

CAN THE CONSUMER PRICE INDEX-URBAN KEEP UP WITH OCFA WAGES?

SUMMARY

The 2011-2012 Orange County Grand Jury studied the cost of labor in the Orange County Fire Authority (OCFA). The OCFA was very cordial in working with the Grand Jury by providing their documents and readily answering myriad questions.

This Grand Jury found that over the past seventeen years the OCFA labor costs ranged from 75 to 81 percent of the total annual budgets. The cost of labor grew approximately 8.6 times faster than the growth of the staff, and 3.0 times faster than the Consumer Price Index-Urban. Recent labor agreements introduced a “trigger formula” that may modify these trends.

Consequently, the 2011-2012 Grand Jury recommends that the OCFA explain to the public these apparent growth differentials and what, if anything should be done to bring them in line with actual economic conditions. Furthermore, the OCFA should evaluate the long-term consequences of their past agreements that have led to these disparities, and they should develop and implement both short and long-range plans to moderate and avoid potential increases in taxes and/or fees, and potential decreases in services.

PURPOSE

The 2011-2012 Orange County Grand Jury studied the Orange County Fire Authority (OCFA) to learn more about its past expenses, its current finances, and its future expenditures. OCFA had previously been studied by the 1995-1996 Grand Jury shortly after evolution of the Orange County Fire Department into the Orange County Fire Authority. That earlier study concluded that the key issue was apparent inequity between the “membership” costs to the cities that it served. Now, after seventeen years, the current Grand Jury looked at the OCFA as it exists today. The 2011-2012 Grand Jury studied only the financial aspect of the organization, focusing on the labor costs.

METHODOLOGY

The 2011-2012 Orange County Grand Jury performed the following tasks to develop this study:

- Collected and reviewed the OCFA financial documents;
- Interviewed selected members of the OCFA executive staff and several firefighters;
- Interviewed selected members of the Board of Directors;
- Reviewed the Memorandum of Understanding between the OCFA and the firefighters;
- Compiled financial records from the Bureau of Labor Statistics and the County of Orange; and
- Prepared this report with its Findings/Conclusions and Recommendations.

BACKGROUND

The Orange County Fire Authority, a Joint Powers Agency, was formed in 1995 as an outgrowth of the Orange County Fire Department and the Orange County bankruptcy. At its inception, the OCFA absorbed the old county fire department and 15 of the cities that it had served. In addition, four more cities, mostly newly incorporated, were added as contract cities. Over the following sixteen years, five more cities, again some old and some newly incorporated, joined the fire authority. Up to 2011, the OCFA served the county areas and 22 local cities. The other 12 cities had their own fire departments. In 2012, another city merged their independent fire department into the OCFA making 23 the cities serviced along with the unincorporated parts of the county.

The OCFA is governed by a Board of Directors made up of a representative from each of the 23 cities and two representatives from the County Board of Supervisors. The city representatives are appointed by their city councils that usually consist of five City Councilmen. Their terms of office vary, some being as short as one year. The two members from the Board of Supervisors rotate on an annual basis. The Board of Directors meets six times a year and considers agenda items submitted by the OCFA staff. In the past year, agenda items have included such topics as pensions, bond review, retirement system updates, possible litigation, purchasing order reviews, and extension of MOU with unions.

FACTS

Fact: The OCFA is currently funded primarily by three major sources: an allocation by the County Auditor/Controller from the 1% secured property tax, fees from contracts with cities that are served (Cash Cities), and agreements with the cities that were originally included in the start-up of the OCFA (Structure Cities). The current budget is \$282,000,000 and the current staff is 1,176.¹

Fact: The primary revenue source of OCFA is based on the taxes generated from the assessed value of the properties served. Since 1995, the assessed values have increased from \$81 billion to \$210 billion, a cumulative increase of 159 percent over 17 years.

Fact: From 1995 to 2011, the annual budget grew from \$115,000,000 to \$283,000,000, a cumulative increase of 146 percent over those 17 years, and an average growth of 6.1 percent per year. See the table in Appendix A at the back of this report for the actual data compiled during this study.

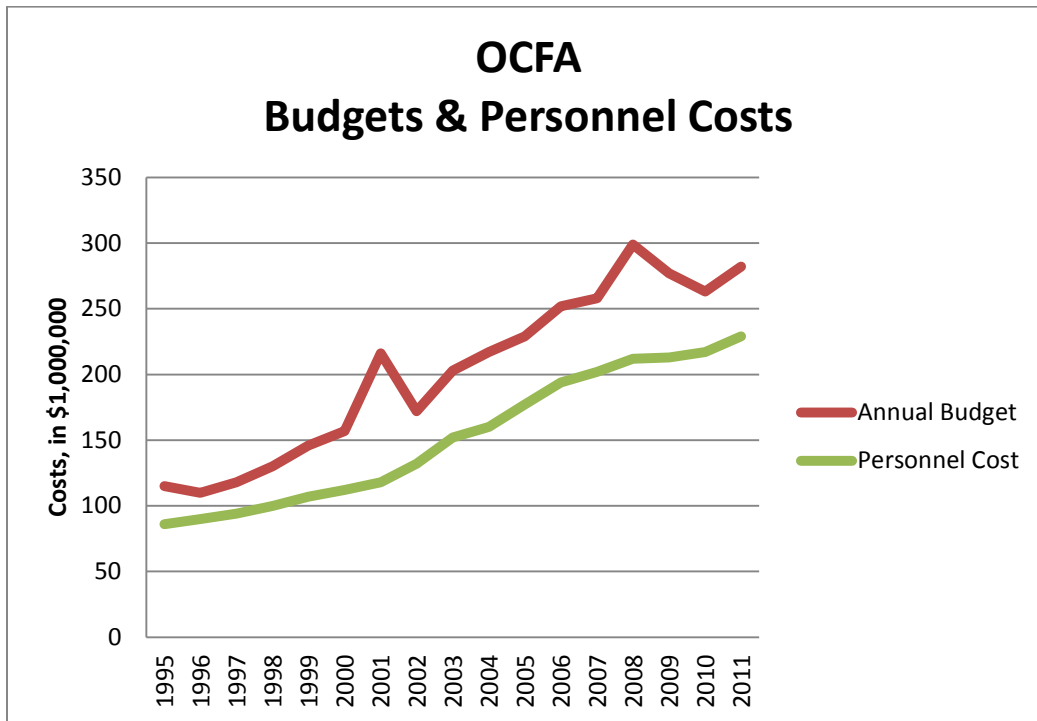
Fact: From 1995 to 2011, the OCFA staffing grew from 1,008 employees in 1995 to 1,176 in 2012, a cumulative increase of only 17 percent, and an average rate of growth of 0.9 percent per year.²

Fact: The labor costs, not including benefits, were found to vary over the years from 75 percent in 1995 to 81 percent in 2012 of the annual budgets. This relationship is shown in Figure 1.

¹ OCFA; *2011-2012 Annual Budget and OCFA correspondence with the OCGJ*

² OCFA; *Annual Budgets*, 1996-2012

Figure No. 1 – Relationship between Personnel Costs and Budgets



ANALYSIS

The labor costs are dictated by the agreements made between the OCFA and the labor unions. The current agreement was consummated in 2000 and subsequently amended several times.³ It called for salary increases of four percent for each year up to 2006.

After the first six years, the salary increases were three percent through 2012. From 2013 to 2015 any salary increases would be based on “methodology,” or “trigger formula,” tied to “actual ‘Secured Property Tax’ dollar amount” and any “General Fund Surplus/(Deficit)” that may occur. If the General Fund Surplus/(Deficit) is “less than or equal to five (5) percent of General Fund Expenditures, no salary adjustments will be implemented.” If the General fund Surplus/(Deficit) is “greater than five (5) percent of the General Fund Expenditures, the Authority will distribute the amount in excess of the five (5) percent fund in the form of a salary adjustment, not to exceed five (5) percent.”⁴

Furthermore, the Intent of Compensation Policy-Labor Market Adjustment is to maintain salaries “at the average of the top quarter (top three [3]) of non-Authority Fire Departments in Orange County.”⁵

³ OCFA & OCPFA; *Memorandum of Understanding Relating to Employees in the Firefighter Representation Unit*; MOU; July 2000, amended 2001, 2002, 2006, & 2010

⁴ OCFA & OCPFA; MOU; Art. XXIV. Sec. 1, A-O

⁵ Ibid; Art. XXIV Sec. 1. P

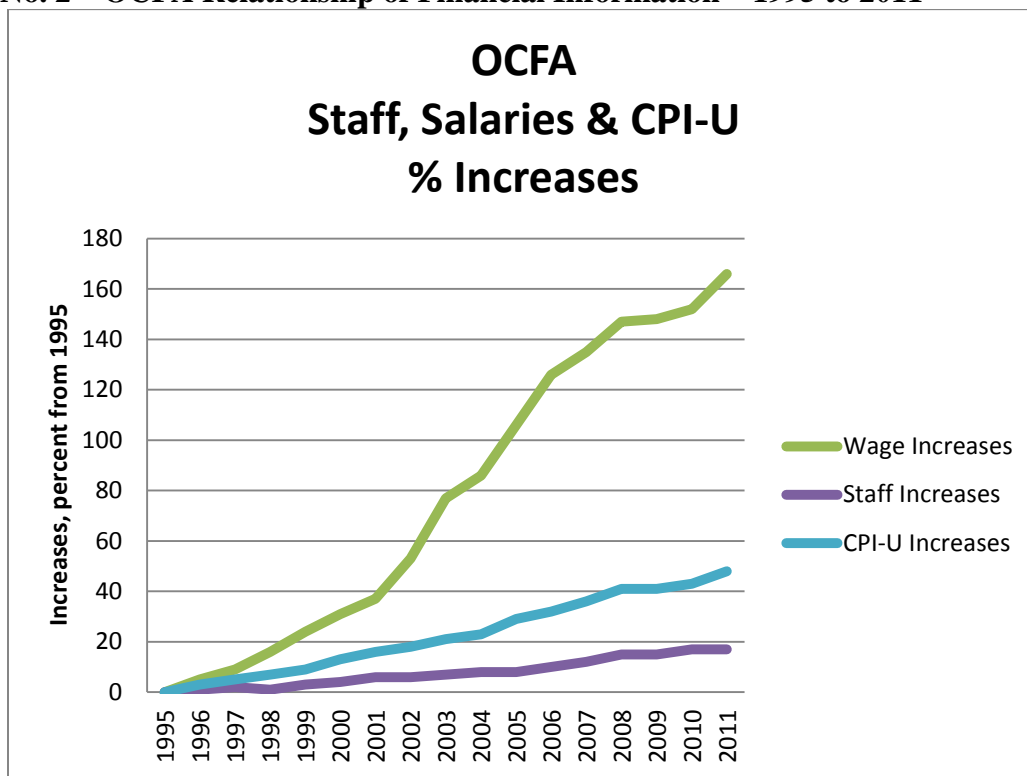
During the past 17 years of the OCFA, the Consumer Price Index for All Urban Consumers (CPI-U) showed the CPI-U rising from 152.49 in 1996 to 224.9 in 2011, a cumulative increase of 48 percent, and an average increase of 2.3 percent per year.⁶

During the past ten years, the County of Orange “Position Count” rose from 16,416 in 2000 to 17,210 positions in 2012, a cumulative increase of just 8 percent over 13 years and an average increase of 0.7 percent per year. The salary and benefit cost rose from \$1,124 billion in 2000 to \$1,787 billion in 2012, for a cumulative increase of 70 percent over 13 years, and an average increase of 5.1 percent.

Interviews with OCFA officials revealed that recently several thousand applicants have been applying for only a handful of positions.

A graphic illustration of the changes in the OCFA wages, staffing and Consumer Price Index-Urban are shown in Figure No. 2. This illustration shows the dramatic deviation between the finances of the OCFA and the CPI-U. The average increases since 1995 of the salaries is 6.0 percent compared to the CPI-U that grew at only 2.3 percent.

Figure No. 2 – OCFA Relationship of Financial Information – 1995 to 2011



⁶ US Bureau of Labor Statistics; *CPI Detailed Report*; March 2012

FINDINGS/CONCLUSIONS

In accordance with *California Penal Code* §933 and §933.05, the 2011-2012 Orange County Grand Jury requires responses from each agency affected by the **Findings/Conclusions** presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

Based on its study of the Orange County Fire Authority, the 2011-2012 Orange County Grand Jury makes the following **Findings/Conclusions**:

F1. The costs of labor of the OCFA, excluding benefits, are growing annually almost ten times faster than the increase of personnel and 3.5 faster than the Consumer Price Index-U.

F2. Labor agreements of the past have included salary increases of 3 and 4 percent per year while the cost of living represented by the Consumer Price Index-Urban have averaged slightly more than 2.3 percent per year. Future wage increases are based on a “trigger formula” that is tied to the “secured property tax dollar amount” and any “General Fund Surplus/Deficit,” and the average of the top quarter of neighboring non-Authority fire departments.

F3. Basing firefighter’s salaries to the “secured property tax” that are founded primarily on the assessed value of the property served may not be the most economically responsive (or seemingly rational to the public) method of calculating wages from a taxpayer perspective. This method produces salaries that do not appear to be compatible with actual wages within the communities they serve. Furthermore, basing salaries on those of neighboring firefighters can result in “spiraling” increases if those agencies base their wages on those of OCFA.

F4. Labor agreements for the firefighters that do not appear to reflect the overall economy and finances of the taxpayers and cities they serve may show a deficiency of civic duty of the Directors in making the tough choices and balancing the needs of the citizens that they serve.

F5. The terms of office of the Board of Directors (some of which are only a year) appear to be too short for directors to become thoroughly acquainted with the complex operations and finances of this large agency.

RECOMMENDATIONS

In accordance with *California Penal Code* §933 and §933.05, the 2011-2012 Orange County Grand Jury requires responses from each agency affected by the **Recommendations** presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

Based on its study of the Orange County Fire Authority, the 2011-2012 Orange County Grand Jury makes the following recommendations:

R1. The OCFA should state on their website how firefighter's salaries are based in the past on the OCFA revenue, and currently on the OCFA general fund surplus/deficit rather than on the living costs and financial conditions of the cities and citizens they serve.

R2. Prior to entering into or negotiating any labor agreements, the OCFA Board of Directors should ensure that the law of supply and demand or the overall economic health of the communities that they serve is reflected in the salaries and benefits packages. Preferably, methods in determining salaries and benefits, among others, might include:

- Relating salaries and benefits to what the market will bear, i.e., high applications numbers for a job would usually lead to offering lower salaries and benefits;
- Tying salaries and benefits to local economic indexes that reflect the economies of the community served.

R3. OCFA salaries should be renegotiated annually to reflect the actual economic trends of those citizens they serve as opposed to entering into labor agreement that project salary and benefit increases too far in the future with set increases that do not reflect the unreliable economic volatile future.

R4. The OCFA Board of Directors should clarify and explain which part of the current Memorandum of Understanding controls: Article XXIV that sets annual increases through 2015, or the requirement of Article XXIX that requires compatibility with neighboring non-Authority fire departments, and explain the reasoning for that rationale. This should be included on OCFA's website under the Memorandum of Understanding.

R5. The OCFA Board of Directors should provide and make public both a short-term and long-term plan that brings the labor agreements in line with the living cost of the citizens they serve rather than solely upon the revenues derived from secured property tax of the property and city fees in their realm.

R6. If the growth of firefighter's salaries is reduced to reflect the economy of the citizens they serve, the OCFA should consider reducing the fees that they charge their contract cities to reflect the change and to be responsive to the financial realities of the cities.

R7. The OCFA should consider requiring the terms of office of the directors to be at least two years to provide longer time for continuity of the leadership.

REQUIRED RESPONSES

In accordance with *California Penal Code* §933 and §933.05, the 2011-2012 Orange County Grand Jury requires responses from the **OCFA and the OCFA Board of Directors** to the **Findings/Conclusions** and **Recommendations** presented in this section.

The responses are to be submitted to the Presiding Judge of the Superior Court.

“Not later than 90 days after the grand jury submits a final report on the operations of any public agency subject to its reviewing authority, the governing body of the public agency shall comment to the presiding judge of the superior court on the findings and recommendations pertaining to matters under the control of the governing body, and every elected county officer or agency head for which the grand jury has responsibility pursuant to Section §914.1 shall comment within 60 days to the presiding judge of the superior court, with an information copy sent to the board of supervisors, on the findings and recommendations pertaining to matters under the control of that county officer or agency head and any agency or agencies which that officer or agency head supervises or controls. In any city and county, the mayor shall also comment on the findings and commendations...”

The Penal Code lists the following response choices for a responding entity:

Responses to Findings

1. The respondent agrees with the finding.
2. The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding in dispute and shall include an explanation of the reason.

Responses to Recommendations

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not been implemented, but will be implemented in the future, with a timeframe for implementation.
3. The recommendation requires further analysis, with an explanation of the scope and parameters of that analysis and timeframe. This timeframe shall not exceed six months from the date of publication of the Grand Jury report.
4. The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation.

All responses should be received no later than October 1 (unless the agency or department has requested in writing an additional extension). Follow-up is the responsibility of the sitting Grand Jury.

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ORANGE COUNTY FIRE AUTHORITY

**Appendix A
Table of Data for the OCFA**

Year	OCFA Budget			OCFA Wages			OCFA Staff			CPI-Urban			Orange County Staff			Orange County Budget		
	OCFA Budget, \$ Millions	Annual % Increase	Cumulative Budget Increase, %	OCFA Wages, \$ Millions	Annual % Increase	Cumulative Wage Increase, %	OCFA Staff	Annual % Increase	Cumulative Staff Increase, %	CPE-U	Annual % Increase	Cumulative CPI-U growth, %	Orange County Staff	Annual % Increase	Cumulative Staff Increase, %	Orange County Budget, \$ Billions	Annual % Increase	Cumulative Budget Increase, %
1995	115	0	0	86	0	0%	1008	0%	0%	152.4	0%	0%						
1996	110	-4%	-4%	90	5%	5%	1022	1%	1%	156.9	3%	3%						
1997	118	7%	3%	94	4%	9%	1032	1%	2%	160.5	2%	5%						
1998	129	9%	12%	100	6%	16%	1022	-1%	1%	163	2%	7%						
1999	146	13%	27%	107	7%	24%	1035	1%	3%	166.6	2%	9%						
2000	156	7%	36%	113	6%	31%	1052	2%	4%	172.2	3%	13%						
2001	216	38%	88%	118	4%	37%	1064	1%	6%	177.1	3%	16%	16416	0.0%	0%	1.005	0.0%	0%
2002	172	-20%	50%	132	12%	53%	1064	0%	6%	179.9	2%	18%	17290	5.3%	5%	1.123	11.7%	12%
2003	203	18%	77%	152	15%	77%	1078	1%	7%	184	2%	21%	17741	2.6%	8%	1.222	8.8%	22%
2004	212	4%	84%	160	5%	86%	1090	1%	8%	186.9	2%	23%	17751	0.1%	8%	1.306	6.9%	30%
2005	229	8%	99%	177	11%	106%	1091	0%	8%	196.3	5%	29%	17597	-0.9%	7%	1.343	2.8%	34%
2006	252	10%	119%	194	10%	126%	1111	2%	10%	201.6	3%	32%	18029	2.5%	10%	1.399	4.2%	39%
2007	258	2%	124%	202	4%	135%	1127	1%	12%	207.3	3%	36%	18301	1.5%	11%	1.537	9.9%	53%
2008	298	16%	159%	212	5%	147%	1160	3%	15%	215.3	4%	41%	18748	2.4%	14%	1.691	10.0%	68%
2009	277	-7%	141%	213	0%	148%	1160	0%	15%	214.5	0%	41%	18668	-0.4%	14%	1.729	2.2%	72%
2010	263	-5%	129%	217	2%	152%	1180	2%	17%	218	2%	43%	17895	-4.1%	9%	1.671	-3.4%	66%
2011	283	8%	146%	229	6%	166%	1176	0%	17%	224.9	3%	48%	17655	-1.3%	8%	1.712	2.5%	70%
		6.1%			6.0%			0.9%			2.3%			0.7%			5.1%	