with money and that elected officials in your area have out laid out a sound, fiscally responsible plan for funding any pension improvements. But I wouldn't bank on it.

Questions or comments about retirement? Send e-mails to [jrevell@money@mail.com](mailto:jrevell@money@mail.com). ■

6/3/2008