



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

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Staff Report
May 18, 2010

**Honorable Mayor and
Members of the City Council**

Title: Transmittal of Citywide Financial and Operational Review Final Report

Location/Council District: Citywide

Recommendation: Transmittal of Citywide Financial and Operational Review Final Report for discussion and direction to staff

Contact: Andrew Belknap, Management Partners, (408) 437-5400
Arne Croce, Management Partners, (408) 437-5400

Presenters: Andrew Belknap, Management Partners, (408) 437-5400
Arne Croce, Management Partners, (408) 437-5400

Department: City Manager's Office

Division: Not applicable

Organization No: 02001011

Description/Analysis

Issue: On September 1, 2009, the City Council approved a scope of work and directed staff to release a Request for Proposals (RFP) seeking proposals to conduct an independent citywide financial and operational review. On November 3, 2009, the City Council authorized the City Manager to execute an agreement with Management Partners, a national consulting firm specializing in local government, to conduct the review. Management Partners has completed a macro level review of City operations and finances and prepared a final report with their analysis and recommendations for the City to consider in developing its long-term financial and service sustainability.

Policy Considerations: An independent review of the City's operations and finances compliments the City Council's interest in identifying opportunities for cost savings, efficiencies and right-sizing the organization to meet reduced revenue trends.

Environmental Considerations: Not applicable

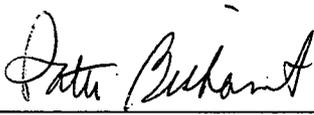
Commission/Committee Action: Not applicable

Sustainability Considerations: Not applicable

Rationale for Recommendation: The Financial and Operational Review Final Report presents several revenue and expenditure reduction strategies for city consideration. Staff is seeking City Council feedback and direction on strategies presented in the Final Report.

Financial Considerations: The Final Report identifies 49 revenue and expenditure reduction strategies for city consideration in developing a plan for long-term financial and service sustainability.

Emerging Small Business Development (ESBD): Not applicable

Respectfully Submitted by: 
Patti Bisharat, Assistant City Manager

Recommendation Approved:


Gus Vina, City Manager

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Background

On September 1, 2009, the City Council directed staff to release a Request for Proposals (RFP) to conduct a citywide financial and operational review. The purpose of the review was to identify cost savings, efficiencies/service delivery changes, and potential revenue opportunities in the General Fund and Utilities Department.

Following a competitive selection process involving nine proposing firms, Management Partners, Inc. was identified as the top proposing firm. Management Partners, Inc. is a national consulting firm specializing in local government with offices in San Jose and Cincinnati.

On November 3, 2009, the City Council authorized the City Manager to execute an agreement with Management Partners to conduct a citywide financial and operational review for an amount not to exceed \$129,950. The scope of work required Management Partners to identify strategies to close the City's projected deficit gap and achieve a sustainable balanced budget. The goal of this review was to identify options to the elimination or reduction of services, with a particular focus on strategies that had either not been identified or given thorough consideration in the past. Areas of focus included the following:

New/Increased Revenue Sources – Identifying new revenue sources based on best practice and benchmarking analysis

Expenditure Controls – Developing strategies which cap or save General Fund expenditures

Service Delivery Model Changes – Examining alternative service delivery approaches resulting in efficiencies and elimination of redundancies

Service Delivery Reductions – Reductions suggested by benchmarking or performance measures

Best practice case studies were utilized by Management Partners to assist in identifying potential financial and operational strategies for the City of Sacramento. Additionally, the scope of work required Management Partners to conduct benchmarking and review of peer agencies to further evaluate and contrast city operations with other agencies.

The Final Report provides 49 specific strategies for city consideration. Strategies are organized into three general categories: corporate governance, revenue enhancement, and expenditure reduction. The Final Report also includes analysis and observations related to the city's utility enterprises. An interim report on key findings and preliminary conclusions was presented to the City Council at the February 11, 2010 budget workshop.

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Presentation on Independent Budget Review

Sacramento City Council
May 18, 2010



MANAGEMENT PARTNERS
INCORPORATED

Our Experience

- Serving local governments nationally since 1994
- Have successfully completed hundreds of projects involving budgeting and service delivery
- CA clients include; San Jose, Fresno, Long Beach, Anaheim, Orange County, Burbank, Santa Ana, San Bernardino, San Francisco, Vallejo, Tracy, Rancho Cordova and many others

Our Sacramento Engagement

Assist the City in development of a financially sustainable budget

- Identify alternatives to service cuts
- Bring ideas from other cities and push the envelope on ideas
- Provide the Mayor and Council with a broad menu of choices to craft a balanced approach

Our Sacramento Team

- Fourteen consultants assisted with this project, all of which have worked on similar engagements in other California settings
- Team included individuals with decades of experience managing entire cities as well as subject matter experts in municipal finance and the services delivered by cities

The Problem

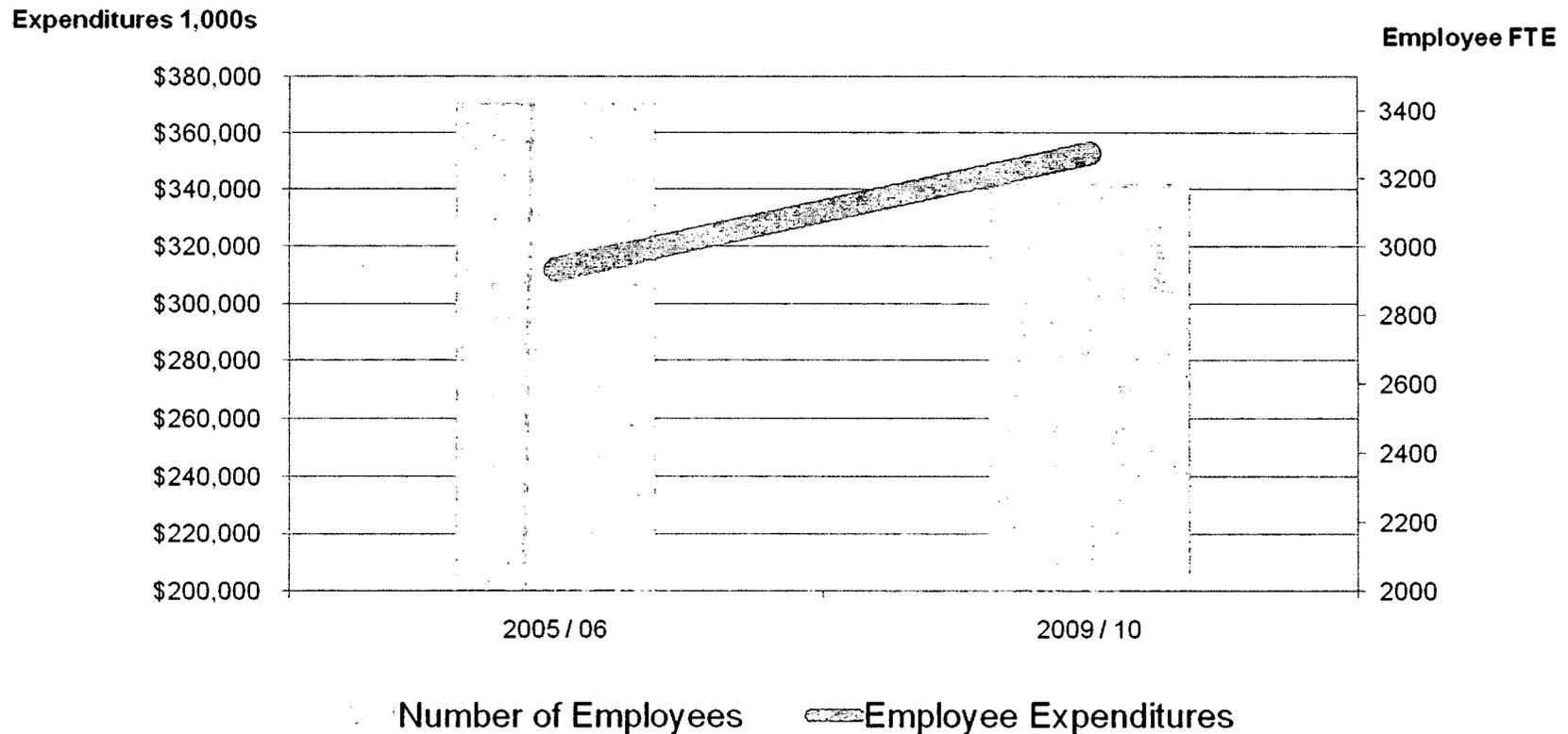
- Revenues have dropped to 2005 levels and are not projected to return to previous levels for several years
- The cost of providing services has increased substantially above 2005 levels
- Annual spending cannot exceed annual revenues indefinitely

Important Observations

- The budget has been balanced largely with a variety of one-time measures - which are mostly used up
- Program reductions are moving the City away from the goal of being a “full-service” organization
- The City is unable to fund the operation and maintenance of new facilities still being constructed with development fees
- Given current trends the City’s utilities will require support from the General Fund
- The City organizational structure does not reflect current financial realities

Employee Costs are City's Largest Expenditure

Employee Expenses Have Increased In Spite of Reductions in Positions



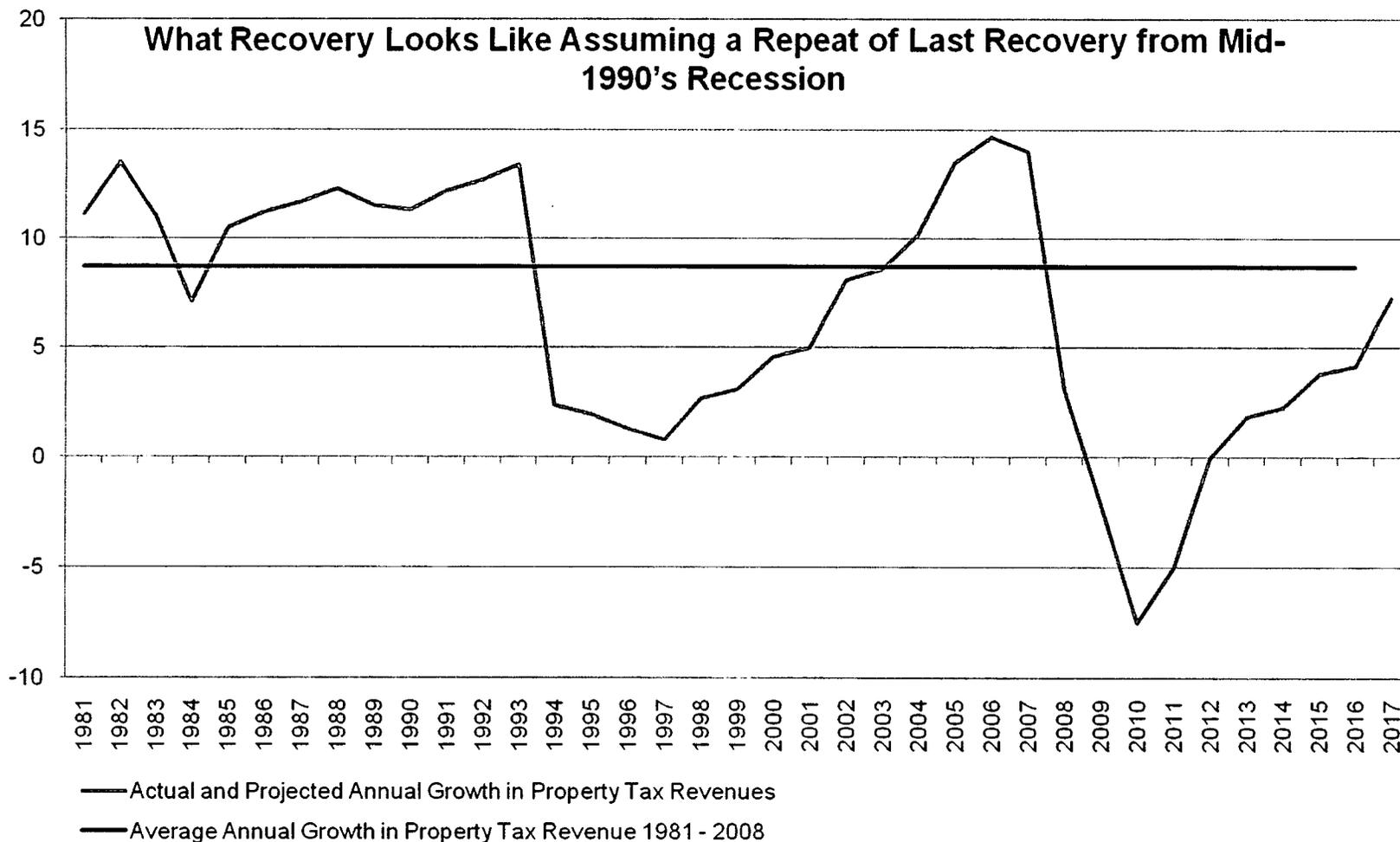
Are There Solutions?

Yes, but.... they require:

- Making difficult decisions on priorities
- Making decisions that will be unpopular with every constituency
- Department director leadership in new approaches to municipal service delivery
- Moving to compensation practices which are consistent with the economic realities
- Building support for revenue measures by continuing fiscal discipline

Waiting on a Recovery is NOT a Solution

Annual Percentage Change in Property Tax Revenues



The Big Picture Revenue

- New general revenue of \$65-\$105 million
 - Voter approval required: Sales, Business, TOT, Parking
 - Changing priorities: Shift CDBG
 - Fees and service charges: Development processing, Fire inspection
 - Other: Ambulance subscription service, Police tows

The Big Picture Expenditures

- Expenditure Reduction Options \$36-\$49 M

Change	Examples
Reduce management	Consolidate departments
Service consolidation	Public safety dispatch; Animal control
Competitive service delivery	Park maintenance; Convention center; Paint and body work
Business practice changes	Vary fire staffing based on conditions; Police civilianization; Code notification process / fines
Compensation	Pension changes; Incent retirees to use Medicare when eligible; Revise overtime calculation

Achieving Financial Sustainability

- No one approach will solve the problem
- Balanced program of
 - New revenue
 - New ways of doing business
 - Rethinking priorities
 - Resetting compensation

Comments and Questions

Thank you



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INCORPORATED

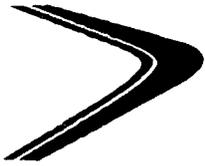
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CITY OF SACRAMENTO
CITYWIDE FINANCIAL AND
OPERATIONAL REVIEW

April 2010



MANAGEMENT PARTNERS
INCORPORATED



MANAGEMENT PARTNERS

INCORPORATED

April 29, 2010

Ms. Patti Bisharat
Interim Assistant City Manager
City of Sacramento
Governmental Affairs
915 I Street, 5th Floor
Sacramento, CA 95814

Dear Ms. Bisharat:

Management Partners is pleased to submit our project report for our work on the Sacramento Financial and Operations Review. The report provides our analysis and recommendations for the City to consider in developing a plan for long-term financial and service sustainability.

This report incorporates the results of your comments on the administrative draft as well as some additional information gathered since publishing that draft.

Our review of the government had one primary objective and one major limitation. The objective was to examine all Sacramento government operations to identify opportunities to close the structural deficit faced by the City. We examined the operations of every department in an objective and independent manner with this goal in mind.

The major limitation of this review is that it is a macro level analysis of the overall operations of the entire government, which is an extremely complex entity with an operating budget of over \$400 million and a work force of more than 5,000 employees. The review was not designed to provide focused, detailed analysis of specific, individual government functions. Some of the recommendations, therefore, identify areas where additional analysis will, in our professional opinion, provide significant opportunity for improving cost-effectiveness.

Our work has benefited greatly from the assistance and collaboration of your office and staff in all departments. All have been responsive and helpful. Sacramento's residents are fortunate to have a talented and professional staff.

We look forward to presenting our report and recommendations to the Mayor and City Council.

Sincerely,

Gerald E. Newfarmer
President and CEO

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EXECUTIVE SUMMARY

Background

The City of Sacramento has been buffeted by the most challenging times to face local government since the Great Depression of the 1930s. Like all cities, the revenue base has been decimated by the recession as major general revenue sources declined after several years of robust growth. The collision of high revenue growth years and the crash after the housing bubble burst and the recession hit in 2007 through 2009 created a major structural deficit problem for the City. Operating expenses continued to grow, largely fueled by increases in employee pension costs and multi-year labor contracts granted in good revenue years, and a balanced budget could not be sustained with the new revenue base, creating the gap between annual revenues and costs which we call the structural deficit. In addition, the state continued to find ways to extract local revenue and use it for state functions, making a bad situation worse.

Beginning in FY 2008/09, the City undertook tactical responses to address the crisis, and to keep expenditures in line with available revenue. These responses included:

- General Fund expenditure reductions of \$108 million. Some departments have had budget reductions of approximately 50%.
- A draw down of reserves for economic contingencies from \$30 million to \$10 million.
- Reduced spending on capital programs, including infrastructure maintenance.
- Renegotiation of labor agreements to spread out contracted salary increases.
- Increased revenue, where feasible.

These responses are deemed tactical because, by necessity, they often reflect the use of one-time monies or expenditure reductions that are not sustainable (e.g., reductions in maintenance of City facilities and infrastructure). Despite these dramatic and substantial actions, the City has been unable to get out in front of the budget problems it has been experiencing. In fact budget projections in late 2009 for 2010/11 indicated that the City faced a projected General Fund budget shortfall of between \$35 and \$45 million. At this time, the Mayor, City Council and management recognized that the City was not simply responding to a temporary downturn in the economy where revenues could be expected

to bounce back quickly to keep current services intact. Rather, the City was facing a long-term financial condition that would require a strategic approach to develop a new revenue and service model that could be sustained indefinitely.

To identify the full menu of options available to bring expenditures and revenue into balance over the long term, the City undertook two initiatives. The first was a Program Oriented Development (POD) review process that City management structured to categorize each service currently provided as either mandatory, essential or an existing program.

For those that were categorized as mandatory, the authorizing act requiring the service (e.g., City Charter, state law, federal regulation) was identified as was the level of service required to fulfill the mandate. The annual cost and number of employees supporting each program was also identified. The purpose of the POD process is to present the City Council with the hierarchy of current services and programs so they can make funding decisions based on the revenue available.

Independent of the POD process, the Mayor and City Council sought an outside, independent review of the City's financial and operating situation. The goal of this review was to identify options to the elimination or reduction of services, with a particular focus on strategies that had either not been identified or given thorough consideration. After a competitive process, Management Partners was retained for this task. Management Partners is a national consulting firm specializing in local government with offices in San Jose and Cincinnati.

Underpinning the Mayor and Council's interest in the identification of alternatives to cutting or severely reducing services was Sacramento's long history as a full service "plus" city government. Historically the City has had a mission that goes beyond providing public safety and infrastructure. A variety of programs, services and facilities to improve the quality of life of the residents and maintain a vibrant commercial climate have been developed over the years. Given the natural priorities of the community and the cost structure in police and fire services, City leaders were concerned that with the tactical responses to date the share of net General Fund resources going to public safety grew from 55% to 77%, which threatened the City's long term ability to provide a broad range of services.

Analysis

Management Partners began the engagement with a learning phase that included reviewing recent budgets and annual financial reports to broaden our understanding of the dynamics of the City's revenue base, services and organization structure. Current practices and policies that impact revenue and expenditures were reviewed, including agreements with the City's labor unions. Detailed interviews were conducted with city

management staff and department directors to gather their assessment of the situation and ideas on alternatives to outright service elimination. We reviewed the POD process as it progressed and previous actions taken to address the financial problems. The results of the 2009 employee survey were also reviewed to identify employee-generated suggestions to address the City's financial challenge.

To learn from the experiences of others, eleven cities were selected as good "peer matches" for Sacramento. These included seven of the larger cities in California and four other state capital cities in the West and Midwest. A benchmark survey was conducted on a broad range of revenue, expenditure and operating metrics. The purpose of the peer review was twofold: to understand how the financial and operating dynamics of Sacramento compare to similar communities and to identify practices in the peer cities that may have value to apply in Sacramento.

After the learning phase, an inventory of potential strategies to both decrease cost and increase general revenue was developed. This was followed by meetings with City management and key staff from operating departments to vet the strategies, identify fatal flaws or significant implementation obstacles and gather strategy ideas we had not identified. Following this step, Management Partners selected the strategies that appeared to have the most promise and utility for Sacramento and did further analysis on the financial and service impacts of the strategies and issues that would be associated with implementation.

The core of this report includes a review of over 40 discrete strategies with an estimated total annual dollar value in the range of between \$101 and \$154 million. These strategies are grouped into broad categories that reflect the organization of this report. These categories are briefly summarized below.

The **Corporate Management** section includes opportunities to restructure the City organization to better align and coordinate service delivery and to reduce the number of departments and management positions. It also suggests streamlining the current structure of boards and commissions that are advisory to the Mayor and Council.

The section on **Increasing Revenues** contains strategies that include new revenue that could be derived from a variety of mostly voter approved taxes; shifting of revenue from a current use to support General Fund expenses; and opportunities from new or existing fees or user charges of one type or another.

The section on **Expenditure Reductions** includes strategies to consolidate certain services with the County of Sacramento and other cities; changes in the method of service delivery for certain services; revisions to current service delivery business practices; and recommendations to eliminate or reduce some services. Given that the focus of the POD was on *what* service the City provides, Management Partners' focus was primarily on *how* various services are provided.

A summary of the recommendations by category is displayed in Table A below.

TABLE A: SUMMARY OF RECOMMENDATIONS BY CATEGORY

Sacramento Budget Strategy Annual Financial Impact Summary (in \$ Millions)		
Corporate Management Restructuring	\$1	\$3
Revenue Options		
Voter Approved Tax Options	\$46	\$78
Voter Approved TOT Reallocation	\$7	\$7
Increased Franchise and User Fees	\$9	\$17
Revenue Shifts	\$3	\$3
Revenue Sub-Total	\$65	\$105
Expenditure Options		
Service Consolidation	\$5	\$5
Competitive Sourcing	\$13*	\$13*
Business Practice Changes	\$8	\$9
Compensation Changes	\$9	\$19
Expenditure Sub-Total	\$25	\$46
TOTAL	\$101	\$154

*Of this amount, \$5 million would accrue to the General Fund

One of the important implications of Table A is that we are suggesting a balanced approach. This is not an accident. In our experience as consultants who assist local governments, it has become apparent that solving budget problems must rely on a variety of changes and techniques. The problems cannot be solved solely by increasing revenues or by abandoning all traditional business practices by, for example, contracting out all municipal service delivery. Nor can a city afford to gut its internal support and management capability in an effort to preserve front-line service delivery. Doing so would mean it would gradually become unable to operate effectively or in compliance with the myriad of regulations that apply to local government. The answer lies in doing a bit of everything, taking into consideration each city's unique strengths and challenges. Above all, it requires being strategic and future-oriented and a consciousness that the city will be there long past the lifetime of current residents and policymakers.

This report also includes a brief section on the City's major utility funds—water, wastewater, solid waste and storm drainage. While the focus of our work was developing strategies to achieve service and financial sustainability in the General Fund, we were engaged to also provide an overview of the financial condition of these utilities and have made some broad recommendations aimed at improving their fiscal situation.

Summary of Recommendations

Following is a high level summary of major recommendations. These include our estimate of the financial impact on the City's General Fund. These strategies, in conjunction with the options coming from the POD process, give the Mayor and City Council a range of options to close the structural deficit and achieve financial stability while remaining a full service city. All recommendations are included in Attachment A.

Corporate Governance

Two recommendations are made regarding corporate governance. One is to restructure the organization of services and functions into fewer departments. Sacramento has more separate departments for the same mix of services than peer cities. Reorganizing into fewer departments can produce an estimated annual savings of between \$1 and \$3 million resulting from the elimination of management positions and the merger of duplicative administrative and support functions.

A second recommendation is to streamline the City Council advisory body structure. While direct savings will be minimal, the consolidation of some and elimination of other advisory bodies will free up precious staff time in departments that have had significant personnel reductions.

Revenue Strategies

We have placed **Revenue Strategies** into three subcategories: *voter approved other revenue*, and *revenue shifts and functional revenue*.

Voter Approved

The City has a wide array of revenue options to place on a ballot for voter consideration. Most of these ballot measures can be structured as either a *general tax* or a *special tax*. General taxes require a simple majority approval and can be used for any government purpose determined by the City Council. Special taxes require that two-thirds of the voters approve the measure and can only be used for the purpose specified in the ballot measure.

A **sales tax** of one-quarter to one-half percent per \$1.00 would generate from \$13.5 to \$27 million annually. Cities and counties have the option to add an additional sales tax levy to the basic sales tax rate to be used for general government services. Many cities in California have successfully passed sales tax measures.

A **parcel tax** could raise from \$9.9 to \$13.8 million annually. A parcel tax is a flat dollar annual assessment as opposed to the amount of tax being based on the value of the property. Parcel taxes can be at different rates for different types of property, e.g., a rate for commercial property and a rate for residential property. Parcel taxes can be structured as either general or special purpose.

A **parking tax** of 10% could raise approximately \$3,000,000 annually. Several California cities assess Parking Taxes for users of public and private garages. Tax rates range from 10% to 25% of the parking rates. Sacramento is one of the larger cities in California without this revenue source.

An increase in the **real property transfer tax** could generate from \$2.9 million to as much as \$18.0 million annually, depending on the rate increase. With a current tax rate of \$2.75 per \$1,000 of transaction value, Sacramento is at the low range of other Northern California charter cities with respect to this revenue source.

An increase in the **business operations tax** could raise approximately \$9,300,000 annually. The City has not adjusted business operations tax rates in many years and currently receives less than half the per capita business tax than peer cities.

Establishing an **emergency communication system access fee or tax** could generate approximately \$7.3 million annually. This is a flat monthly fee assessed on telephone and communication lines within the city. The revenue from the fee would go to support the City's 911 emergency communication system.

A reallocation of the **transient occupancy tax (TOT)** could free up an estimated \$7 million annually for general City services. Sacramento allocates 10% of the current 12% TOT to support the Convention Center and visitor promotion. The bulk of the proceeds currently service debt on the Convention Center. As TOT is a general revenue source, most cities allocate all or a significant portion of the tax to the General Fund.

Through a careful process of evaluating the financial impacts on both the City and on the business and residential communities, and the use of polling, it is recommended the City craft a ballot measure or measures to raise additional general revenue as part of a balanced plan to achieve service and financial sustainability.

Other General Revenue

Increasing franchise fees or functional revenues both offer another opportunity for increased revenue. Franchise fees are charged to businesses for the right to do business in the city and to offset service demands and infrastructure impacts from their presence. The City currently does not receive franchise revenues from the electric service provider, Sacramento Municipal Utility District (SMUD), nor does it collect the maximum franchise fees from commercial solid waste haulers. If SMUD provided a typical franchise fee the City would realize an estimated \$5 to \$7 million per year. Increasing the franchise fee for commercial haulers to the same level as other providers would raise approximately \$800,000 annually.

Revenue Shifts and Functional Revenue

Shifting revenue currently being used for one purpose to support eligible activities currently funded out of the General Fund is another revenue opportunity available to the City. The use of CDBG funds for eligible code enforcement activities would free up approximately \$3.0 million a year for other general services. Shifting the funding for tree maintenance completely out of the General Fund and into the landscape maintenance districts would provide an additional \$650,000 annually in revenue for general purpose.

Significant opportunities exist to generate additional general revenue from specific services and functions performed by the City. These include:

- Increasing planning and building fees to cover a greater share of applicant/project costs would generate between \$1 and \$5 million annually.
- Establishing a subscription program for ambulance service would provide between \$1 and \$2 million annually.
- Establishing fees for fire inspections performed by engine and truck companies could provide between \$230,000 and \$790,000 annually.
- Competitively bidding the police vehicle tows and awarding an exclusive contract to one company could generate \$500,000 to \$1.0 million annually.
- Establishing a policy that revenue from any new sources, such as digital billboards, and facility naming rights be designated as general revenue and not earmarked for specific projects or programs.

Expenditure Strategies

There are opportunities for the City to significantly reduce the cost of providing current services. With approximately 85% of the General Fund budget going to employee-driven costs, most of these opportunities result either from having a smaller City workforce or having a lower compensation structure.

These have been organized into the broad categories of ***changing service delivery models, changes in business practices, service reductions and eliminations and changes in compensation policies and practices.***

Changing Service Delivery Models

Significant savings can be achieved if the City is willing to abandon the 20th century model of directly providing most services through stand-alone City departments with a public employee workforce. The Sacramento metropolitan area is rich with functional consolidation opportunities between cities and the County. Sacramento County serves a large urbanized population with an organization structure and services that mirror those of the City. Additionally, other cities in the County provided the same services to their residents and businesses. Considerable cost

savings can be achieved by functionally consolidating the provision of many services into a single entity.

The City is currently a party to a number of consolidated service models including libraries and waste water treatment. In December 2009 the City Council and Board of Supervisors directed staff to explore functional consolidations. This work is in progress. Management Partners recommends that the City convene a regional summit to discuss consolidation opportunities and perhaps work with the Sacramento Area Council of Governments to develop a regional approach to studying such opportunities.

This report contains recommendations for specific consolidations with the County and other cities. The estimated savings are:

- Emergency dispatch communication (911) — \$2.2 million
- Major crimes investigation — \$750,000
- Police property and evidence management — \$290,000
- Police special teams units e.g., SWAT— \$840,000
- Police air support — \$200,000 to \$500,000
- Animal care services — \$308,000

Competitive sourcing is another way to achieve significant cost reductions while maintaining current services. Because of the essential monopoly status of many governmentally provided services, compensation has expanded and inefficient practices have sometimes remained unquestioned. In response to this, a competitive market model has evolved for the provision of many city services. The Lakewood model, first developed in Southern California during the 1950s and 1960s has demonstrated that many city services can be provided under contract either privately or with another governmental provider.

The City currently uses contract providers for certain services including utility billing, some park maintenance, some tree maintenance and some parking garage operations. In addition the development of managed competition has been developed to allow government to get the best value proposition from either an outsourced or directly operated function. Utilizing a competitively sourced delivery model for several services could eventually result in annual savings of as much as \$13 million, with an estimated \$5 million of benefit to the General Fund.

Management Partners recommends that the City begin by competitively bidding the following. The estimated savings that would result is significant.

- Fleet Body and Paint Shop — \$100,000
- Park Maintenance — \$1.4 million
- Golf Course Operations and Maintenance — \$879,000
- Convention Center Management and Operations — \$1.4 million

The City allowed the Parks Unit to bid on a recent contract to maintaining six parks. This practice could be continued for future competitive sourcing

processes. In the event services are outsourced, provisions can be included in the contract to provide for the transition of current City workers to the new provider.

Service Reductions and Elimination

The City's POD process brings forward a comprehensive identification of service reduction and elimination options. The focus of Management Partners was on alternatives to service elimination and reduction. Through the course of our work, however, we have identified two service reductions strategies. First, closure of three swimming pools would save approximately \$335,000. Second, eliminating General Fund contributions to facilities run by non-profit agencies that charge entry fees would save an estimated \$2.5 million.

Business Practice Changes

A change in the business practices currently used to provide some services can result in significant savings. Recommended changes are:

- Restructure fire suppression and ambulance service — \$5.7 million
- Civilianize certain police management positions — \$180,000 to \$300,000
- Change the response to an initial report for code enforcement violations — \$365,000
- Consolidate most information technology resources into the central department — \$1 to \$2million
- Lease three community centers to organizations or professional tenants — \$450,000.

Compensation Changes

The City of Sacramento is an excellent employer. It offers competitive compensation levels and excellent benefits including a generous defined benefit retirement plan and comprehensive medical insurance. City employees have important jobs to do and they deserve to be, and are, well compensated. Salaries and benefits are 85% of the City's total General Fund expenses. Because these benefits have in many cases eclipsed benchmarks in the private sector, significant savings opportunities exist by changing current policies and practices. It is recognized that most of these issues are subject to future contract negotiations with the City's labor unions. Management Partners recommends the following changes for consideration in future contract negotiations.

- Employees picking up all or a part of the employee contribution to the CalPERS pension plan could raise \$2.5 to \$10 million and is justified given the City's inability to continue with these generous retirement benefits for new employees
- Because existing pension levels are no longer sustainable, changing to a retirement plan for new employees with lower benefits than current plans must be considered. Reverting back to the PERS plans the City had in place up until 2000 is estimated to

save approximately \$3.5 million annually after ten years up to \$7.0 million after 20 years, in current dollar value.

- Switching to a flat dollar amount for the City's contribution for health insurance, a common practice could save \$1.7 million.
- Phasing out the practice of paying for retiree health insurance could save \$3 to \$6 million annually. Lesser cost options such as Health Savings Accounts and application to Medicare for older retirees are available.
- Amending the City Charter to conform to state law regarding payment of disability benefits to non-safety employees would save approximately \$300,000.
- Conforming overtime calculation policies to federal and state law would save \$1.3 million.
- Including the consideration of private sector compensation in negotiating compensation for positions where the same or similar work is performed in the private sector could reduce costs for positions where the City would still get many qualified applications. The savings from this strategy is undetermined.
- Avoiding across the board salary increases (COLAs) that exceed the CPI would save the City money and provide the intent of a COLA adjustment, which is maintaining purchasing power not providing a raise. The cost savings could be substantial.

Between the POD review process and the independent assessment by Management Partners, the Mayor and City Council have more than enough options to achieve the desired service and financial sustainability over the next three year and remain a full service city. While the options are plentiful, the choices and decisions are hard.

BACKGROUND

To provide context for this report, this section includes an overview of the City of Sacramento's financial condition and how it came to be. This background will allow the reader to understand how the structural deficit occurred as well as how the City has addressed the situation in recent years. It will also provide an explanation of why this type of analysis is important.

Government Overview

Founded in 1849, the City of Sacramento is the oldest incorporated city in California. In 1920, Sacramento city voters adopted a City Charter (municipal constitution) and a Council-Manager form of government. The City Council consists of a Mayor, elected by all City voters, and eight Council members, elected to represent separate districts in the City. Each Council member is required to live in the district they represent. The Mayor and Council members serve four-year terms. Elections are staggered.

The City of Sacramento is home to approximately 482,000 residents and is the seventh largest city in California. Population density is approximately four people for every square mile of land. According to the 2000 Census, the City's population is 48% white, 28% non-Hispanic white, 15% black and 17% Asian.

Sacramento is the capital of the State of California as well as the seat of Sacramento County. The City is the core cultural and economic engine of a four-county metropolitan area (El Dorado, Placer, Sacramento and Yolo counties) of over 2.1 million residents. The Sacramento Metropolitan Area is the largest in the Central Valley and the fourth-largest in the state.

The City's economy is broadly based although government is by far the largest employer. Of California's 471,000 state government employees, an estimated 25% work within the City. Transportation is a large sector as well as information technology, leisure and hospitality, professional and business services, higher education, health services and research, and construction. In addition, the Sacramento River provides a deep-water port connected to the San Francisco Bay via a 43-mile channel that allows international shipping.

The City employs 4,595 full-time equivalent (FTEs) employees and has a total “all fund” budget of \$875.1 million, \$385.9 million of which is in the General Fund.

Fiscal Context

Many cities and counties in California are facing a fiscal situation that has come to be called a “structural deficit.” This occurs when ongoing revenue sources are no longer able to fund ongoing operational expenditures. It is not a temporary situation linked to a particular event or cycle, but rather is a chronic condition requiring action and change.

The financial stresses causing structural deficits are related to increasing service demands, aging infrastructure and escalating personnel costs, often linked to pension increases. Compounding these expenditure drivers are two important facts: in California, local revenues are constrained by various constitutional initiatives approved during the last 30 years and the state has continually shifted local property taxes to accommodate its own budget needs.

These general issues have been exacerbated by the greatest economic recession since the Great Depression. Sacramento has been among the hardest hit regions of the country, suffering from extreme job loss and mortgage foreclosures that have occurred as a result of the recession and from the burst of the housing bubble. As a result, major sources of general revenue have decreased significantly. Some of these conditions are a result of a cyclical decline, but experts are also predicting that we should not expect to see a return of the housing boom that drove so much of the Sacramento economy anytime soon, if ever.

Regional Economic Conditions

Cities depend on a healthy local economy for their livelihood. Most cities’ revenues in California are derived from sales tax, property tax and other sources of revenue that are dependent on activity in the underlying local economy.

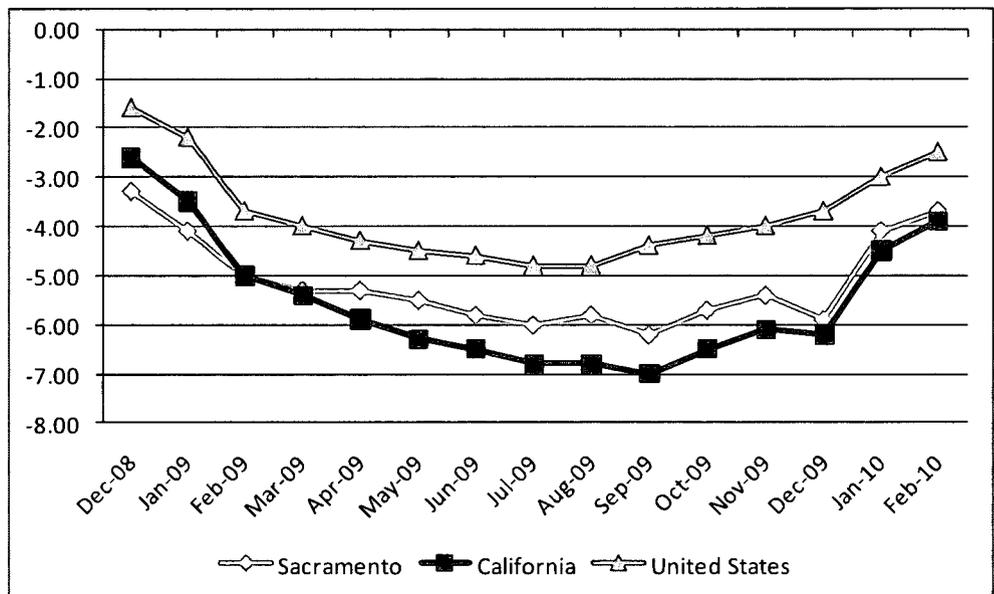
One of the best measures of the strength of the local economy is the number of jobs it generates. According to the Sacramento Regional Research Institute (SRRI), the six-county Sacramento regional area began losing jobs in October 2007. Figure 1 below depicts Sacramento’s job loss compared with the State of California and national situation since December 2008. It is apparent that Sacramento entered the recession sooner and was hit harder than the country as a whole.

Since then, virtually all the major sectors of the Sacramento economy including government, retail trade, construction activities, business and

professional services, hospitality and manufacturing have seen employment losses. In early 2010 the rate of job loss in the Sacramento area declined, mirroring national and state trends.

The latest projections are somewhat encouraging as SRRI noted that two of Sacramento's largest sectors (Professional and Business Services and Trade and Transportation and Utilities) have been showing considerable improvements in negative job growth, influencing recent overall economic performance. However it is important to note that the region has still not seen positive job growth since mid-2008, possibly making this the longest recession since the 1930s.

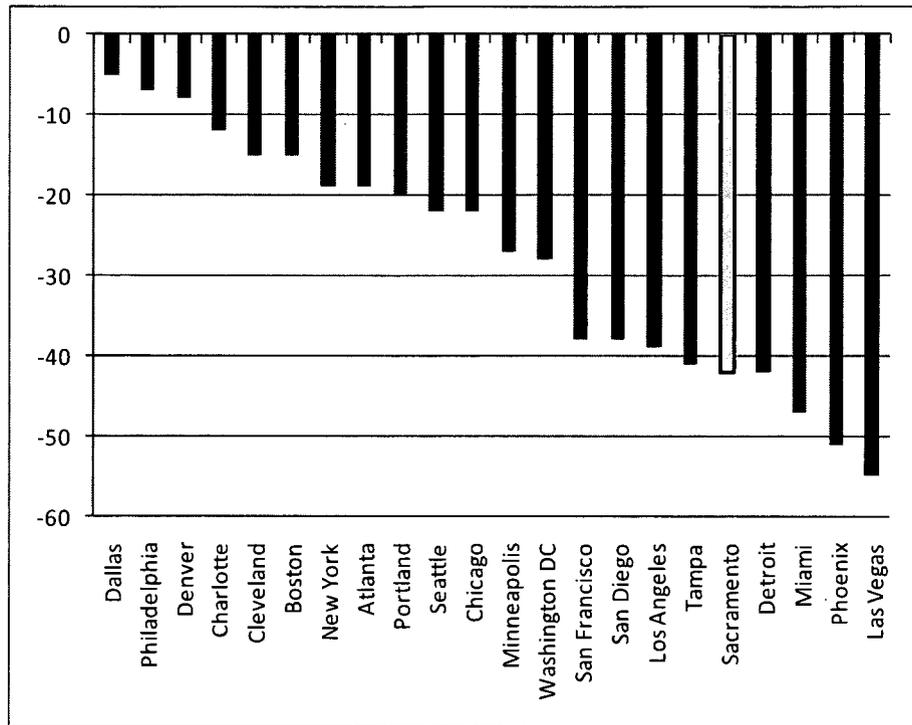
FIGURE 1: JOB LOSS FROM DECEMBER 2008 TO FEBRUARY 2010



Source: Center for Strategic Economic Research, December 2009

The Sacramento metro area has also experienced one of the steepest declines in property values in the nation, as illustrated in Figure 2.

FIGURE 2: COMPARATIVE PROPERTY VALUE DECLINES FROM JULY 2008 TO JANUARY 2010



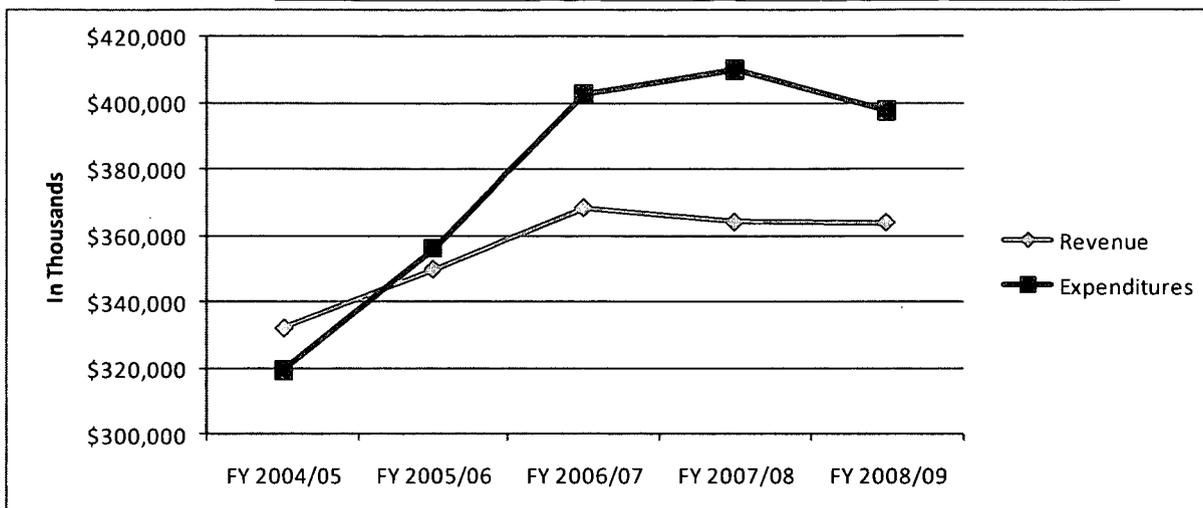
Source: Chase Shiller Macro Markets LLC

The region has not experienced this kind of economic collapse in more than 75 years, and the impact has been and will continue to be profound on the City of Sacramento's budget.

Impact on the City

The impact of the cumulative financial trauma on the City of Sacramento has been unprecedented. This is reflected in Figure 3 below. The City has had to cut \$108 million over the past two fiscal years.

**FIGURE 3: CITY OF SACRAMENTO GENERAL REVENUE AND EXPENDITURES
FROM FY 2004/05 THROUGH FY 2008/09**



Source: City of Sacramento Comprehensive Annual Financial Reports

As will be explained below, because the City has not been able to cut expenditures as fast as revenues have dropped, a variety of mostly one-time monies have been used to balance the budget. While it is not possible for Sacramento or any city to respond immediately to a significant drop in revenues, on-going expenses must eventually be reduced to match revenue. This must be done soon.

The problem has not yet abated as major general revenue for the current 2009/10 fiscal year is lower than projected when the Council adopted the budget in June 2009. All of the City's major revenue sources, sales tax, property tax, transient occupancy tax and utility users' tax, are down significantly (by some \$17.6 million) in 2009/10 relative to the adopted budget. As a result, the City had to use one-time monies at a greater rate than anticipated. Fortunately before the economy started to falter, the City built the economic uncertainty fund to \$30 million. This fund helped bridge the gap between revenue and expenditures in FY 07/08 and 08/09 and will help the transition as the City takes steps to achieve financial sustainability over the next three years.

The City's Response So Far Has Been Tactical

As noted above, the City had to use one-time monies to deal with most of the impacts of the revenue reductions to date. In response to this situation the City has undertaken a number of actions including:

- Implementing significant budget reductions in all departments. Some departments have had reductions greater than 50%.
- Increasing revenues.
- Drawing down the economic reserve that went from \$30 million to \$10.5 million in three years.
- Negotiating labor concessions including salary deferrals.
- Freezing most hiring and implementing other expenditure controls.
- Eliminating most General Fund capital improvement projects.

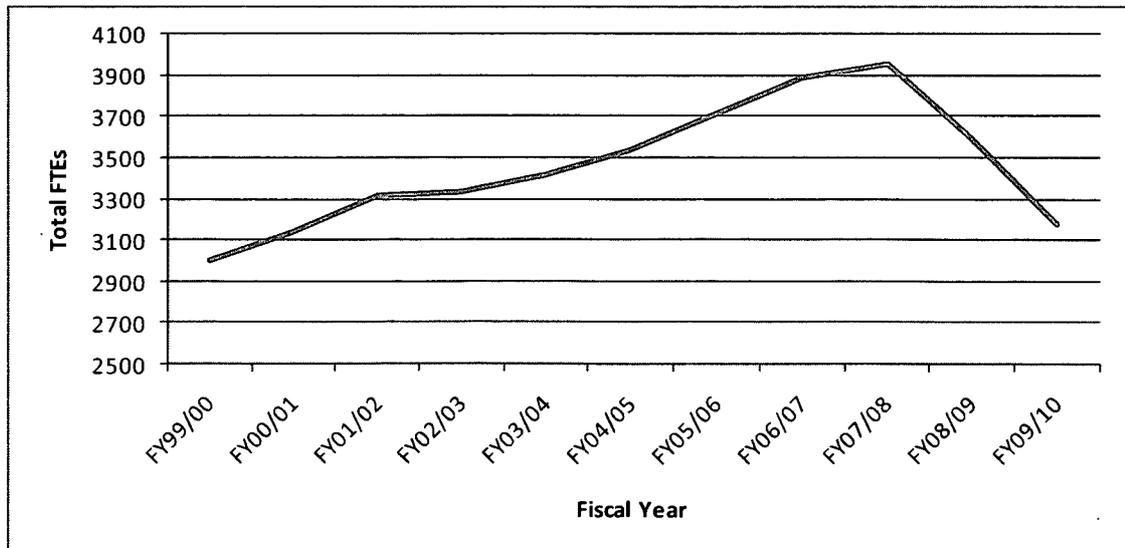
It is important to note that so far the City has mainly taken a tactical approach to balancing the budget on a year-to-year basis, taking the steps it could without having an overall strategy for the long-term alignment of expenditures with revenues. While an initial tactical approach is unavoidable given the quick and severe impact of the recession, many of the expenditure reductions and other actions taken are not sustainable, and may even make the long-term situation worse. Examples of such reductions include:

- Deferring maintenance of City infrastructure and facilities.
- Not filling vacant positions without regard to the City's long-term strategic need for the position.
- Using the fund balance to support operations.
- Reducing support functions such as human resources or information technology below the level necessary for satisfactory long term performance.
- Terminating organization development and employee training efforts.

Obviously the economic contingency reserve will quickly be exhausted, maintenance cannot be put off forever, and some types of employees will eventually need to be replaced.

As will be detailed later in this report, the City's major cost is related to personnel expenditures. The City has in fact reacted quickly to eliminate positions where possible (mainly via attrition and an early retirement incentive program). With the elimination of 410 General Fund positions in FY 2009/10, total General Fund supported staffing is lower in FY 2009/10 than it was in FY 2001/2002, as shown in Figure 4.

FIGURE 4: AUTHORIZED GENERAL FUND STAFFING LEVELS FROM FY 1999/00 TO FY 2009/10



Source: City of Sacramento Finance Department and budget documents

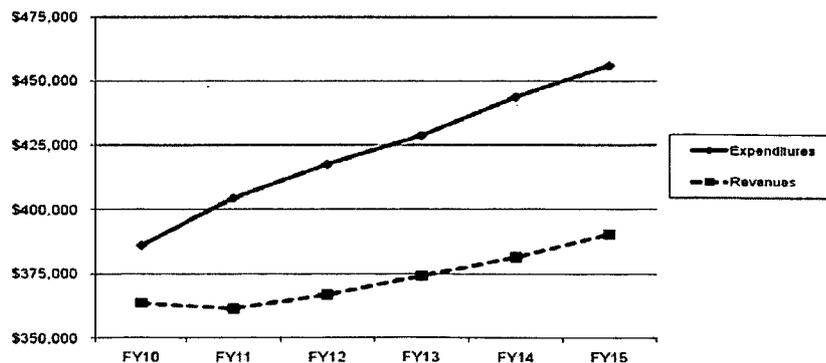
Even with major cutbacks in the number of positions, the City's main expenditure driver, personnel costs, are still significantly higher than just a few years ago. The cost per employee is higher than ever. So, while employee service costs in the current year budget have been reduced by almost \$20 million compared with the prior year, the City is still spending \$100 million more than in FY 2004, when there was a significantly larger workforce. In addition, the City has grown since 2000 and as a result, service demands have increased. Assuming the City resumes growth, it will need more police officers and other municipal employees to keep up with service demands.

Another factor indicative that the City has yet to develop a more strategic approach is that it continues to construct new facilities, even when it is unable to satisfactorily operate and maintain existing facilities. For example, from January 1, 2010 through December 31, 2011 there are approximately 50 new acres in 10 parks scheduled for development. Although this is funded by development fees, the ongoing maintenance of the parks is a General Fund obligation, which will cumulatively dwarf the impact fees collected.

It is clear that despite the significant expenditure control actions, the City has not been able to get out in front of the deteriorating financial condition. And the worst is yet to come; in FY 2010/11 the City will experience the impact of reduced property taxes from lower property assessments and another significant increase in PERS costs to offset investment losses from the recession.

A structural deficit in the General Fund of between \$35 and \$45 million is projected for FY 2010/11. As Figure 5 shows, in the absence of significant actions to revenue and expenditures, the City's financial condition is projected to worsen over the next five years.

FIGURE 5: PROJECTED GENERAL FUND REVENUES AND EXPENDITURES FY 2009/10 TO FY 2015/16



Source: City of Sacramento

Figure 5 does not reflect what will occur. The City has to bring revenues and expenditures in line to have a balanced, sustainable, budget. That is why this evaluation is important. It is a first start, along with the City's new budget process for FY 2010/11, to developing a sustainable budget in which City programs and expenditures are in alignment with the revenues available.

The Mayor and City Council adopted a policy framework on February 11, 2010 that is guiding this work. It can be summarized as follows:

- A balanced approach to a sustainable budget using the following strategies:
 - Alternative Service Delivery
 - Streamlining and Right-Sizing the Organization
 - Revenue Improvements
 - Use of One-time Reserves

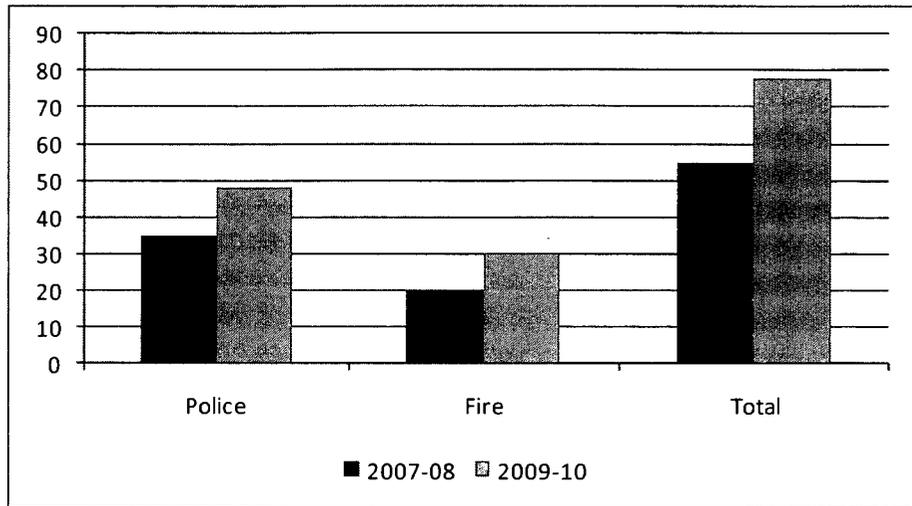
- Fiscal and Organization Principles:
 - Develop a sustainable budget plan
 - A balanced budget for FY 2010/11
 - Use one-time resources strategically
 - Balance layoff impacts with service level decisions
 - Address full service City status

Full Service City at Risk

Another important factor that should be mentioned is that during the last several years the City has cut deeper in non-public safety services. This is certainly understandable, as police and fire services are core municipal services. However they are not the only municipal services.

Sacramento has taken great pride in being a full service "plus" city, offering a broad range of services that enhance the quality of life for residents. These include an extensive network of parks and recreational facilities, cultural activities, and youth oriented programs. The current financial crisis threatens the ability of Sacramento to continue to provide its residents with a broad array of quality of life services and programs. With budget reductions being much more severe in the non-public safety departments, the net General Fund portion of revenue allocated to the police and fire departments has increased from 55% in FY 2007/08 to 77% in the current year. This dynamic is shown in Figure 6.

FIGURE 6: PUBLIC SAFETY EXPENDITURES AS A PERCENT OF NET GENERAL FUND RESOURCES



Source: City of Sacramento 2009/10 Budget

If the current trend was to continue (and it cannot for many reasons), spending on police and fire would “crowd out” all other spending, including support services as well as the many municipal amenities that add so much to the current quality of life in Sacramento. Therefore, a serious evaluation of how to decrease the net General Fund resources going towards police and fire as a percentage of total resources must be completed. By necessity, this will involve a discussion of new revenue options as well as expenditure controls and reductions.

Developing a Financially Stable City Government

The above discussion has shown that the City’s current economic and budget environment is serious, that a systematic structural budget deficit exists and that existing approaches to deal with the problem are not a solution. As mentioned previously, the recession hit so fast and so hard that cities, including Sacramento, have had to use one-time monies and execute quick expenditure cuts to develop balanced budgets for the current fiscal year. Many of these determinations are, by necessity, of a short-term nature and will not be sustainable or desirable (relative to other options) over the long term.

To achieve a service delivery model that can be sustained in the long run, the City has embarked on developing a plan to be implemented during the next three fiscal years that will bring operating and capital costs to a level that can be sustained by projected revenue.

There is recognition that the robust economy of the recent past will not return for several years and that the City must fundamentally rethink what services and programs it provides; how these are delivered to the public; and how to provide stable funding for services, programs and capital improvements. These are the foundations of a financial sustainability plan.

Two efforts have been undertaken to provide the Mayor and City Council with the information and policy options to develop this plan. Both are described below.

Establishing Service Priorities

As part of the City Council's budget approval process for FY 2010/11, City management has undertaken a review called Program Oriented Development (POD). The POD process places all current programs and services into one of three categories:

- Mandatory
- Essential
- Existing

This categorization and the costs associated with all current services will be presented to the Mayor and City Council along with estimated revenue. This will allow the Mayor and Council to determine what services they choose to fund up to the projected revenue.

Development of Strategic Alternatives

The City Council engaged Management Partners to conduct an independent review of City operations and finances with the objective of developing alternative methods to deliver and fund current service. The City is seeking to develop recommendations that are actionable and have not been previously identified or seriously considered by the City. To the extent there are service delivery models that maintain current services at lower costs and acceptable revenue increases to support programs, the City will be able to maintain more current services and programs. This will maximize the goal of remaining a full-service city, capable of maintaining a high quality of life for residents and a robust climate for local business.

The objective of both efforts is to design a plan that will identify the core responsibilities of the City and right-size the organization to fulfill these responsibilities within available revenue.

A Balanced Approach

No single strategy can facilitate the attainment of service and financial stability. The City will need to implement strategies with a variety of objectives including:

- Eliminating some current services
- Reprioritizing the use of some non-General Fund revenue
- Restructuring the organization
- Implementing changes in the delivery method for certain services

- Increasing both functional and general revenue, the latter requiring voter approval

The ability to continue providing value added services beyond public safety and infrastructure will depend on the willingness of the Mayor and City Council to cut services and programs of marginal community value, implement lower-cost delivery methods for certain services, increase general revenue, and contain public safety costs. The purpose of engaging Management Partners is to provide the Mayor and Council with a broad menu of options to achieve financial sustainability over a three-year timeframe.

PROJECT APPROACH

Management Partners worked in conjunction with the City Manager's Office and used a number of analytical and management techniques for this project. Information was gathered from a wide variety of sources for analysis in preparing our recommendations. Our methodology and the information sources are discussed below.

Document Review

Management Partners began this project by reviewing documents that are essential to understand the City's historic, current and projected financial condition. Documents reviewed include:

- Budgets and financial reports for the current and previous fiscal years
- Organization charts for all departments
- Previous budget-balancing efforts
- Employee budget suggestions
- Historical City staffing levels
- City Charter
- Analysis of local economic conditions

Interviews

Management Partners conducted individual interviews with executive staff and department directors to assess current conditions and understand previous budget-balancing strategies.

Employee Suggestions

The City conducted a survey of the workforce in 2009 designed to gather suggestions on addressing the financial challenge. Management Partners reviewed the results of this survey. Employee suggestions were also included in various options brought forth by the departments.

Peer Review and Benchmarking

A group of 11 peer cities were identified based on a number of different criteria, including demographic information and the dynamics of the community. The peer cities included large California cities and other state capital cities in the West and Midwest. Management Partners gathered basic financial and operational information for each city using surveys and interviews, and compared the results with Sacramento. The purpose of the benchmarking was twofold: to develop a sense of how Sacramento compares to peer cities in revenue, expenses, staffing and services; and to identify potential best practices in other cities that may be transferable to Sacramento. The cities selected for comparison were:

California Peer Cities

- Bakersfield
- Fresno
- Long Beach
- Oakland
- San Jose
- Santa Ana
- Stockton

Other State Capitals

- Albuquerque
- Austin
- Denver
- Oklahoma City

Peer benchmarking results are used in the strategy discussion areas identified below. Overall, the benchmarking shows that Sacramento measures up well when compared with municipal service providers of similar size and setting.

Data were gathered from the selected cities' internet websites where budget data was available. Budgets posted online were from fiscal year 2009/10. Note that there are some data limitations related to availability of website data. In some cases, format and presentation differences from individual city budgets do not allow for an equal comparison.

Conducting benchmarking to analyze and compare Sacramento with peer jurisdictions is useful to determine how the City is operating and to serve as a point of comparison. Although helpful, benchmarking data should be used carefully. Whenever data from individual city budgets is used for comparison purposes, some format and presentation differences may hamper valid comparisons. The following factors are important to consider when weighing the value of peer comparisons:

- Every city is unique and attempts to compare are always imprecise.
- Reporting standards, particularly with respect to the definition of special funds, designated funds and reserve funds, can vary greatly.
- The data is most useful for illuminating averages, the polar opposites from the average, and where Sacramento falls on the scale. Further research would be necessary to make any definite findings between peer city "X" and the City of Sacramento.

- Benchmarking provides data to assist in the management decision making process; it is not meant to “grade” a city or to create resource allocation formulas.
- The quantitative benchmarking completed in this analysis does not always identify process differences that can substantially impact resource needs. Some process benchmarking may be a logical follow-up in areas where significant quantitative variances are apparent.

Nevertheless, the data contains insights and explanations that will help in identifying peer and nominal or “market” levels for revenues as well as expenditures. More importantly, the results can provide context to the budget decisions the City has to make and the balancing of resource allocations inherent in the budget process.

Strategy Identification

Based upon our knowledge of best practices in municipal finance and local government organizations and the results of the peer benchmarking, Management Partners developed an inventory of potential strategies to decrease costs and increase revenue. Extended meetings were held with the management from each department as well as representatives from the City Manager’s Office and Finance Department to review and discuss preliminary strategies and understand their potential financial and operational impacts on the City organization and the community. Detailed development and analysis was then performed on the preliminary strategies with the most promise for Sacramento.

Because the City Budget POD process is the primary venue for determining programs that are not mandated and that may no longer be necessary or sustainable, Management Partners has taken the position that all City services have value and, if possible, should be preserved. Therefore while there are a few service reduction strategies provided as recommendations in this report, the majority of our effort has been spent on determining how City services can be preserved through one of the following means:

- Increasing existing revenue sources, developing new revenues or shifting the use of current revenue;
- Restructuring business processes and developing alternative service delivery approaches; and
- Considering alternative compensation policies.

Council Briefings

Management Partners conducted briefings for City Council members and their key staff. The preliminary results of the research and benchmarking were reviewed as well as the categories of strategies under development. The briefings also provided examples of strategies in each category. The purpose was to give Council members a progress update, to hear feedback on issues related to various strategies and on other areas that should be considered during the review.

Strategy Refinement

The final step was to utilize the information and feedback to refine the strategies. We then prepared recommendations for those strategies that have the most promise for making a significant contribution towards Sacramento's goal of financial and service sustainability.

ANALYSIS AND RECOMMENDATIONS

Management Partners has developed 49 recommendations to move the City to a condition of service and financial stability. This section of the report contains the conclusions from our assessment as well as our recommendations. The recommendations fall into three main categories:

- **Corporate Governance.** These recommendations strive to optimize the City's organization structure as well as streamline the number and scope of various boards and commissions.
- **Revenue Enhancement.** These recommendations reflect the reality that changing business practices, eliminating services and changing service delivery mechanics will not solve the structural budget imbalance alone. Revenue enhancement measures include increased taxes, fees, user charges, assessments, and other miscellaneous revenue sources.
- **Expenditure Reduction.** These recommendations aim to control expenditures by making changes in the following areas:
 1. Restructuring the way City government provides specific services
 2. Changing the service delivery model for certain services that have private market competitors
 3. Changing the funding source of specific services (also referred to as "shifts")
 4. Reducing and/or eliminating specific services
 5. Changing business practices to improve the efficiency and/or effectiveness of the City government
 6. Changing Citywide personnel compensation policies and practices

Corporate Governance Recommendations

The City is much more than a collection of departments delivering discrete services. It is an integrated corporation that carries out the policy decisions made by the Mayor and City Council. To be effective, the corporation must be organized and governed so it aligns with the organization's overall mission.

The broad category of governance refers to how major services are organized and managed and how the City Council is supported in determining policy. This section of the report analyzes the two aspects of organization governance relevant to a municipal corporation such as the

City of Sacramento: the administrative structure of the City organization and the role of advisory boards and commissions.

Administrative Structure

City functions are organized administratively within departments. Each department has a service mission and functions are typically grouped into departments to maximize mission fulfillment and efficiency.

There is no single or “right” way to structure city organizations. The structure of a city at any given time is usually a product of history, management preference, latest research on best management practices and the talent of particular individuals. Sacramento, like every organization, has periodically reorganized departments and functions in the interest of improving service delivery and reducing costs.

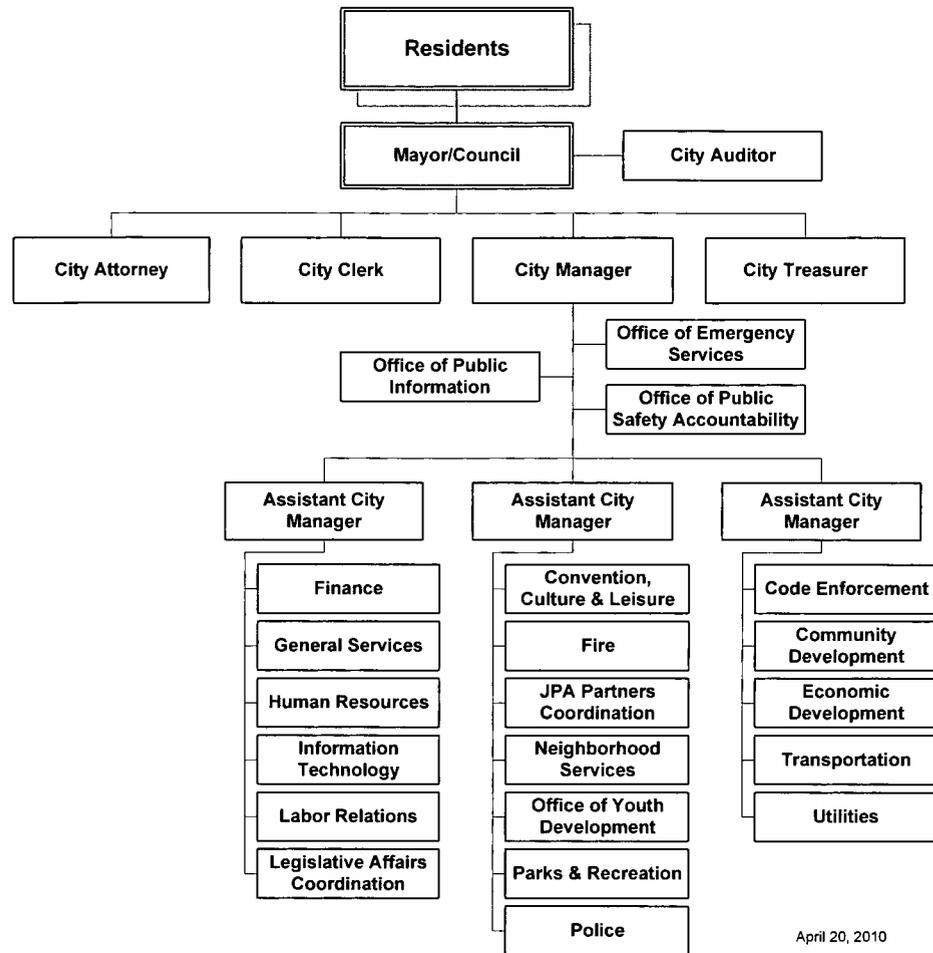
Based on our experience with cities and our research of best practices, Management Partners has developed the following principles for organizing municipal functions:

- Functions common to multiple departments are best provided by a central department with a strong customer focus, e.g., information technology. This maximizes economies of scale and reduces duplication and misalignment.
- Functions requiring the coordinated work of multiple disciplines are best provided in a single department, e.g., development review. If this arrangement is not achievable, a matrix organization with a clearly established leader is the preferred alternative. This aligns the services provided with the end user or customer and minimizes issues of control or turf in meeting their needs.
- Functions that closely coordinate to implement policy are best provided in a common department, e.g., land use and transportation policy and planning. This ensures alignment with the goals of the policymakers, improves transparency and links planning to outcomes.
- Functions with a common purpose and similar-skilled workforce are best provided in a single department, e.g., landscape maintenance and street maintenance. This improves economies of scale and generally broadens career development opportunities.

Management Partners reviewed the City's current organization structure using the principles of organization above. In doing so, we looked for opportunities where a change in administrative structure could improve the City's ability to fulfill its missions, reduce the number of departments and department directors, and reduce duplication of administrative and support functions.

The City's programs are currently distributed among 19 departments and offices. These exclude the Charter Offices of the City Attorney, Clerk and Treasurer and the City Auditor. The current organization arrangement is shown below.

FIGURE 7: CURRENT CITY OF SACRAMENTO ORGANIZATION CHART



April 20, 2010

Compared with the peer cities' organizations, Sacramento has a larger number of departments than most utilize for a similar mix of services.

- Three cities are organized with eight or nine departments: Bakersfield, Stockton and Santa Ana
- Five cities distribute services between 11 and 14 departments: Fresno, Long Beach, Oakland, San Jose and Oklahoma City
- Three cities have between 17 and 22 departments: Albuquerque, Phoenix and Austin.

The Sacramento departments that are found less frequently in the peer cities are:

- Labor Relations
- Code Enforcement
- Neighborhood Services
- Youth Development

The functions performed by these departments are more typically housed in other departments.

The administrative structure of city functions is significant for a number of reasons. With a large number of departments, there is a greater tendency for services to become “siloed.” Department staffs tend to focus on their narrow activity and lose sight of the bigger organizational picture. A large number of departments also add complexity to interdepartmental cooperation, often creating turf issues that need to be negotiated or compromised. Often, large stand-alone departments maintain their own administrative support functions such as accounting, human resources and IT. This leads to excess administrative costs and redundant systems. Each department has a separate director; director positions are more costly than other management positions.

Current City functions can be reorganized into a structure that requires fewer management positions and eliminates redundant administration and support costs. The number of exempt management positions has been reduced by 12% since the City began budget cutting in FY 2008/09, compared with a 14.2% reduction in the total workforce. One reason for this disparity is that while the City has downsized services, it has tried not to eliminate services. In this situation less than proportionate impacts on management may be observed. However, while management is undeniably important, a reduction of at least a proportionate amount to the total workforce is a reasonable objective.

Based on our evaluation of the City’s administrative structure, it is clear that current functions can be organized into fewer departments. Through such a reorganization, we estimate the ability to eliminate approximately 10 more exempt management positions (department directors and other management positions).

In addition to saving the cost of management personnel, another benefit of fewer departments is savings from the ability to consolidate multiple administrative and support units. Large departments maintain individual finance, personnel, clerical and IT staffs. Consolidating functions into fewer departments will allow duplicate positions, systems and other redundancies to be eliminated, which will result in additional savings.

The specifics of a new organization structure require further study and will depend on decisions made by the City Council related to future service delivery methods. For example, outsourcing functions will result in fewer management and supervisory positions, but some reductions would be offset by the need for contract managers. Depending upon which departments are reorganized, the City can reasonably expect annual ongoing savings of \$1 to \$3 million from reorganization.

Management Partners identified the following themes that can serve as a guide for developing an alternative organization structure.

Maintenance

Maintenance functions are currently located in three departments:

- General Services Department provides fleet and facility maintenance
- Transportation Department provides street, tree and parking garage maintenance
- Parks and Recreation Department provides park maintenance

Each of these departments maintains an administrative and support unit and may have duplicate pieces of equipment. Placing all maintenance functions in a single department would allow for economies of scale through consolidated administration and elimination of any redundant equipment. An additional benefit would be that a single director for all maintenance employees will enhance the City's emergency response capability.

Development Services

Development related services are currently located in four departments:

- Community Development Department handles planning, plan check and building inspection
- Transportation Department provides transportation policy and planning, engineering and traffic engineering
- Parks and Recreation Department carries out park planning
- Fire Department conducts plan check and construction inspections

Each department plays a critical role in planning the physical development of the community and in reviewing development and building applications. Locating all development related services in a common department would streamline the application review, plan check, permitting and inspection processes; provide for consistency in customer relations and enable a single director to resolve conflicts between different service disciplines. The location of transportation and land use planning and policy development in a single department unifies the two critical elements that drive the future development of the community.

Recreation and Leisure

Recreation and Leisure activities are currently housed in two departments:

- Parks and Recreation Department provides youth, community and senior recreation programs; and Community Center management
- Convention, Culture and Leisure Department provides golf, cultural programs and large facility management

Locating these functions in a single department would unify community enrichment programs and allow for management and maintenance of all community facilities to be coordinated in one place. The latter should result in savings from economies of scale.

Community Relations

Community relations and outreach activities are housed in three departments:

- General Services Department is responsible for the 311 Call Center
- Neighborhood Services Department provides community outreach and event coordination
- The City Manager's Office maintains the City's website

Unification of these functions in a common department would facilitate a consistent approach for responding to public inquiries and maintaining relationships with neighborhood and community groups.

City management will need to evaluate the pros and cons of various organization structures. More in-depth study is required to identify more precise cost savings and the steps necessary for implementing any desired changes.

Recommendation 1: Reorganize City functions into a department configuration that reduces costs and improves the alignment of functions with related missions.

Restructuring of Boards and Commissions

Another component of municipal organizations is the use of boards and commissions that serve as advisory bodies to the City Council. Some boards and commissions have the authority to make certain decisions on behalf of the City Council; those decisions are generally appealable to the City Council. The Planning Commission is one such example.

Each city is unique and over the course of time has developed their own structure of advisory boards and commissions. Sacramento has an extensive system of advisory boards and commissions that includes:

- Twenty-eight city advisory boards/commissions
- Fourteen joint advisory boards/commissions between the city, county, and regional special districts
- Seven city and county joint redevelopment agency commissions

Boards and commission can have a substantial impact on the deployment of city resources and the direction of precious staff time in the Clerk's Office and operating departments. Below is a high level summary of the work that is completed for each board and commission.

Clerk's Office

- Develop monthly and annual attendance reports
- Track and archive agendas
- Oversee member recruitments
 - Develop announcement
 - Conduct outreach

- Process application
- Manage member selection committees
- Draft member appointment resolutions and oversee the appointment process
- Administer oaths of office
- Manage annual conflict of interest statement process

Operating Departments

- Provide general staff support (clerical support, develop staff reports, ensure Brown Act compliance, etc.)
- Develop agendas
- Record meeting minutes

The City's advisory body system has not been evaluated in a number of years. A review is particularly important given the significant reductions in staff in recent years.

Management Partners analyzed the powers and duties assigned to each advisory body and reviewed meeting frequency and attendance reports for the last three years (2007 to 2009). Our review revealed that a number of advisory bodies have not met on a regular basis and others have suffered from the inability to maintain membership (some with systemic vacancies and others with no official members). Some advisory bodies have missions that can be consolidated with another or eliminated due to redundancy. Recommendations for specific boards and commissions are provided below.

Construction Codes Advisory and Appeal Board

In July 2006, the Planning and Building Department created the four bodies listed below. Prior to their creation, the powers and duties were consolidated under a Construction Codes Advisory and Appeal Board.

- Housing Code Advisory and Appeals Board
- Building Code Advisory and Appeals Board
- Electrical Code Advisory and Appeals Board
- Mechanical and Plumbing Advisory and Appeals Board

The powers and duties of the Housing Code Advisory and Appeals Board are to provide for final interpretation of the provisions of the "Housing Code" and hear cases involving the repair or demolition of substandard buildings, and appeals of dangerous building cases.

The Building, Electrical, Mechanical and Plumbing appeals boards were established for the purpose of determining the suitability of alternate materials and methods of construction and providing reasonable interpretations of their respective codes. They are empowered to approve the use of any material, alternate design or method of construction not specifically prescribed by the applicable code.

During the last three years, the Housing Code Advisory and Appeals Board met regularly. The Electrical Code Advisory and Appeals Board and the Mechanical and Plumbing Advisory and Appeals Board have each met twice during the three-year period of January 2007 to December 2009. The Building Code Advisory and Appeals Board met three times during the same period.

Recommendation 2: Reestablish a Construction Codes Advisory and Appeal Board that will consolidate the mission of the Housing Code Advisory and Appeals Board, the Building Code Advisory and Appeals Board, the Mechanical and Plumbing Advisory and Appeals Board, and the Electrical Code Advisory and Appeals Board.

Other Boards and Commissions

Based on our review of meeting frequency and attendance reports for the last three years and an analysis of bodies that have difficulty maintaining membership, Management Partners recommends the elimination of five advisory bodies. These are described below.

1. Sacramento Relocation Appeals Board

Board membership consists of the five City appointed members sitting on the Sacramento Housing and Redevelopment Commission. The powers and duties of the board are to:

- Hear relocation complaints and transmit findings and recommendations to the Redevelopment Agency;
- Assist public entities in carrying out the policies relating to relocation assistance, last resort housing and real property acquisition; and
- Benefit displaced persons, to ensure that such persons receive fair and equitable treatment and do not suffer disproportionate injuries as the result of programs designed for the benefit of the public as a whole.

The board has not met in the last three years. Since the board makes recommendations to the Redevelopment Agency and each appointed member sits on the Sacramento Housing and Redevelopment Commission, a redundancy exists. Members of this Board can carry out the mission of the Sacramento Relocation Appeals Board through their role on the Sacramento Housing and Redevelopment Commission. This appears to be the current de facto practice.

2. Board of Plumbing Examiners

The powers and duties of the Board of Plumbing Examiners are to:

- Prepare and conduct examinations at least quarterly for the purpose of determining the competency and knowledge of the individuals engaged in plumbing work;
- Compile and maintain a current list of individuals holding valid certificates of competency; and

- Compile and keep current a list of agencies maintaining satisfactory examination and qualification procedures and consider any written charges filed.

The board has met four times during the last three years (all of which were in 2009). The core mission of the board to establish and conduct examinations for professionals engaged in the plumbing field is redundant with state licenses and professional trade regulations. Guidelines for state plumbing licenses, customer complaints, and statewide standards for plumbing professionals are set and/or managed by the California Department Consumer Affairs and State Contractors License Board.

3. Meadowview Development Committee

The Meadowview development is in Council District 8. The powers and duties of the board are to:

- Review and comment on proposed activities and assist in the formulation of projects and programs to meet identified goals and objectives, including housing programs;
- Comment about the implementation of community development plans and programs; and
- Consider such other matters as from time to time the City Council, or the Sacramento Housing and Redevelopment Commission, or redevelopment agency deem appropriate.

The committee is comprised of twelve community members and property owners in District 8 as well as a student member from Meadowview Resident High School and a member from the Sacramento City Unified School District. The committee has not met in the last three years and has no officially appointed members. When significant development occurred in the Meadowview area the committee was active. On an ongoing basis, the development issues regarding the Meadowview area can be addressed by the various Citywide development-related commissions, advisory boards, and appeal bodies.

4. Sacramento Commission of History and Science

The mission of the Sacramento Commission of History and Science is to analyze sites and landmarks of historic and scientific importance and other related work; review the annual budget for the History and Science Division of the Convention, Cultural, and Leisure Department and provide an annual review to the Council of collections and archives managed by the division.

The following seven entities appoint members to the commission:

- City of Sacramento
- County of Sacramento
- Cities of Folsom, Isleton and Galt
- Sacramento Science Center Board of Directors

- Sacramento History Center Association Board of Trustees
- American River Natural History Association
- Sacramento County Historical Society

The commission has not met since 2005 and many of the duties of the commission are currently completed by department staff. Management Partners was informed that committee members and City staff had previously agreed that the commission should be eliminated but formal action to do so was not completed.

5. Community Racial Profiling Commission

The purpose of the commission is twofold: to provide recommendations to the Mayor and City Council concerning racially biased policing and to serve as an advisory body to the City to review and analyze traffic stop data. The commission provides the Mayor and City Council with quarterly reports regarding the Sacramento Police Department's traffic stop data collection on racially biased policing.

In July 2000, the Sacramento Police Department undertook a comprehensive study of traffic stops to address perceptions of racial profiling. In March 2004, City Council approved the establishment of the Community Racial Profiling Commission to provide the City with broader community involvement in the monitoring of racially based policing issues. In November 2004, City Council confirmed 15 members of the Community Racial Profiling Commission. The membership requirements are as follows:

- One member shall be a Deputy Chief of the Sacramento Police Department;
- One member representative of the Office of Police Accountability;
- One member representative of the Sacramento Police Officers Association;
- Eight members representative of the public at-large, residing in the City of Sacramento, with one from each of the eight City Council districts; and
- Four members at-large qualified by interest or experience on matters pertaining to racially biased policing.

In 1999, the Mayor and Sacramento City Council established the Office of Police Accountability for the purpose of monitoring the investigation of citizens' complaints (including racial profiling). In July 2004, the role of the office was expanded to include the Sacramento Fire Department and renamed the Office of Public Safety Accountability (OPSA). Currently, the OPSA has broad oversight authority that includes the evaluation of the overall quality of performance by employees and the authority to encourage systemic change. The office tracks serious complaint case to conclusion, reviews completed investigations, and advises the City Manager of any deficient investigations.

The Community Racial Profiling Commission has studied and released reports on racial profiling in Sacramento and has worked with the Office of Public Safety Accountability to ensure that racial profiling complaints are addressed. On an ongoing basis, however, the core responsibilities of the Community Racial Profiling Commission can be met by OPSA, whose responsibility includes racial profiling as well as other performance issues related to law enforcement in Sacramento.

Recommendation 3: Eliminate the Sacramento Relocation Appeals Board, Board of Plumbing Examiners, Meadowview Development Committee, Sacramento Commission of History and Science, and the Community Racial Profiling Commission.

Sunset Clauses

The City of Sacramento does not routinely include sunset clauses when boards and commissions with a specific focus are established.

The aforementioned Community Racial Profiling Commission and the Meadowview Development Committee are examples of bodies that have a specific mission. Once their mission has been achieved or absorbed by another unit of city government there is no need for them to continue. A sunset clause that establishes a date for the body to complete its work is a practice effectively used by many governments. Several of the City administered bodies that relate to Sacramento Housing and Redevelopment Agency development projects should be reviewed to ensure that their missions are still valid and restructured with a sunset clause if appropriate.

Recommendation 4: Establish sunset clauses in the authorizing resolutions and ordinances for boards and commissions that have a specific focus.

The recommended consolidation and elimination of the advisory bodies will produce minimal savings in office supplies and expenses. The greatest benefit to the City will be to free up precious staff time, allowing this resource to be put to a higher use.

Revenue Enhancement Recommendations

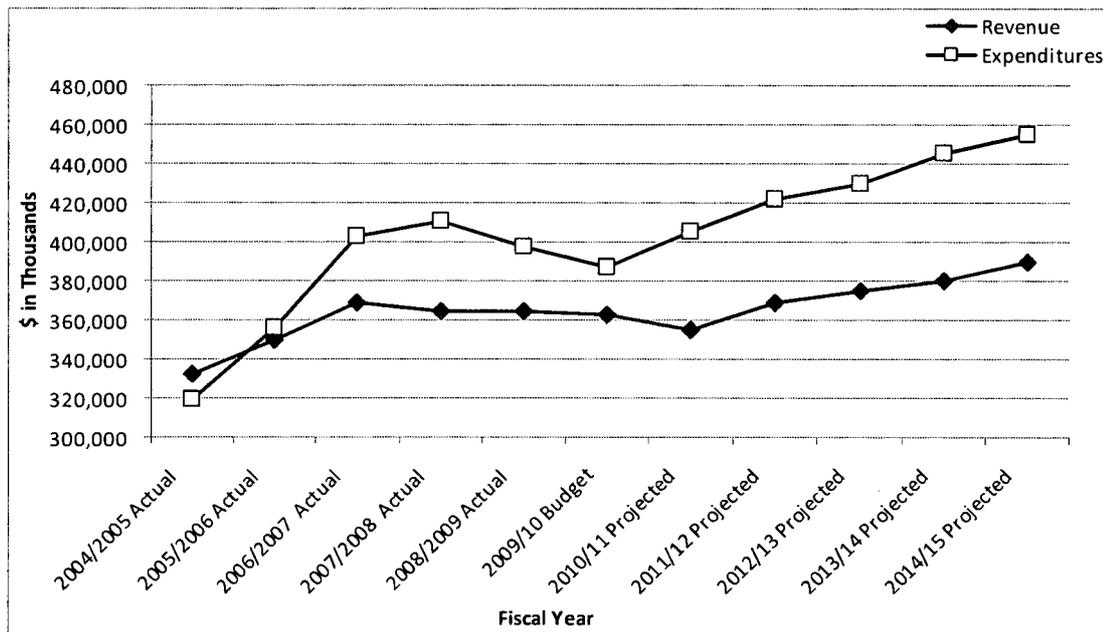
The broad goals in developing a multi-year financial and service plan are to bring revenue and expenditures into balance to achieve financial sustainability and remain a full-service city. This will require a balanced program of both expenditure reductions and revenue increases.

Management Partners was tasked with identifying options to achieve the desired goals, including opportunities to increase revenue that can be

used for general services and decrease ongoing operating costs. Given that the revenue base of a city is the fundamental factor that determines which services can be provided at what level, it is appropriate to start with a discussion of revenue. This section of the report provides an overview of the City's major revenue sources and identifies specific strategies to enhance revenue generation to support core programs and services.

Figure 8 below illustrates Sacramento's structural deficit. If significant action is not taken to increase revenues and reduce expenditures, the City is projected to have an annual deficit of \$50 to \$60 million annually for the next five years. Therefore, the following discussion deals with the City's options for moving the revenue line closer to projected expenditures.

FIGURE 8: SACRAMENTO GENERAL FUND ACTUAL, BUDGET, AND PROJECTED REVENUE AND EXPENDITURES (FY 2004/05 TO FY 2014/5)

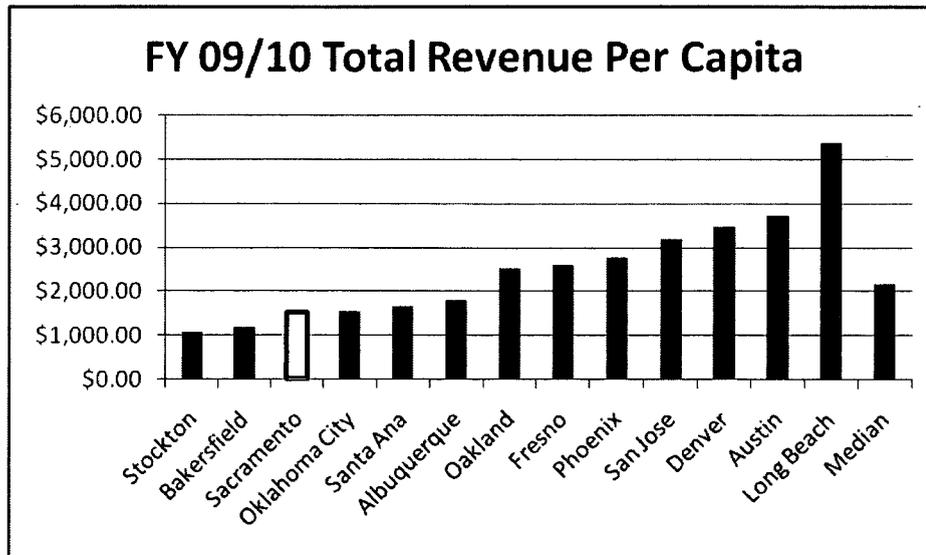


Sacramento's revenues come from a variety of sources. Utilities are funded from specific user charges to businesses and residents, a portion of development processing costs are paid by project applicants, and the cost of some recreation programs are partially offset by fees.

Taking the broadest possible look at City revenues, Sacramento ranks relatively low compared to peer jurisdictions. This is mainly because the City lacks some of the subsidiary business operations, such as an electric utility or an airport, which are run by some of the peer cities. Another reason is that the City does not have some dedicated sources of tax revenues such as a general obligation levy for capital projects that can be found in some other cities. Yet another reason may be because the City does not always collect the full costs associated with some user fee

services. Figure 9 shows a comparison of total revenues for the peer jurisdictions.

FIGURE 9: TOTAL REVENUE COMPARISON



While having high total revenues is of some benefit, it is important to note that subsidiary business revenues have to be carefully segregated and used for the business purpose from which they are derived. For example, Long Beach revenues are high because of over \$1 billion in subsidiary business unit revenues, but this does not translate into a robust General Fund. In some cases, however, the subsidiary units may indirectly support overall City service provision.

In any event, the focus of this review is primarily on the revenue and costs associated with providing core services that benefit the entire community. These include police and fire protection, park and street maintenance and recreation/leisure programs.

Sacramento is more reliant on general tax revenues than other cities. A basic description of tax authority within California follows.

Taxes

The California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose, whereas revenues from a special tax must support the purpose specified in the ballot measure presented to voters. With specific limitations on the approval processes and rates of taxation, the California Constitution and state law allows cities to seek voter approval for new and increased tax revenue to finance fundamental municipal services. In California, cities may impose any tax that is not otherwise prohibited by state law and a tax must be approved by voters. Revenue derived from taxes is used to finance public services and facilities.

General and Special Purpose Taxes

Taxes are classified as either *general* or *special purpose*. General taxes are those which can be used for any purpose approved by the City Council. Special taxes are earmarked for a specific use. New or increased general purposes taxes must be approved by a simple majority of voters (50% + 1). Further, the California Constitution requires that the vote on any general tax be consolidated with a regularly scheduled general election for members of the governing body of the local government, except in cases of emergency. Special tax measures must be approved by two-thirds of voters. There are no timing restrictions on elections to approve special taxes. As a result, such tax measures can be placed on the ballot during a special election or on the annual November ballot.

City of Sacramento Tax Profile

The most significant portion of revenue that supports the City's general services comes from general purpose taxes. Of the City's \$381,209,000 estimated General Fund for the current fiscal year, 66% comes from three taxes: property, sales, and utility users. These are summarized in Table 1.

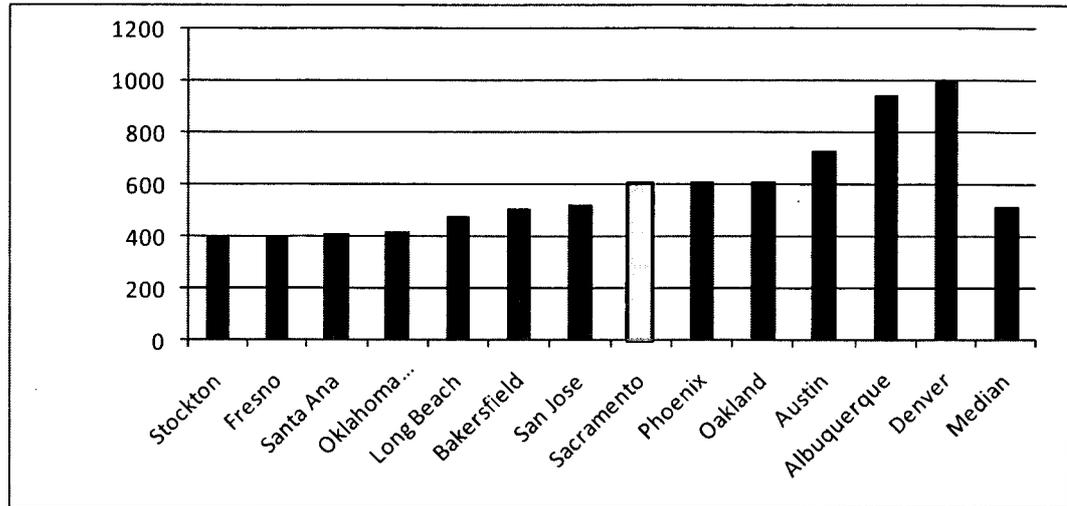
TABLE 1: SACRAMENTO TAX REVENUE FOR FY 2008/09 AND FY 2009/10

Tax Revenue	FY 2008/09 Amended (in \$000s)	FY 2009/10 Amended (in \$000s)	Percent Change
Property Taxes	\$156,063	\$126,949	-18.7%
Sales and Use Taxes	69,800	56,104	-19.6%
Utility User Taxes	57,000	57,820	1.4%
Other Taxes	22,788	24,482	7.4%
TOTAL	\$305,651	\$265,355	-13.2%

Source: City of Sacramento 2009/10 Adopted Budget

Figure 10 displays the per capita revenue from major taxes of Sacramento and the peer cities.

FIGURE 10: PER CAPITA TAX REVENUE



Source: Management Partners' survey. Revenue includes property, sales, utility users, business license, transient occupancy and real estate transfer taxes.

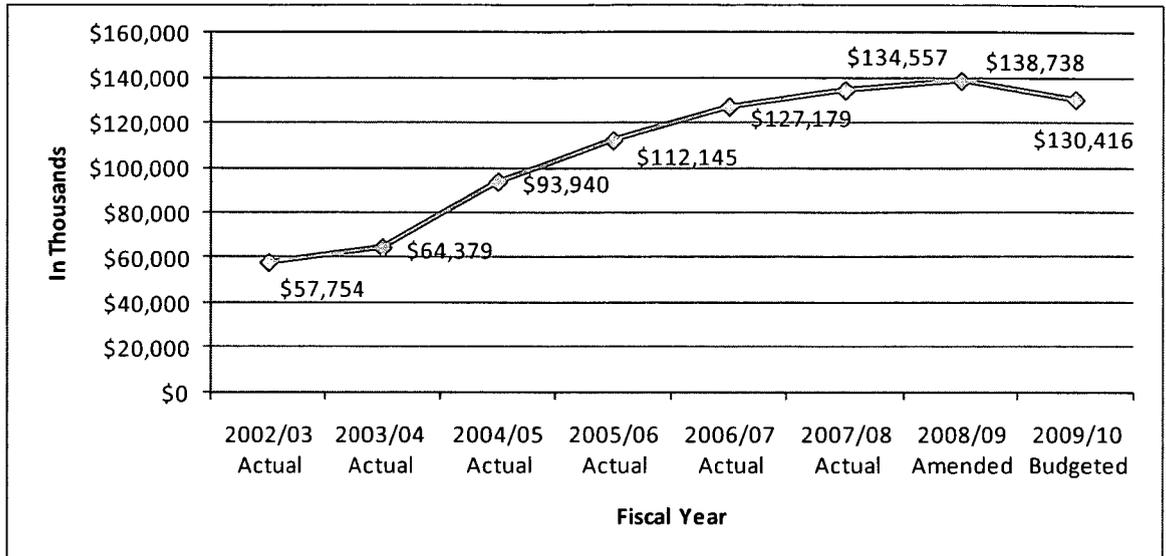
Relative to peer cities, Sacramento has a solid tax base and a diversified revenue profile. While this is positive, it does not lessen the challenges facing the City and the difficult choices that must be made to achieve financial and service sustainability. Cities, like families, tend to live up to their income levels. When incomes decrease, lifestyles must change.

Property Tax

Property tax is by far the most significant general revenue source to the City, accounting for 39% of total General Fund revenue. The historically stable property and sales tax revenue sources available to Sacramento have declined as a result of the unprecedented current economic recession and contribute significantly to the City's structural deficit.

Figure 11 shows the revenue generated from real property taxes in Sacramento from FY 2002/03 to FY 2009/10. The figure illustrates positive growth for the past seven years; most notably, an increase of 46% between 2003/04 and 2004/05. Since 2004/05, however, the growth rate slowed. A decline of 6% is projected for the current fiscal year (FY 2009/10).

FIGURE 11: SACRAMENTO REAL PROPERTY TAX REVENUE FROM FY 2002/03 TO FY 2009/10



Under the terms of Proposition 13 approved by California voters in 1978, a city's ability to increase the basic property tax is constrained, but cities may levy parcel and other assessments which are functionally similar to the property tax. These options are discussed later in this report.

Utility Users Tax

Taxes on the use of non-city owned utilities including gas, electric and telephone are the second largest source of tax revenue, estimated at just under \$60 million for the current fiscal year. The Utility User Tax (UUT) may be imposed by a city on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including cell phone and long distance), sanitation and cable television. The rate of the tax and the use of its revenues are determined by the local agency.

Approximately 150 cities and counties in California levy a UUT. Sacramento's UUT rate is 7.5% on all utilities with the exception of communications. The passage of Measure O in November 2008 reduced the utility user tax on communication users to 7.0%. The peer average is 5.5%. This is one reason that Sacramento has a higher level of per capita tax revenues than other cities. Sacramento is more reliant on this revenue source than most other cities in the state that have a UUT. On average, in cities with a UUT, the tax constitutes 15% of General Fund tax revenues. In Sacramento, the UUT constitutes about 20% of such revenues. Although the UUT is less volatile and subject to less variation with economic conditions than the sales tax, UUT tax proceeds have still declined during the current recession.

In the current fiscal year the adopted budget called for UUT revenues of \$60.3 million but actual revenues are now projected at \$57.8 million. Because Sacramento already has a relatively robust UUT rate, raising it further is not thought to be a viable option.

Sales and Use Tax

The sale of tangible personal property is subject to sales or use tax unless exempt or otherwise excluded. Sales taxes are imposed on all retailers for the privilege of selling tangible personal property in the State of California and are measured by the retailer's gross receipts. Use taxes are imposed on the purchaser of tangible personal property from any retailer for storage, use, or other consumption in the state.

Sales and use taxes are estimated at approximately \$58 million in the current fiscal year. Table 2 shows revenue from sales and use taxes in Sacramento from FY 2002/03 to FY 2009/10. The data show positive growth from FY 2003/04 through FY 2006/07. Revenue peaked in FY 2006/07 and has declined ever since, decreasing by a significant percent each year.

TABLE 2: SACRAMENTO SALES TAX REVENUE FOR FY 2005/06 TO FY 2009/10

	2002/03 Actual	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Amended Budget
Sales and Use Taxes (in \$ millions)	\$58,194	\$62,125	\$65,876	\$67,491	\$69,475	\$66,271	\$63,800	\$57,800
Percent Change		7%	6%	2%	3%	-5%	-4%	-9%

Sales tax is driven by the condition of the local economy, which is in the worst recession (or just emerging from it) since the 1930s. The fact that sales taxes have fallen so much is unprecedented in the modern history of Sacramento, and can be seen as one of the major factors behind the structural budget deficit.

Statewide, the sales and use tax base rate is currently at 8.25%. The based rate is comprised of a state portion (7.25%) and local portion (1%) for cities and counties. Table 3 outlines the allocation of the statewide sales and use tax revenue.

TABLE 3: STATEWIDE SALES AND USE TAX REVENUE ALLOCATION

Jurisdiction	Rate	Purpose
State	6.00%	Goes to the State General Fund
State	0.25%	Goes towards the State Fiscal Recovery Fund to pay off Economic Recovery Bonds
State	0.50%	Goes to Local Public Safety Fund to support local criminal justice activities
State	0.50%	Goes to Local Revenue Fund to support local health and social services programs
Local	1.00%	0.25% Goes to county transportation funds 0.75% Goes to city and county operations
TOTAL	8.25%	

The California Revenue and Taxation Code allows cities and counties to levy special transaction and use taxes. Proceeds from these taxes may be used for general government purposes or a specific purpose, as specified in the ordinance submitted to voters. According to a 2008 HDL Companies report, as of February 2008 there were 97 jurisdictions in 39 counties including 60 cities that implemented this revenue strategy.

New General Revenue Options

Sacramento has other options for raising revenues. Generally these options require voter approval. Those with the greatest revenue potential are discussed below.

General Purpose Sales Tax

As noted in Table 4, the current sales and use tax rate in Sacramento is 8.75%. Two options for increasing the sales and use tax in Sacramento are:

- Adopt a new citywide sales and use tax of 0.25%. This will increase the total tax rate to 9.00% and raise \$13.5 million.
- Adopt a new citywide sales and use tax of 0.50%. This will increase the total tax rate to the state maximum of 9.25% and raise \$27.0 million.

TABLE 4: SALES AND USE TAX REVENUE PER CAPITA AND RATES FOR SACRAMENTO AND PEERS

Jurisdiction	Sales and Use Tax Revenue per Capita	Rate
Bakersfield	\$0.18	8.250%
Fresno	\$0.15	8.975%
Long Beach	\$0.08	9.750%
Oakland	\$0.14	9.750%
San Jose	\$0.15	9.250%
Santa Ana	\$0.15	8.750%
Stockton	\$0.15	9.000%
PEER AVERAGE	\$0.14	9.104%
Sacramento	\$0.14	8.750%

An important factor in considering local sales tax measures is the sales tax rate of adjacent and nearby cities. To the extent there is price sensitivity among shoppers, there is a concern that having a higher rate will drive customers to businesses in other communities. This is particularly true with respect to high cost items such as automobiles. The current sales tax rates in surrounding communities are displayed in Table 5 below.

TABLE 5: SALES TAX RATES IN SURROUNDING AREAS

Jurisdiction	Sales Tax Rate
Citrus Heights	8.750%
Elk Grove	8.750%
Rocklin	8.250%*
Roseville	8.250%*
West Sacramento	8.750%
Sacramento	8.750%

*Rocklin and Roseville are in Placer County. Placer County has not approved a 0.50% sales tax for transportation improvements like that approved in Sacramento County

One way to address the competitive concern is to discuss with other cities in Sacramento County the possibility of jointly going to the voters in each community with a sales tax measure. Given the current unprecedented financial challenges, most cities find themselves in need of additional general revenue and are contemplating putting measures before their voters. Timing of a sales tax increase is another consideration.

Citywide Parcel Tax

A parcel tax is often used as an alternative to property tax as a means to raise revenue. It is not based on the value of the property but rather is established as a flat fee per parcel unit. The fee does not have to be uniform across all types of parcels. Common rate categories that are charged different amounts are single family, multi-family residential, commercial, professional, industrial, and vacant parcels.

Due to the pressures placed on the General Fund, a parcel tax to support general government services would provide the City with the greatest flexibility to allocate resources to maintain citywide service. If a special tax is preferred, additional revenue can support:

- Public Safety Services (Police and Fire)
- 911 Dispatch System
- Park Maintenance
- Convention, Culture and Leisure Services
- Recreation Programs and Services

Parcel tax proposals submitted to the voters can be structured to exempt certain classes or types of property. Based on a recent report from the Sacramento County Assessor's Office, there are approximately 152,700 parcels in the City of Sacramento. The number of exempted parcels will vary depending on purpose and type of exemptions listed in the ballot measure. For example, the City of San Jose has a parcel tax to provide additional support for public libraries. The originating ballot measure included standard exemption for non-taxable government and non-profit parcels, which amounted to less than 10% of the total parcels. Due to the large amount of state-owned property within the City of Sacramento, such exemptions may be as high as 35%.

Parcel taxes can be authorized indefinitely or include a provision to last a maximum number of years. In addition, best practice parcel tax measures include a provision that authorizes the City Council to increase the amount annually based on the Consumer Price Index (CPI) or other index.

It is estimated that a \$100 parcel tax will raise \$9.9 to \$13.8 million, depending on the number of exempted parcels.

Parking Tax

Cities in California and across the country have established parking taxes to augment general government revenue and provide an incentive for the use of public transportation and carpooling. Parking taxes are included in the rates users pay when parking in public or private garages. The tax is then remitted to the city. Specific tax measures can limit charges to commercial parking spaces and/or include parking that is connected to residential parking facilities. Normally the tax is levied as a percentage of total revenues. Implementation of a parking tax necessitates that parking

facilities maintain reliable records of revenues and transactions and make those records available for periodic auditing.

Table 6 illustrates the parking tax rate in several California cities and a few other large cities in the United States. A total of 24 cities in California levy a parking tax.

TABLE 6: SELECT CITIES WITH PARKING TAXES

Jurisdiction	Tax Rate
San Francisco, California	25.0%
Los Angeles, California	10.0%
Oakland, California	10.0%
Santa Monica, California	10.0%
New Orleans, Louisiana	12.0%
New York, New York	18.5%
Pittsburgh, Pennsylvania	37.5%

The Sacramento Transportation Department oversees the operation of City-owned parking facilities and manages 10,236 individual spaces. In addition, the City estimates that there are another 7,900 commercial fee-based parking spaces throughout the City. This does not include state-owned parking facilities or non-public parking spaces.

It is estimated that a 10% tax on all city-owned and commercial parking spaces (excluding state-owned facilities) will generate \$3,000,000 annually. Given the shortage of parking provided by the state for employees and visitors, a parking tax offers the City an opportunity to collect revenue necessary to support the service demand caused by the state presence.

Business Operations Tax

Accordingly to California State Law, cities are allowed to levy a tax on business activity. The charges may be fixed (on a per unit basis) or may be based on the number of employees, gross receipts, number of vehicles, and/or the number of rental units, for example. Business taxes are, in theory, identical to all other taxes in that they provide a vehicle for the public to remit dollars to a government agency to support public services and facilities. Under the California Constitution, municipal taxes require a vote of the people in the jurisdiction for which the specific tax measure would apply. By law, there need not be a direct relationship between the services and facilities used by an individual taxpayer and the tax paid.

The City of Sacramento currently has a business tax structure that separates businesses into five discrete categories and taxes each under a different rate structure. The City's business tax categories are listed below.

- Administrative or Management-related Service Business
- Sales and Service Business
- Brokers
- Home Occupation Permit
- Professional Business Owners (accountants, architects, attorneys, doctors, engineers, etc.)

Figure 12 provides a summary of the revenue generated from business taxes in Sacramento from FY 2002/03 to FY 2009/10. Currently the tax raises approximately \$7.5 million annually, which amounts to 2% of the City's total General Fund revenue. The last adjustment of the City's Business Operations tax was in 1991.

FIGURE 12: SACRAMENTO BUSINESS TAX REVENUE (FY 2002/03 TO FY 2009/10)

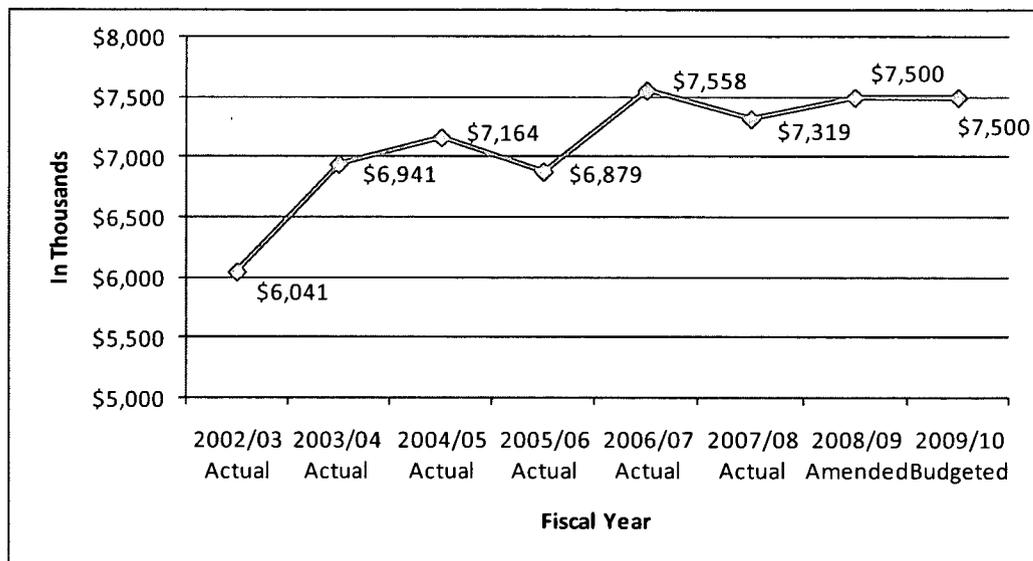


Table 7 illustrates the level of revenue generation from business taxes in Sacramento and the peer cities. The data show that Sacramento's per capita revenue is lower than five of the seven peers.

TABLE 7: SACRAMENTO AND PEER CITIES BUSINESS TAX REVENUE (FY 2009/10)

Jurisdiction	Business Tax Revenue (in Thousands)	Per Capita Business Tax Revenue
Bakersfield	\$3,104	\$0.010
Fresno	\$16,162	\$0.035
Long Beach	\$11,849	\$0.025
Oakland	\$51,775	\$0.130
San Jose	\$12,000	\$0.013
Santa Ana	\$9,305	\$0.027
Stockton	\$9,865	\$0.034
Sacramento	\$7,500	\$0.017

As discussed above, Sacramento’s revenue per capita from this source is below that of most California peer cities. However, it should be noted that the underlying size of the business sector in the various communities impacts revenue generation and there is no guarantee that overlaying a particular tax structure onto Sacramento businesses would result in equivalent revenue generation. Nevertheless, the City can increase its current rates or conduct an in-depth analysis to determine how much revenue could be increased by implementing a new rate. For example, if Sacramento increased its per capita revenue to Fresno’s \$0.035 per capita, the City would raise an additional \$9,300,000 annually.

As with sales tax, the City can expect opposition to a business operations tax increase from the business community. Careful consideration of the impact of an increased business operations tax on business retention and recruitment is warranted. This dynamic is less of a concern than sales tax rates as city business taxes are generally very small as a percentage of the overall cost of operating a business and are not a significant factor in business location decisions. Business taxes are classified in state law as general taxes and can be approved with a simple majority vote.

Real Property Transfer Tax

A real property transfer tax is a standard charge that is applied to the transfer of ownership of real property. This tax is applied to the sale price of the property and may be paid by either the buyer or the seller, or the buyer and seller may split the payment. Real property transfer taxes can be one of the most economically sensitive revenues, increasing during times of economic expansion and contracting during a slowdown. For example, City of Sacramento’s transfer tax revenue decreased by approximately one-third (or -\$3 million) between FY 2007/08 and FY 2008/09.

While the setting of the real property transfer tax is preempted by state law at 0.55 per \$1,000 sales price for all general law cities (the vast majority of California’s 463 cities), Sacramento, as one of the 108

California cities in the state that have a city charter, retains discretion in this area. Some other charter cities in the state levy a transfer fee that is higher than Sacramento's.

Table 8 illustrates the level of revenue generation from transfer taxes in Sacramento and the peer cities. Sacramento charges \$2.75 per \$1,000 for a per capita revenue generation of \$18. The peer average is \$3.01 per \$1,000, with per capita revenue of \$16.43. The average however, is wildly skewed by the City of Oakland, which has one of the highest rates in California. The peer median is \$0.55 per \$1,000 for a per capita revenue generation of \$2.69. Likewise the median is skewed by the state pre-emption with regard to general law cities.

TABLE 8: SACRAMENTO AND PEER CITIES TRANSFER TAX REVENUE (FY 2009/10)

Jurisdiction	Transfer Tax Revenue per Capita	Transfer Tax Rate per \$1,000 of Sale Price
Bakersfield	\$3	\$0.55
Fresno	\$2	\$0.55
Long Beach	\$21	\$0.55
Oakland	\$68	\$15.00
San Jose	n/a*	\$3.30
Santa Ana	\$2	\$0.55
Stockton	\$2	\$0.55
Peer Average	\$16.43	\$3.01
Peer Median	\$ 2.69	\$0.55
Sacramento	\$18	\$2.75

*Revenue is combined with a construction excise tax

While many of the peer California cities have a tax level that is below that of Sacramento's, there are many charter cities, particularly in Northern California that have a higher level (see Table 9 below). (In general this is not a commonly encountered tax in Southern California, even in charter cities.)

TABLE 9: TRANSFER TAX REVENUE COMPARISON FOR SELECTED NORTHERN CALIFORNIA CHARTER CITIES

Jurisdiction	Transfer Tax Rate per \$1,000 of Sale Price
Albany	\$11.50
Berkeley	\$15.00
Hayward	\$4.50
Oakland	\$15.00
Richmond	\$7.00
San Jose	\$3.30
San Leandro	\$6.00
San Francisco	\$5.00 to \$15.00
Average	\$9.04
Sacramento	\$2.75

Based on the projected volume of real estate transaction, the City of Sacramento budgeted \$7,980,000 in real property transfer tax for the current 2009/10 fiscal year. Each increase of \$1.00 per \$1,000 will generate approximately \$2.9 million in additional revenue annually. Increasing the tax to the \$9.00 average of the cities in table 9 would generate produce close to \$18.0 million annually in new revenue, assuming the same dollar value of sales transactions.

911Emergency Communication System Access

A 911 emergency communication system access tax recovers costs associated with providing emergency communication service. The rate structure for 911 taxes is typically charged as a flat fee on communication lines registered with a specific jurisdiction.

Proceeds from a 911 emergency communication system access tax or fee are used to offset and maintain General Fund costs associated with providing emergency communication services (911 call taking and dispatch). This charge currently exists in the form of either a fee or a tax in a number of other California cities, most prominently the cities of San Jose and San Francisco.

The rate structure for 911 fees and taxes is typically a flat amount monthly on phone lines, both land and cellular, the numbers for which are registered within a specific jurisdiction. Typically a different rate is charged for “trunk lines” which serve multiple phones within business sites. Where it is a fee, the amount recovered cannot exceed the actual cost of the existing services. In the form of a tax, the amount approved by the voters does not have to exactly match costs.

Legal challenges have been made against some cities that have implemented fees on telephone customers to fund 911 response and related services. A recent appellate court decision ruled specifically

against the City of Union City fee. The central legal issues are whether such fees are in fact a fee for service or special tax (or property-related fee) for which voter (or property-owner) approval is required.

It is unclear where the courts will rule that such fee is actually a tax and therefore requires voter approval. The Sacramento City Attorney's Office has recommended that, if such a revenue strategy is pursued, it be structured as a tax and taken to the voters for approval. Management Partners has assumed that approach in this report.

We have attempted to calculate the estimated proceeds from such a tax for the City, but have had difficulty finding recent specific data required to accurately estimate the expected value of this tax. More work would certainly be needed to obtain this data if this particular strategy was to be pursued. For example, more precise information would be needed regarding the current number of telephone lines in the City (current data available is dated). And in particular, given Sacramento's unique status as a capital city, the number of government lines exempt from such a tax would obviously be much higher than that experienced in other cities.

Therefore, we have used existing data derived from work in the City of San Jose regarding the average number of lines per capita and an estimate previously made by Sacramento staff that as many as 45% of the phone lines in the City would be exempt from the tax. Using this methodology it is estimated that a tax of \$2.00 per line on 55% of the estimated 557,000 cell and land communication lines in the City of Sacramento could result in approximately \$7.35 million annually.

Transient Occupancy Tax

A transient occupancy tax (TOT) is applied to the room rates charged for lodging. Cities and counties are authorized to levy a tax on hotels, inns, tourist homes, motels, or other lodging for the privilege of occupying a room or rooms. TOT funds are general purpose revenues that pay for local public services that are enjoyed by both residents and visitors.

State code places no specific statutory limitations on the level of TOT taxes. The City of Sacramento currently charges a 12% TOT. Table 10 illustrates that 12% is on par with other peers and is the highest observed rate.

TABLE 10: CITY OF SACRAMENTO AND PEER CITIES TRANSIENT OCCUPANCY TAX REVENUE (FY 2009/10)

Jurisdiction	Transient Occupancy Tax Revenue per Capita	Rate
Bakersfield	\$15	12%
Fresno	\$23	12%
Long Beach	\$25	12%
Oakland	\$25	11%
San Jose	\$ 7	10%
Santa Ana	\$18	11%
Stockton	\$ 7	8%
Peer Average	\$17	11%
Sacramento	\$ 7	12%

While the overall transient occupancy tax rate is on par with peers listed on the above table, the method used to allocate the tax revenues differs significantly from others across the state. Since the mid-1990s Sacramento has dedicated most TOT revenue to support the Sacramento Convention Center. As it is a general purpose tax, cities typically allocate most, if not all of TOT revenue to the General Fund, to be used for citywide services and programs. Typically the TOT constitutes from 3% to 6% percent of total General Fund revenues, but in Sacramento the amount is only about 1%.

Table 11 illustrates how much of TOT the ten most populous cities in California allocate to the General Fund. The data show that the majority dedicate 100% to the General Fund. Sacramento dedicates the lowest amount (17%) to the General Fund.

TABLE 11: TRANSIT OCCUPANCY TAX COMPARISON AMONG PEER JURISDICTIONS

Jurisdiction	TOT Rate	TOT Rate Percentage to General Fund	TOT Revenue Percentage to General Fund
Anaheim	15.00%	15.00%	100%
Fremont	8.00%	8.00%	100%
Fresno	12.00%	12.00%	100%
Long Beach	12.00%	6.00%	50%
Los Angeles	14.00%	14.00%	100%
Oakland	11.00%	11.00%	100%
Sacramento	12.00%	2.00%	17%
San Diego	10.50%	5.50%	52%
San Jose	10.00%	4.00%	40%
Santa Ana	9.00%	9.00%	100%

The City estimates that \$19.6 million will be generated from TOT revenue in FY 2009/10. Of this, \$10.7 million will be used to cover debt service on the Convention Center complex, with the remaining \$6.3 million going towards Convention Center operations. The City general fund portion is estimated to be \$2.6 million. It is worth recalling that in the mid 1990s the City received upwards of \$9 million per year in TOT revenues for the General Fund.

The principle for the establishment of the TOT is that visitors to a city should pay their fair share of taxes to support the core services and infrastructure needs created by their presence. The decision to dedicate the majority of TOT revenue to the Convention Center and other non-general city services denies the City significant revenue from one of the few sources that can offset the lack of taxes paid by state-owned property.

Reallocating a larger portion of the TOT to the General Fund would provide additional revenue for core services. For example, splitting the tax allocation evenly between the General and Community Center funds would produce an additional \$7.2 million of annual revenue to the General Fund to be used for citywide services and programs.

A change in the allocation of the TOT would, of course, have a significant impact on revenue currently used to support the Convention Center. There are a number of ways to address this issue. One is to implement the allocation change when the debt it is currently pledged to support is paid. This will happen in 2012. A second approach is to generate additional direct revenue from the Convention Center operations, requiring increased user fees and concession charges. A third approach is to reduce the cost of Convention Center operations. This third option is discussed in the following section on competitive sourcing.

Given the authorization structure for the current TOT and its legal classification as a general tax, the City Attorney has concluded that any increase or TOT allocation change requires voter approval. TOT taxes require a simple majority vote and measures have a high level of success, given that the tax is paid by visitors.

Developing a Ballot Measure

As noted, voter approval is required for all new or increased taxes and property-based fees. The threshold for approval is a simple majority for general purpose taxes and a two-thirds majority for special taxes. In November 2009, California voters considered 57 local measures related to local agency taxes or bonds for cities, counties, special districts and schools. As in prior elections, those measures requiring a majority vote were more successful than special taxes requiring approval by two-thirds of the voters. Twenty-three of 36 non-school general taxes passed (64%), while three of eight non-school special taxes passed (60%). Table 12 provides a summary of the election results.

TABLE 12: NOVEMBER 2009 STATEWIDE LOCAL REVENUE MEASURE ELECTION RESULTS

Revenue Measure Type	Proposed	Passed	Passing Percentage
City General Tax (50% + 1)	36	23	64%
City Special Tax (two-thirds vote)	5	3	60%
City Bond (two-thirds vote)	1	0	0%
Special District Bond (two-thirds vote)	1	1	100%
School Parcel Tax (two-thirds vote)	11	7	64%
School Bond (two-thirds vote)	1	0	0%
School Bond (55%)	2	2	100%
Total	57	36	63%

Source: Michael Coleman, California Local Government Finance Almanac

The City has a wide variety of tax measures that could be used as part of a balanced approach to achieve financial and service sustainability. Given the requirement for voter approval, careful analysis must be completed to determine which mix of tax measures and what rates of taxation will enjoy the broadest public support. Any tax measure that is placed before Sacramento residents must be informed by professional polling results that test voter willingness for approval. The polling results will also provide guidance on the likelihood of approval for general- and special-purpose tax measures. Based on the results, City Council can structure a tax measure that has the greatest likelihood of approval.

Recommendation 5: Determine voter willingness to approve various tax measures and develop ballot measure(s) accordingly. It is broadly estimated that the City should be able to generate from \$10 to \$20 million annually in voter-approved measures during the year time frame established for closing the existing gap.

Many advocacy groups focus on a tax increase as a way to address specific programs and services. On both the statewide and local levels proposals for special tax increases are made to support the arts, housing, parks and recreation and libraries, among others. While nearly all of these proposals have public value, the consideration of a tax increase for a specific service by the electorate denies the community the opportunity to establish service priorities for new revenue. Any proposed single purpose tax increase should be discouraged from being put on the ballot. Approval of a tax measure placed on the ballot by the City Council as a general revenue source will allow the Mayor and Council to establish expenditure priorities through the public input process.

In Sacramento, regular elections for members of the City Council are held simultaneously with statewide general elections that occur in November of even numbered years. Thus, in the absence of an emergency

declaration, the next opportunity to establish or increase a general tax in the City of Sacramento will be on the November 2010 ballot.

Other City Revenues

Other general sources of revenue to cities include rent, franchise fees, concessions and royalties; investment earnings; revenue from the sale of property; proceeds from debt financing; revenues from licenses and permits; and fines and penalties. Certain miscellaneous other revenues have legal limitations on what may be charged and collected as well as how the money may be spent. The most promising of these sources are discussed below.

Franchise Fees

Franchise fees are a form of rent paid to cities by private firms that have been awarded a local monopoly to provide a specific service. In addition to the public receiving a return for the use of public right-of-way by a for-profit company, franchise fees offset the services provided to utilities and the wear and tear that utility operations take on City infrastructure. In cases where utilities are municipally owned there is typically a method to pay the General Fund an amount in lieu of a franchise fee so that general city services are not penalized by the decision to publicly own a utility. Sacramento voters approved a transfer of 11% of gross revenue from the City's water, sewer and solid waste utilities to the General Fund. In most cities the largest franchise fees come from private gas and electric and gas utilities.

Electric Utility Franchise Fee

Sacramento is in a unique position relative to the local electric utility, Sacramento Municipal Utilities District (SMUD). As SMUD is an independent publically owned utility chartered by the state, it does not pay the City a franchise fee. As it is not a City-owned utility it is not subject to the 11% in lieu transfer to the General Fund. This situation deprives the City of a significant revenue sources. As franchise fee formulas are complex, often including factors such as gross revenue and miles of public right-of-way used, it is not possible to make a precise estimate on the City's revenue loss. However, extrapolating from cities that receive franchise fees from private electricity utilities, the loss is probably in the range of \$5 to \$7 million dollars annually.

Recommendation 6: Pursue legislation that allows the City to collect payments to the General Fund from SMUD equal to the voter-approved amount collected from City-owned utilities.

Commercial Solid Waste Collection Franchise Fee

The collection of commercial solid waste in the City of Sacramento is provided largely by private vendors. The current franchise fee for solid waste collection is 8%. Conversely, the City's solid waste enterprise is required to remit 11% of its gross revenue to the City. Aligning the commercial solid waste collection franchise fee to the 11% that the City

receives from residential customers is a viable and equitable strategy to provide additional revenue to fund Citywide programs and services. This equity adjustment is estimated to generate approximately \$800,000 annually for the General Fund. Doing so will require the approval the regional Solid Waste Authority Board. The Board is comprised of eight members, five from the Sacramento County and three from the City of Sacramento.

Recommendation 7: Increase the commercial solid waste collection franchise fee from the current 8% to 11%.

Revenue Shifts

Revenue shifts can take two forms. One is to take non-General Fund revenue being used for other sources and use the funds to pay for services currently supported out of the General Fund. A second approach is to take a service that is currently funded by the General Fund and transfer the financial support to a non-General Fund source. In essence, the decision around revenue shifts is one of recognizing the flexibility of some non-General Fund and reconsidering priorities for the revenue.

Community Development Block Grant Funds

The Community Development Block Grant (CDBG) funds are federal monies from the Housing and Urban Development Department. They are provided to meet national objectives such as assisting low- and moderate-income families, eliminating blight and/or addressing an immediate or urgent need in the community. Grant amounts are fairly stable and are made annually based on a formula. CDBG funds are flexible and can be used for a variety of purposes including capital projects, economic development, assisting non-profit groups, housing and code enforcement.

In Sacramento, CDBG funds are currently administered by the Sacramento Housing and Redevelopment Agency (SHRA), a joint powers authority between the City of Sacramento and the County of Sacramento. SHRA uses CDBG funds to support its mission to improve the quality and accessibility of affordable housing. According to the Consolidated Plan required for CDBG funds, the City's annual entitlement is approximately \$6,000,000. In the current fiscal year the City is receiving \$812,000 of CDBG funds for direct use - \$250,000 goes to code enforcement and \$562,000 is budgeted for capital projects identified by City Council members and approved by the Council.

The Sacramento Code Enforcement Department uses approximately \$3.8 million annual in General Fund revenue to provide code enforcement services. As a significant portion of the code enforcement workload occurs in neighborhoods eligible for CDBG funds, these funds can be used for code enforcement. This would free General Fund revenue for programs and services that have no alternative funding. According to Code Enforcement staff estimates, approximately \$3 million of the current

General Fund budget could be replaced by CDBG funds. The staff from the SHRA has stated they do not believe the use of CDBG funds for code enforcement is allowed under Federal regulations. As many cities do use CDBG funds for code enforcement, we make the recommendation for Sacramento to do so. Using the funds for these purposes would require federal approval. As noted at the beginning of this section, the alternative use of CDBG funds is a case of the City Council establishing priorities for the application of funds that have more than one use. The use of CDBG funds for code enforcement will take funds away from other programs and projects that meet other needs and have value to the community.

Recommendation 8: Utilize Community Development Block Grant funding to pay for eligible code enforcement services and eliminate General Fund support.

Urban Forestry

The Urban Forestry Division is located in the Transportation Department. This division is responsible for maintaining street trees and major park trees. The 2009/10 budget for the division is \$5.5 million. Currently \$650,000 in funding comes from the General Fund. Department management has determined that this General Fund support could be replaced by further use of Landscape and Lighting District funds.

Recommendation 9: Utilize Landscape and Lighting District funds for the Urban Forestry Program and eliminate General Fund support.

Functional Revenue

Functional revenues are typically fees and charges for services where there is an individual user or customer. Development processing fees, recreation program fees and fire inspection fees are examples. Under state law, cities can charge fees for services that are sufficient to recover all costs of service provision. This can include all direct costs as well as reasonable and appropriate overhead. These revenues can be used to either directly support General Fund activities or fund activities currently being funded with general revenue. Management Partners identified a number of opportunities where additional functional revenue can be generated to fund general city services.

In most cases fees charged by the City do not cover 100% of costs. In addition, during our review we identified some cases where fees are not being charged for services where there is a distinct beneficiary. In many cases, this reflects a City Council policy decision to not recover full costs. Such a policy decision may be made to remain "competitive" with adjacent cities (especially for development-related fees) or to maximize access to certain recreation programs for residents who may otherwise lack the means to participate. Youth recreation activities are a typical example.

Given the City's financial condition and the need to make difficult choices about services and service levels, like everything else, the City's fee policies must be reviewed in the light of current circumstances and priorities. Opportunities to increase fees exist in the following areas. Potential revenue estimates are based on gross calculations without the benefit of a detailed fee study.

Development Review Fees

Cities and counties charge fees for the processing of planning applications, building plan check and building inspections. These are services where there is a specific customer and beneficiary of the service. A best practice is to ensure that new development pays all of the costs necessary for processing, inspections and infrastructure impacts. To charge fees that recover less than the full cost of facilitating the development means that general revenue intended to provide general public services is used to subsidize the cost of private development.

How fees are calculated and the percent of the total cost of the services recovered varies based upon several factors: the methodology used to develop fees, what costs are included in calculating the cost of service delivery and city council policy on cost recovery. By law, the City may charge fees necessary to recover the full cost of providing individual customer-focused services. These include direct costs, appropriate overhead, costs for replacing vehicles and equipment, and space costs.

As noted above, City Council policies impact the amount of fees recovered. Some cities choose to subsidize planning fees for single family residential construction and remodeling in the interest of supporting affordable housing. Some cities may subsidize or waive fees for certain commercial development to encourage the attraction of new business that will, in the long term, provide greater general revenue to the city than what is lost in fees. Management Partners understands that the express policy of the Sacramento City Council is to recover 60% of the costs for processing development.

Table 13 displays the FY 2009/10 budgeted expenditures and revenue for development review services. We believe this probably underestimates the expenditure because some indirect costs are lost.

TABLE 13: FY 2009/10 BUDGETED DEVELOPMENT-RELATED EXPENDITURES AND REVENUE

Revenue	
Construction Permits	\$4,177,000
Plan Check Fees	\$2,321,000
Special Use Permit Fees	\$785,000
Residential Plan Review Fees	\$85,000
Planning Technology Fees	\$497,000
Other Fees	\$62,000
Total	\$7,927,000
Expenditures	
Building Division	\$4,500,000
Planning Division	\$4,033,000
Customer Service Division	\$1,221,000
Community Develop Admin	\$3,151,000
Parks and Recreation	\$550,000*
Fire Department	\$500,000*
Transportation Dept	\$500,000*
Total	\$14,455,000

*Estimate by Management Partners and Sacramento City staff

Based on this analysis we believe that the City provides a subsidy of at least \$3.4 annually. More likely the subsidy is closer to \$5 million once all costs are appropriately included. The comparison of development-related costs and revenue reflects the policy to recover less than the full cost of processing private development. Management Partners understands that the basis for this policy is an interest to encourage development and remain competitive with surrounding communities for attracting new commercial development.

In 2007 the San Joaquin Partnership, a non-profit economic development organization conducted a comprehensive comparison of the total fees charged by jurisdictions in the greater Central Valley. Sacramento was included in this review. The methodology took typical projects that were representative of different types of development and quantified the total fees to which the project would be subjected in each jurisdiction. Construction projects that were included compared single family, multi-family, retail office warehouse and manufacturing. The total comparison included both processing and impact fees. Twenty-one jurisdictions, including Elk Grove and Sacramento from Sacramento County, were included in the analysis.

The study showed that the City of Sacramento is below the average in total fees charged for the single family, multi-family and office projects, and above the average for the retail, warehouse and manufacturing projects. In four out of the six projects, Sacramento's fees were lower than those of Elk Grove.

Clearly opportunity exists for the City to substantially reduce the subsidy for private development, if not completely eliminate it. Increasing cost recovery could yield from \$3.4 to \$5 million annually if full cost recovery is the target. Even a recovery target of 75% would generate over \$1 million per year of general revenue for broad public services.

Those in the development industry as well as some single family homeowners will object to any increase in development processing fees and complain that it will stifle development or drive away potential new businesses. While it is recognized that no one likes higher fees and that the cost of processing development can be expensive, when placed in the context of the total cost of a construction project, City fees generally amount to a small portion of overall project costs.

Recommendation 10: Revise the current Council policy regarding the recovery of costs for private development and adjust fees to decrease the General Fund subsidy.

Subscription Program for Ambulance Service

In most cities including Sacramento, ambulance transport services are funded from user fees. The City's base charges for a transport are \$1,210 for advanced life support calls and \$1,055 for basic life support.

Several cities have established ambulance subscription programs. With a subscription program, a household pays an annual fee to the City. Fees generally range between \$36 and \$60 per year. The subscription guarantees that should a transport be necessary for any resident of the household, the household will not be billed.

By becoming a subscriber, residents authorize the city or fire department to bill their private health insurers and/or Medicare or Medi-Cal, and the membership fee covers the remaining balance. It should be noted that first response medical assistance is always provided to everyone in need, regardless of participation in a subscription program or the ability to pay EMS fees. Those households participating in the subscription program are, in effect, buying insurance so that their costs will be covered.

Nationally, many cities have implemented EMS subscription programs. The level of revenues from the subscription fees is dependent upon participation rates; obviously more people joining will mean greater revenue.

Table 14 below shows the revenue from ambulance subscription programs in several California cities.

TABLE 14: AMBULANCE SUBSCRIPTION PROGRAM REVENUE FOR FY 2008/09

Jurisdiction	Population	Annual Membership Revenue	Revenue Per Capita
Corona	148,597	\$1,050,516	7.07
Anaheim	348,467	\$1,710,000	4.91
Fullerton	137,624	\$815,000	5.92
Huntington Beach	202,480	\$1,426,000	7.04
Orange	141,634	\$650,000	4.59
Burbank	108,082	\$180,000	1.67
Santa Ana	355,662	\$155,000	0.44
Average	206,078	\$855,217	4.52
Median	148,597	\$815,000	4.91

Based on the experience of other communities, a subscriber rate of 6% of households is a reasonable estimate. With an annual fee between \$35 and \$50, the City could expect revenue of \$1,000,000 to \$2,000,000 annually. As Sacramento ambulance service is an integral part of the Fire Department, this revenue can offset an equivalent amount of General Fund revenue that can then be used for other priorities.

Recommendation 11: Adopt and implement an ambulance subscription program.

Fire Company Inspection Fees

Fire prevention is of significant benefit to property owners and the community in general. Beyond the potential for serious injury or death, a significant fire can cause residents to relocate into temporary quarters for a long rebuilding period and can put small business out of business.

The Sacramento Fire Department has developed an extensive fire prevention program. At the core of fire prevention is the regular inspection of those properties posing the highest fire risk. These include commercial properties and multi-family residential properties.

Fire inspections are conducted in two methods. Inspections in complex and high-risk occupancies are conducted by full-time fire prevention inspectors assigned to the Prevention Bureau. Smaller and less complex inspections (termed company inspections) are completed by on-duty fire suppression personnel in the course of their daily duties.

The City has an established fee structure for inspections by Prevention Bureau inspectors; it does not currently charge for company inspections. Cities have historically been reluctant to charge for company inspections as it was seen as time that would be paid for by the General Fund regardless of whether inspections were made. The chronic squeeze on general revenues has caused cities to rethink this policy.

Since an individual benefits from the inspection service (a business or property owner) and the resulting revenue provides some offset to the cost of the fire suppression system, charging a fee frees up general revenue for other purposes. San Mateo and Palo Alto are examples of cities that have instituted company inspection fees.

The Fire Department reports an annual volume of roughly 5,600 company inspections. The estimated proportionate cost of the time spent on company inspections is approximately \$3,500,000 annually. Although a fee targeted for 100% cost recovery would be too burdensome at \$625 per year, a \$100 fee would raise \$560,000 annually.

Recommendation 12: Establish a fee schedule for Fire Department company inspections. The amount of fee is subject to Council policy. Prior to establishing the fee the Fire Department should perform an analysis of the company inspections to determine if a variable fee structure based on the size and risk exposure of properties is more equitable.

Competitively Bid Police Towing Services

The City currently contracts with 28 separate towing companies for vehicle tows within the City and receives an administrative fee of \$7 per tow. This is collected by the towing companies along with standardized towing and daily storage fees, as set by the City contracts. Tows are rotated between the companies. Approximately \$84,000 annually in revenue results from this fee.

Some jurisdictions now handle towing services on a competitive contractual basis. Although there is more "up-front" work to complete the competitive bidding process there is less ongoing handling required to set up the individual contracts and monitor the rotation of towing services. Most importantly, the revenue generated is substantially greater than that of the current administrative fee. For example, the City of Oakland receives \$1.3 million annually from an exclusive vendor that provides tow and storage services, collection and administration of the City's tow fees, lien auction and sale, and various administrative services related to the aforementioned. The contract is for five years. This approach could generate revenue for the City of between \$500,000 and \$1.0 million annually.

Care must be taken in structuring a request for proposals. The City must retain the authority to set all tow-related charges and ensure that the charges are reasonable and competitive. The exclusive provider would be selected based upon qualifications, past experience and the revenue offered the City in exchange for the exclusive contract. Opposition from existing tow companies can be expected as the present system spreads business to multiple operators.

Recommendation 13: Select a single company to supply police-generated tows using a competitive bid process. If the City decides it does not prefer a single contractor, the administrative fee should be set to ensure it fully covers the cost. The full cost is probably closer to \$25 a tow rather than the current \$7.

Maximizing New Revenue Sources

Periodically the City has opportunities to receive new revenue from the use of City assets. Examples include the use of City property for cellular equipment, digital billboards placed on City property, advertising on City vehicles and naming rights to City facilities.

When these types of revenue opportunities present themselves there is often a tendency to earmark the funds for specific purposes. A department responsible for maintaining a property where payment for a cellular installation is offered may propose a specific department-focused use for the revenue. For example, proceeds from a ten-year contract with PepsiCo were directed to the CC&L department rather than the General Fund. As another example, Management Partners is of the understanding that proceeds from a franchise agreement with Clear Channel, Inc. are intended to be earmarked for specific projects rather than placed in the General Fund. A best practice is to place all such revenue into the General Fund and allow potential specific uses to compete with other priorities during the budget process.

Recommendation 14: Establish a policy that designates revenue derived from the use of City assets as General Fund revenue. This would include revenue from digital billboards, ads on City vehicles and naming rights for City facilities.

The City of Sacramento has a broad menu of options to raise additional revenue to support core services. Voter approved options collectively are estimated at between \$47 and \$84 million in annual revenue value. Of course the City would select only one or two measures to place on the ballot. Therefore, revenue from voter approved measures would probably be in the range of \$10 to \$20 million annually.

The amount of additional revenue from franchise fees depends significantly on the ability to receive an equivalent payment from Sacramento Municipal Utility District. Shifting revenues currently used for other services to general services would produce approximately \$3.5 million per year. Increases in functional revenue are estimated to raise at least \$5 million annually.

Clearly, increasing revenue available to support core services will be a significant component of the City's plan to achieve financial and service stability.

Expenditure Reduction Recommendations

Cities have very little direct control over revenue. Expenditures however are controlled by City Council policies, priorities and service decisions.

Cities' expenditures are driven by a number of factors:

- Number and type of services provided,
- Level at which services are provided,
- Delivery methods,
- Number of staff employed in delivering services,
- Organization of services, and
- Compensation policies.

Opportunities to reduce operating expenditures correlate with each of the above factors. The following sections discuss expenditure reduction opportunities and recommendations.

Approach to Expenditure Reduction Analysis

Every service provided by the City provides value to someone. Each has a constituency, including residents that use the service, groups that advocate for the value of a service and usually, workers employed delivering the service. Therefore, expenditure reductions are hard, especially in a political/public setting.

Studies of the public sector have shown that the most common approach to reducing expenditures is to leave the service provision "menu" largely unchanged and cut some percentage from each program budget, often with a reduced or eliminated target for police and fire operations. While this is contrary to the approach advocated by professional public finance organizations such as the Government Finance Officers Association (GFOA) and the practices followed in the private sector, it is understandable given public agencies' operating environment.

Making across-the-board cuts often appeals to common ideals concerning equity and "sharing the pain." It also dramatically reduces decision making costs as policymakers, by providing some funding to all activities, do not have to prioritize the value of services and negotiate which ones should be eliminated in their entirety. A common example can be found in typical approaches taken to reducing library or community center operations. Cities often cut back programming and operating hours at all branches uniformly, rather than based on priority or relative utilization. The result is an equal level of mediocre or worse services.

The approach taken in this report is essentially the opposite of the traditional "across the board" or equity cut approach. The City of Sacramento has basically exhausted the ability to make across-the-board cuts to deal with its budget problems. In addition, some City services have been cut to the point where their ability to function satisfactorily is questionable.

For purposes of this evaluation, every service is assumed to be valuable. Each, however, is being scrutinized carefully and is open to the potential for significant, even radical changes in how the service is delivered, the traditional business practices followed in providing the service and the compensation and benefits paid to the workers providing the services. Service eliminations are considered the least desirable option because we assume that if a service can be delivered satisfactorily in a different fashion, it should be. This saves resources for other valuable programs that would otherwise have to be cut. Service eliminations are also looked at through the prism of the POD program, which is aimed at identifying mandatory vs. discretionary options.

In the sections that follow we look at opportunities to restructure services, including reducing and reorganizing the functions and personnel within departments, changing the deployment of personnel as well as the level of service provided. All of these are examined within the context of maintaining the core service in a way that fulfills the City's mission.

We first look at opportunities to change the service delivery model, then at opportunities to change business practices and next at service elimination and reduction options. Lastly we identify changes in compensation and benefit policies.

Changes to Service Delivery Models

The current cost of providing services can be significantly reduced in some areas of the City's operations by changing how the service is delivered. Service delivery alternatives offer the potential to maintain what is currently provided without raising taxes or reducing services. In Sacramento, as in most older cities, the preponderance of services are delivered by a workforce employed by the City that exclusively serves the Sacramento community.

One of two most common alternative service delivery methods is functional consolidation, which involves delivering services through an entity serving two or more jurisdictions. The second most common alternative service delivery method is contracting, which uses a non-city entity and workforce to provide the service. These strategies are not mutually exclusive; some alternative delivery mechanisms employ both a consolidated service entity with contract service delivery.

The City of Sacramento currently uses both alternative service delivery methods. Several opportunities for expanding these alternative service delivery methods exist. Doing so will allow the City to maintain service levels at lower costs, thereby allowing Sacramento to continue as a full-service City.

Management Partners has identified opportunities to reduce the City's annual operating costs by up to an estimates \$17.5 million by making changes in how services are delivered.

Functional Consolidation

Functional consolidations are designed to provide existing or improved community service at a lower cost. This happens largely because of economies of scale. By using a common organization, entities eliminate redundancy, avoid the duplication of equipment and consolidate management and support functions. Typically a larger organization has greater flexibility in maintaining services when employees are sick or on vacation.

Municipal services are delivered through a variety of institutions:

- City organizations,
- Counties,
- Special districts, and
- Joint powers agencies.

The Sacramento community benefits from several functional consolidations that are currently in place:

- Library services are provided by the Sacramento Public Library Authority, which is a shared entity serving both the City and County
- Sewage treatment is provided by the Sacramento County Regional Sanitation District (SCRSD), a district serving multiple communities
- Redevelopment activities are undertaken by the Sacramento Housing and Redevelopment Agency (SHRA), a joint City/County entity
- Flood control is provided through the Sacramento Area Flood Control Agency (SCFCA), a regional agency
- The Center for Sacramento History is operated by the City of Sacramento. The Center is jointly funded by the City and County and serves as the repository for both City and County official records

Models of functional consolidations exist for nearly all services provided by the City. The ultimate functional consolidation is the merging of a major city and urban county such as Miami/Dade County, Florida; Louisville/Jefferson County, Kentucky; and Charlotte/Mecklenburg County, North Carolina. While this concept was previously discussed for Sacramento, the strategy has never moved forward. Merger would be an extremely complex process and most of the benefits can be accomplished more easily through greater City/County cooperation.

Successful consolidations come in all shapes and sizes and it is important to understand some of the basic success factors. These factors were developed based on case studies by a landmark report created in 2002 entitled "Government without Borders." Government without Borders was an extensive report prepared by the Federal Government's U. S. General Services Administration, Office of Intergovernmental Solutions, and released on May 23, 2002.

The report focused on opportunities for using information technology to consolidate the delivery of services, but also set forth some best practice findings with respect to service integration efforts in general. The findings seem simple and almost self-evident, but the importance placed on maintaining jurisdictional independence while developing service integration models was a key concept. This reflects the fact that “bigger is not always better” in terms of the cost of service, and underscores the reality that the importance of maintaining jurisdictional independence makes full-scale consolidation a costly and often unsuccessful undertaking. Key success factors are listed below:

- Consistent leadership and staff support must be provided.
- Different levels of participation should be permitted.
- Participants must enjoy equal consideration.
- Differing levels of technical maturity is to be expected.
- Technology issues are secondary to political and cultural issues.
- Modular project/task orientation helps inter-jurisdictional efforts.
- Jurisdictional independence and identity is to be respected.
- A two-year commitment is usually needed before benefits are fully realized.

While it is beyond the scope of this study to look at the full range of potential service sharing and consolidation opportunities in the Sacramento region, it should be noted that the Sacramento region is all ready one of the most coordinated in the entire state for transportation and regional land use planning. It makes sense for the City of Sacramento and other area jurisdictions to build on these successes when it comes to local government service delivery.

Management Partners researched service sharing arrangements that work well in other cities and would be feasible in Sacramento. Specifically, we looked for examples that:

- Involved a service delivered by the City of Sacramento;
- Featured an organizational approach that seems practical in the Sacramento setting; and
- Demonstrated potential cost savings.

The following examples met all or most of these objectives.

1. Waukesha County, Wisconsin – Consolidation of 911 dispatch
2. Salt Lake City, Utah area – Traffic signal operations and maintenance
3. Coachella Valley, California – Street sweeping
4. Milwaukee, Wisconsin – Animal control via the Milwaukee County Intergovernmental Cooperation Council
5. Charlotte/Mecklenburg County, North Carolina – Various services

These service consolidations are summarized below.

Partnership	Waukesha County, Wisconsin Consolidation of 911 Dispatch Functions
What it Does	Consolidated Public Safety Answering Points (PSAPs) serving 37 local systems with a population base of approximately 400,000
Members	Waukesha County and 30 local governments
Governance	JPA
Benefits	Upgraded to 800 mhz system with savings estimated at \$2.7 million per year when fully implemented.
Other Notes	So far five of nine PSAPs have been consolidated, representing 30 local service providers. The project also includes a shared records management system.
Partnership	Salt Lake City, Utah Regional Traffic Signal System
What it Does	Operates approximately 630 traffic signals. Common hardware and software provides integrated control and integration across the region.
Members	Utah Department of Transportation, Salt Lake City, Salt Lake County and nine surrounding cities. Area population is approximately 918,000.
Governance	JPA <ul style="list-style-type: none"> • Benefits Uniform traffic signal operations. • Shared maintenance costs, equipment specifications and operations standards. • Twenty-one percent improvement in average travel time. • Shared training and back-up for after-hours response.
Other Notes	Used Congestion Management and Air Quality (CMAQ) funds for capital cost. Cooperation allowed agencies to maximize federal funds by reducing administrative expenses.
Partnership	Coachella Valley, California Regional Street Sweeping Services
What it Does	Contracts for street sweeping services in member agency jurisdictions. Administers program and oversees reimbursement for some costs from CalTrans and federal air quality program.
Members	Members of Coachella Valley Association of Governments (CVAG): 9 cities, 3 Indian reservations and the County of Riverside. Cities range in population from approximately 4,000 to 49,000. Total area population is approximately 290,000.
Governance	JPA – Coachella Valley Association of Governments
Benefits	Regional approach to storm drain regulations and most cost-effective way to accomplish sweeping.
Other Notes	CVAG operates a number of regional programs in the housing and transportation areas.
Partnership	Milwaukee, Wisconsin Area Domestic Animal Control Commission
What it Does	Constructed, owns and operates an animal shelter and provides animal control and regulation services.

Members JPA involving 19 city jurisdictions in greater Milwaukee area. A project of the Milwaukee County Intergovernmental Cooperation Council (ICC), which is composed of the same members. Metro area has a population of 940,000.

Governance Single purpose JPA with member appointed by each jurisdiction. An operations committee provides direct oversight to employees of MADACC.

Benefits Resolved service delivery crisis which resulted from the Milwaukee Humane Society discontinuing animal pick-up services. Analysis showed this option was far superior to independent city operations or private contract.

Other Notes Milwaukee ICC has also spearheaded projects relating to housing, homelessness and revenue sharing.

Partnership **Charlotte-Mecklenburg County, North Carolina**
Various Services

What it Does The City of Charlotte and the County of Mecklenburg have functionally consolidated municipal service delivery in the metro (County) area. The table below shows the division of service delivery.

Combined	City	County	Separate
911 Service	Water and	Solid Waste: Disposal	Human Resources
Parks and	Sewer	Environmental Programs	Information Technology
Recreation	Airport	Human Services	Finance
	Police	Zoning	
	Transportation	Courts and Jails	
	Solid Waste	Code Enforcement	
		Medical Examiner	
		Regulated Floodways	
		Library	
		Tax Collection	
		Street Addressing	

Members Other than a Council of Governments and a Parks and Recreation Commission, there is no shared governance structure.

Governance Functional consolidation is achieved by inter-local agreements. Six other small incorporated municipalities may opt out of this service delivery if they choose to do so. Five of the six do so for police services.

Benefits While there is no formal review of efficiency, the proliferation of the inter-governmental agreements suggests that both the City and County are convinced of the benefit of such an approach.

Other Notes Political, as opposed to functional, consolidation has consistently been voted down. Some observers have concluded the success of functional consolidation has undercut support for political consolidation.

Current Efforts

In December 2009, both the Sacramento City Council and Sacramento County Board of Supervisors initiated an effort to examine the options for functional consolidation between the two agencies. Options are being evaluated and prioritized based on the following factors:

- Benefits associated with consistency between the jurisdictions
- Opportunity for improved level of service
- Opportunity for cost savings

- Current level of organizational redundancy
- Nationwide best practices

Some of the services being considered include animal care, code enforcement and parking fare collection. These are currently being evaluated by a staff working group looking at both the value of consolidation and the ease of implementation.

In addition, as part of the POD process and Management Partners' discussions with City staff; departments have submitted a number of ideas for consolidations with a varying degree of specificity. This includes such major functions as 911 dispatch, personnel and fiscal support services in law enforcement, park maintenance, animal control and code enforcement.

Management Partners has identified the following as good candidates for functional consolidation since they have potential for a high return in cost savings. The cost savings estimates are for ongoing operating costs. Functional consolidations will require one time transition costs. One of the major reasons functional consolidations do not move forward is that the agencies do not adequately fund the transition effort. In some cases significant capital costs are required to accomplish complete functional consolidation. These costs can delay the realization of ongoing operating savings.

Animal Care

The City of Sacramento operates an Animal Care Services Division within the General Services Department. Division operations includes an animal service shelter, animal licensing, vaccinations and spay/neuter services for adopted animals, public outreach, and code enforcement activities related to animal control. The City currently spends approximately \$3.1 million annually on animal care. The division is staffed with 33 FTEs, with nine in animal enforcement, 16 in animal shelter and eight in administration.

Budget information for the division is provided in Table 15 below. The costs are in line with and indeed less than observed in other similar settings. It should be noted that the figures in Table 15 do not include administrative overhead, but do include all services and supplies.

TABLE 15: ANIMAL CARE SERVICES BUDGET

FY 2009/10	Administration and Animal Licensing	Animal Enforcement	Animal Sheltering	TOTAL
Expenditures	\$883,442	\$963,691	\$1,378,074	\$3,225,207
Revenues	\$558,000	\$174,000	\$240,000	\$ 972,000
General Fund Subsidies	\$325,442	\$789,691	\$1,138,074	\$2,253,207

While costs probably cannot be diminished by a great deal, animal care and control as an industry is migrating to a more regionalized approach. This is because animal care is increasingly regulated, and hence specialized. Also since domestic animals do not necessarily respect arbitrary boundaries, regional coordination of adoption, licensing and sheltering programs makes sense. Several good examples of regional approaches can be found in Orange County California, where the County serves the unincorporated population and 19 cities with about 2 million in population. As discussed above, in Milwaukee, Wisconsin, a JPA provider serves the County and 17 cities with a population of approximately 1 million.

Animal sheltering may be one of the best options for consolidation and cost reduction in animal control. The approximate cost per animal for the City of Sacramento to operate shelter facilities based on fiscal year 2009/10 numbers above (at 11,400 animals a year) is \$121.

The neighboring City of Elk Grove contracts with the SSPCA to shelter animals, provide low-cost rabies clinics, and administer animal licensing. In addition, the City has access to the SSPCA's internal software which helps place adoptable animals. In FY 2009/10 the SSPCA is under contract to accept up to 3,100 animals (from both the public and City employees) at a rate of \$332,814 (approximately \$107 per animal) with each animal thereafter at a rate of \$107 per animal.

Given the example of the contract described above, the City is spending an additional \$14 per animal for shelter services even though it operates on a much larger scale. As an approximate estimate, the City could save \$158,274 a year for direct animal services. In addition, the City would share the cost of software and realize at least another \$18,600 in savings annually. Although the estimate does not include cost savings from the current administration portion of the division budget nor the potential for more savings by providing the facility, the City could save approximately \$177,000 annually by contracting animal shelter services to the SSPCA or similar entity.

Beyond sheltering services, the City can examine consolidating animal control field services with those of Sacramento County. Other cities currently contract with their counties to provide animal control services either per animal or by providing a dedicated patrol officer, as is the case with the City of Citrus Heights. At present, the City compensation levels for animal enforcement personnel are higher than the average cost of equivalent County employees. If the City utilized county employees through a contract it could realize approximately \$155,000 savings annually.

Alternatively, the City could enter into a joint powers agreement, joining with the County and other local communities to consolidate patrol services under one organization. Cost savings would depend on the total number of jurisdictions and levels of service agreed upon, but this is likely to be the lowest cost way to provide these services going forward.

Recommendation 15: Consolidate animal care services with either Sacramento County or the Humane Society, and move towards a countywide JPA structure of all animal care services. A consolidation could be established in three phases. During Phase I, a single pet license could be developed. Phase II would consolidate field services. Shelter services, because of capital costs that may be associated with construction, would be accomplished during Phase III.

Public Safety Communications and Dispatch

The City of Sacramento provides direct dispatch and emergency communications services for the Police Department and is the public safety answering point (PSAP) for fire and advanced life support. EMS and 911 fire calls come into the Sacramento dispatch center and are then transferred to a regional fire dispatch center operated by the Sacramento Regional Fire/EMS Communications Center, a joint powers agency of fire departments.

Dispatch and communication services are good candidates for large scale consolidation. The benefits include:

- Establishing a common communication channel and protocols to improve coordination;
- Minimizing the purchase of duplicative, expensive computer-aided equipment and technology; and
- Lowering operating costs through reduced management positions and economies of scale.

Research by Computer Sciences Corporation suggests that call center consolidation can produce savings ranging from 25% to 50%, based primarily on its work with large private sector firms. While no broad data on potential consolidation savings in the public sector is available, case study research suggests that significant savings also may be available to governments, especially larger ones that can easily aggregate the volume of personnel and work needed to realize economies of scale.

There are many successful models for consolidated dispatch. The San Diego County--Imperial County Regional Communications System (RCS) provides public safety voice and data communications to more than 200 local, state, and federal agencies in San Diego and Imperial Counties. In Monterey County, the Monterey County Emergency Communications Department answers police, fire and medical emergencies for all cities and the unincorporated areas.

The current year's budget for the City's communication unit is \$8,882,484. Assuming a projected cost reduction of 25%, the City could achieve an annual savings of \$2.2 million. This is consistent with Management Partners' estimated savings if the City of Cincinnati's operation were to merge with Hamilton County.

As with any consolidation effort, issues of turf and control as well as stakeholders' investment in the status quo can present significant obstacles. This has particularly been the case with potential police communications mergers. Department management is often committed to consolidation, if their department will control management. Police officers sometimes express concern that having dispatch provided by someone other than their current in-house unit will create officer safety issues. Lastly, there is usually concern about the potential loss of jobs.

The numerous successful consolidated operations, including the Sacramento Regional Fire/EMS agency serving the City's Fire department, demonstrate that all of these issues can be resolved. A shared governance structure can address oversight issues. The track record of existing consolidations demonstrates that officer safety issues do not materialize. A transition can usually be accomplished without the layoff of any existing personnel since sufficient turnover tends to occur in dispatch positions.

Recommendation 16: Consolidate public safety dispatch with Sacramento County and other interested cities.

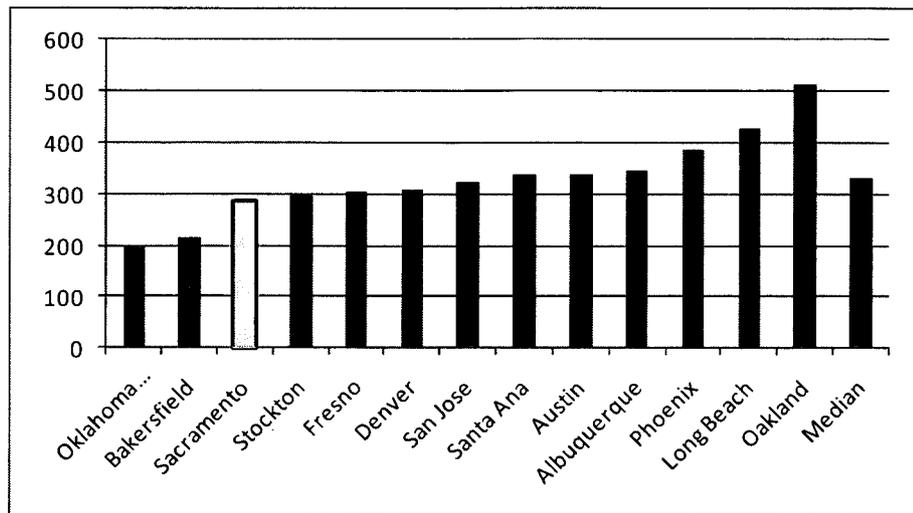
Law Enforcement Units

It is nearly universal in full service cities that police services consume the largest portion of general revenue. Such is the case in Sacramento. The annual net General Fund cost of the Police Department is budgeted at \$125,472,820 in FY 2009/10, accounting for 47.5% of the City's net General Fund expenditures. A number of factors contribute to the expense of providing police services:

- The operation is 24/7/365
- Personnel costs are high
- Sophisticated technology is needed
- Large numbers of vehicle and equipment are required
- Stringent legal requirements for training and personnel management are in effect
- Significant exposure to risk and high liability claims exists

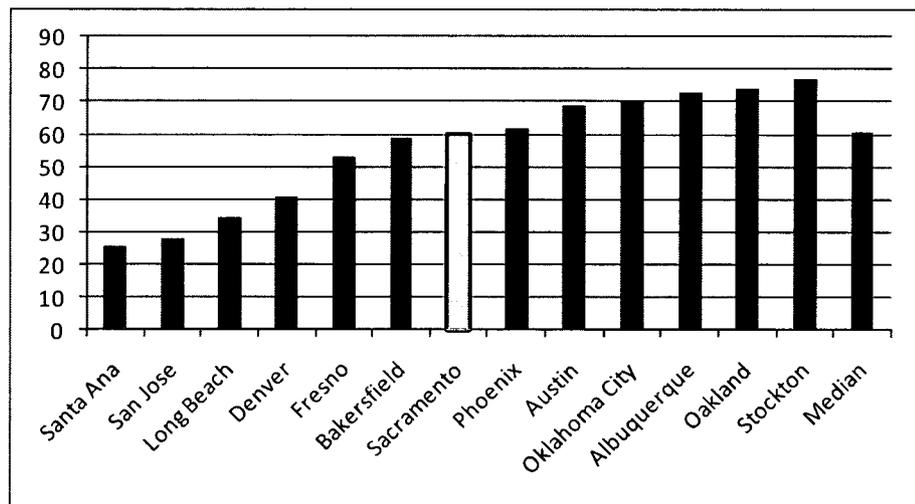
As noted in Figures 13 and 14, below, per capita expenditures for the Sacramento Police Department (SPD) are slightly below the average for the peer cities while major crimes are at the average. From a macro standpoint this indicates that care must be taken to avoid reductions in the core service of patrol and call response.

FIGURE 13: PEER CITIES POLICE OPERATING EXPENDITURES PER CAPITA FOR FY 2009/10



Source: Management Partners Survey

FIGURE 14: PEER CITIES MAJOR CRIMES* PER 1,000 RESIDENTS IN 2008



*Major crimes include: criminal homicide, forcible rape, robbery, aggravated assault, burglary, larceny-theft, motor vehicle theft and arson

Source: FBI website

Increasingly complex demands placed on police departments require greater specialization and the use of more sophisticated equipment. These demands are particularly acute in urban areas, which tend to have higher crime rates and a more dynamic policing environment. To address these demands, police departments have developed a number of special units to respond to various situations as well as stand-alone support units. These units are typically duplicated in adjacent police departments and

the County Sheriff's office. Consolidation of certain special and support units can provide savings for the City.

Management Partners has identified the following opportunities to save General Fund dollars by consolidating special and support units with the County Sheriff and other adjacent police departments without compromising the public safety mission. These are:

- Major Crimes Investigations,
- Property and Evidence Management,
- Metro Special Teams Units, and
- Air Support.

With the exception of air support, each of these functions also exists in the Sacramento County Sheriff's Office and adjacent departments. The Sheriff maintained an air support unit until 2008, when it was cut due to budgetary reasons.

Major Crime Investigation

Major crime investigation is an increasingly costly service. The Sacramento Police Department has 59 positions in major crimes investigation, with a total budget of \$7,687,373. Investigation of major crimes is highly complex and time-consuming, and requires increasingly specialized skills and experience to be effective. District attorneys are concerned about consistency and following precise investigative protocols to ensure successful prosecution of suspects. Suspect identification and apprehension in a major crime are time-critical, and require intensive staff-power for relatively brief periods of time. All of these factors make major crimes investigation a good candidate for functional consolidation.

A consolidated Countywide Major Crimes Task Force would afford consistent training, supervision, investigative protocol, and provide expanded resources for time-critical investigations. The District Attorney's Office and Forensic Laboratory will benefit from working with a unified entity, and can establish consistent protocols for investigation, forensics testing, handling of evidence, and other tasks. Cost savings can be achieved by consolidating investigative resources and reducing redundancy in the detective bureaus of individual departments.

It is reasonable to expect that with the elimination of redundant management and administrative support personnel and sharing of physical resources and equipment that the City would realize a savings of at least 10% or \$750,000 per year. The savings will depend on the number of agencies that participate in a consolidated unit, and could be even greater. A report prepared in 2004 estimated that consolidation of the Pittsburgh Police and Allegheny County Police major crimes functions could save approximately \$1.2 million per year.

Property and Evidence Management

Sacramento PD operates a Property and Evidence Unit charged with the secure storage, maintenance and retrieval of stolen property and evidence secured as a result of police investigations and field activities. The Sheriff's Office and other police agencies in Sacramento County also are mandated to properly log and securely store stolen property and evidence. Property and evidence management has statewide and national standards, regulations, and procedures; thus this function lends itself to consolidation

An example of functional consolidation of property and evidence among jurisdictions in Northern California is the multi-agency evidence facility located in Ukiah that serves the Sheriff's Department, District Attorney's Office, California Highway Patrol and federal agencies.

Management Partners has also worked with the City and County of Fresno to investigate sharing property and evidence storage facilities. The study concluded that cost savings of at least 10% could be achieved along with improved logistics to benefit the two departments and the District Attorney.

The current annual budget for SPD's Property and Evidence Unit is \$2,900,361. Conservatively, savings of at least 10% or \$290,000 per year can be expected from a consolidated function. This savings would result from the elimination of duplicate management and support positions, some specialist positions, as well as equipment and facilities.

Metro Special Teams Unit

Currently, 60.7 positions are assigned to the SPD Metro Special Teams Unit, which includes the bomb squad, SWAT team, hostage negotiation, and other specialized units. The employees in this unit include police officers and reserve police officers. Because of ongoing personnel training requirements and liability costs, the operation of special units is a growing cost item in City police budgets.

Special teams are good candidates for functional consolidations because they require specialized training and equipment and are used only as needed (compared with being in service on a daily basis). The dynamics of maintaining these units in multiple departments results in duplicative management, administrative support, facilities and equipment. One of the best examples of multi-jurisdictional special teams operations can be found in the Los Angeles County Sheriff's Department, which serves approximately 47 cities with special teams as well as the unincorporated area for which the Sheriff has primary service responsibility.

With a 2009/10 budget of \$8,444,338 for the Metro Special Teams Division, a conservative estimate of 10% savings in ongoing operating costs should be expected. This is expected to equal approximately \$840,000 annually.

The best way to establish consolidated special and support functions and maximize savings is to form a joint powers agency to manage the consolidated functions under one umbrella. Such a JPA would have a governing board of the chiefs from participating agencies and the County Sheriff.

Recommendation 17: Establish a law enforcement support joint powers agency with the County Sheriff's Office and other interested local law enforcement agencies. The unit would initially be responsible for investigating major crimes, handling property and evidence and deployment of special tactical units.

Air Support

The Sacramento Police Department operates an Air Support Unit that includes helicopter patrol, surveillance, suspect apprehension support and rescue services. Three air vehicles are used: two helicopters and fixed-wing aircraft. Staffing for the Air Support Unit consists of one police sergeant and four officers who work in two crews with staggered hours to provide seven-day coverage.

Annual operating cost for the unit is \$580,000 for labor costs and \$598,000 for maintenance, repairs, hangars, fuel, utilities, training, for a total of \$1,178,000. In 2009 the Air Support Unit logged 4,186 incident calls. Approximately half of these were either Homeland Security or self-initiated calls. As indicated previously, until 2008, the Sheriff's Office operated a separate air support unit but has ceased operation due to budget constraints.

Sharing of police air support is worthy of exploration given the high cost and specialized skills required to maintain the unit. In addition, some consideration should be given to studying the utilization of unmanned aerial vehicles (UAV) as an alternative to helicopters. The technology behind UAVs is advancing regularly and improvements in remote control and high resolution camera technology could alleviate some of the surveillance, monitoring and evidence-gathering work currently carried out from helicopters.

While air units add real value to police work, they are most cost effectively utilized at a regional level. At minimum, Management Partners estimates a savings of \$250,000 to \$500,000 can be achieved, depending on the nature of the agreement between the City and County and whether any other law enforcement agencies would participate. The Police Department estimates only \$8,500 in General Fund support for the program with the rest being paid from annual grants and external funds. Savings from a consolidation could free up these grant sources to support other eligible law enforcement activities.

Although not an immediate opportunity, should the County Sheriff consider reinstating air support, a shared unit would be an effective and economical way to meet the needs of both agencies.

Recommendation 18: Pursue a contract with the County Sheriff's Office to provide helicopter services or develop a jointly staffed air support unit, should the County express interest in reestablishing their air support program.

Other Services

The Sacramento area is rich with functional consolidation opportunities. As a large urban county, Sacramento County provides the full range of municipal services to the unincorporated areas, with departments generally mirroring those of the City. The duplication in management, administrative and support staff is substantial, as are redundancies in equipment, vehicles and technology. In addition, the other incorporated cities in the County, in most cases, also maintain stand-alone units providing the same functions. Several opportunities for consideration are discussed below.

Plan Review

One example of duplication is in post-planning entitlement services: plan checking and building inspection. All cities and the County use the Uniform Building and Fire Codes (some may make minor amendments) and enforce the same state regulations. In addition to redundant costs, those businesses that work in multiple jurisdictions are required to adhere to different processes, forms and staff. For residents in more remote areas, a city hall may be closer than the County facility. The formation of a Countywide joint powers agency to provide these services on behalf of all cities and the County would result in substantial cost savings and, with strong customer oriented management, better service.

Code Enforcement

Sacramento maintains an effective code enforcement unit, covering building code compliance, abandoned vehicle abatement and graffiti control. Given the scale and scope of the City's code enforcement unit, other cities in Sacramento County may be interested in considering contracting with the City for services. This would become a revenue source for the City which could be used to support other services.

Other Services

Other opportunities include street maintenance, traffic signals, street lights, recreation programs and landscape maintenance. The list is long. As the City, County, other cities, regional transit and other districts all participate in the Sacramento Area Council of Governments (SACOG), this would be an appropriate organization to coordinate the study and ultimate implementation of functional consolidations.

Recommendation 19: Initiate a process to evaluate, select and implement multiple service consolidations with the concurrence of the Sacramento Area Council of Governments and member agencies. SACOG would serve as the lead agency.

Outsourcing or Competitive Sourcing for Service Provision

Cities have always relied on the private sector for the delivery of some services. Starting in the 1970s wholesale contracting for services such as refuse collection became commonplace. The concept caught on widely in the 1980s and 1990s, as did a hybrid approach called managed competition or competitive sourcing (public and private service providers compete to discover the best value proposition). Most cities in the United States contract for some services. Estimates are that currently 20% to 30% of municipal services are contracted or subject to market competition.

The principles behind this approach can be summarized as follows:

- A shift from a monopoly environment to a competitive one is good because the presence of competition (or the realistic potential for it) forces innovation and lower costs.
- Competition must be structured around best value, not simply lowest cost. One of the lessons learned from the application of competition is that best value is not always delivered by the lowest bidder.
- A competitive environment does not mean the government gives up control or management responsibility. Even if a service is delivered by a private contractor, the government remains responsible and must provide strong oversight.
- Performance must be measured and the metrics agreed on before contracting. Both cost and performance must be continuously monitored and reported

The application of competitive discipline to the delivery of municipal services is not just a theory. In Southern California many jurisdictions are “contract cities” where most, if not all, basic services are provided either by another public agency or a private provider, including police and fire services. Contracts are used by many cities for street sweeping, traffic signal maintenance, landscape maintenance, water treatment and distribution, construction plan checking, planning, engineering, payroll and investment management. Competitive sourcing is becoming common even in California’s largest cities and there are competitive private providers for many municipal services. For example, on November 7, 2006, San Diego voters approved Proposition C, which amended the City Charter to allow the contracting of non-public safety services.

The successful implementation of competition in the delivery of municipal services follows some accepted “best practices.” The San Diego Institute for Policy Research reviewed over 100 studies of competitive sourcing and established the following keys to success.

- *Trained Procurement Staff.* Staff must be properly trained in contracting best practices and, in particular, how to build service level standards into agreements and monitor provider performance.
- *Centralized Managed Competition Unit.* If bids are to be solicited from the existing workforce, the City should develop an expert team of procurement and competition officials to guide other departments in developing their managed competition initiatives.
- *Performance Measures.* It is crucial that the City identify good performance measures to fairly compare competing bids and accurately evaluate provider performance after the contract is awarded.
- *Reliable Cost Comparisons.* The City must establish formal cost comparison guidelines to make sure that all costs are included in the unit cost of providing services. This will assure that an apples-to-apples comparison of competing bidders may be made.
- *Implementing Performance-Based Contracts.* Performance-based contracts should be used to place the emphasis on obtaining the results the City wants to achieve, rather than focusing merely on inputs or trying to dictate precisely how the service should be performed. Performance standards should be included in contracts and tied to compensation through financial incentives.
- *Vigilant Monitoring and Evaluation.* Regular monitoring and performance evaluations are essential to ensure accountability and transparency and that the City's management and service provider are on the same page.
- *Employee Communication and Relations.* Competitive provider selection may encounter opposition from public employee unions who view it as a threat. It is important to provide extensive communication opportunities so that employees and their representatives are appropriately involved in the managed competition process.

Sacramento has historically provided a variety of services through contracts with private providers, including:

- Some parking garage operations,
- Some park maintenance,
- Some tree trimming,
- Major street maintenance, and
- Certain building maintenance functions.

There is much debate about outsourcing as well as competitive sourcing. While there have been many examples of success in lowering costs there have also been some spectacular failures. Research on the issue shows that careful use of outsourcing and competitive sourcing can significantly reduce costs but that it must be done carefully to prevent unintended negative consequences.

Extensive research on the application of competitive dynamics to municipal service delivery has been done over the years. The results have consistently shown that either outsourcing or competitive sourcing, if done correctly, will result in efficiencies. Critics of a competitive approach sometimes cite methodological issues with comparisons of service delivery efficiency, but usually stress problems with public accountability, transparency, equitable treatment of employees and contract monitoring.

While there is no accepted consensus on these issues, the empirical evidence shows that competitive sourcing can save money. If not done properly, public accountability and other problems can be factors. (References include *Privatization: An International Review of Performance* by Graeme A. Hodge; *You Don't Always Get What You Pay for: The Economics of Privatization* by Elliot D. Sclar; *Cities and Privatization* by Jeffrey D. Greene; *Local Government Innovation* by Robin A Johnson and Norman Walzer; and *Moving Toward Market-Based Government: The Changing Role of Government as the Provider* by Jacques S. Gansler.)

Before discussing a framework for introducing more competition into municipal services delivery in Sacramento it is useful to look at the reason that any serious discussion of solving Sacramento's budget problem must involve competitive sourcing of certain services: Doing so could save significant dollars. Costs are reduced and better contained over time if they are influenced by the competitive marketplace. The dynamics of a competitive environment and the economies of scale of a contractor that serves multiple clients typically results in savings of between 20% and 40% over municipal service delivery. In some cases the savings are more dramatic.

For example, in January 2010, the City of Sacramento accepted bids for the maintenance of six parks. A total of 16 bids were received, including one from the City's Park Maintenance Division. The City awarded the contract to a private provider at an annual cost of \$103,020; the Park Maintenance Division's bid was \$365,424.

Using supportable cost reduction assumptions, taking a competitive approach to the delivery of certain services can significantly reduce the City's cost while maintaining the current level of service, thus freeing more funding for other services and capital projects.

Management Partners has identified services now provided through the City of Sacramento workforce that are also available through other providers. Table 16 below estimates the personnel savings the City is likely to realize from contracting for various services. The estimates were calculated by reducing the employee services budgets for the identified services by 25%, which Management Partners has found to be a reasonable benchmark for this type of preliminary threshold analysis. The methodology is well-supported by the available literature as well as actual experience, both in Sacramento and in other California cities.

Savings may be greater for some services and less for others, depending on the specifics of the contract and the extent of competition.

TABLE 16: POTENTIAL PERSONNEL COST SAVINGS OF CONTRACTING

Type of Service	Employee Services Expenses*	25% Employee Services Expenses*
Operating Functions		
Parking Operations Maintenance and enforcement (off and on street)	\$8,379,000	\$2,095,000
Pavement Maintenance	\$4,575,000	\$1,144,000
Concrete Maintenance	\$2,061,000	\$515,000
Traffic Signal Maintenance	\$947,000	\$237,000
Street Light Maintenance	\$1,050,000	\$263,000
Street Marking	\$1,856,000	\$464,000
Streetscape Maintenance	\$354,000	\$89,000
Tree Maintenance	\$3,387,000	\$847,000
Park Operations and Maintenance	\$5,577,000	\$1,394,000
Swimming Pool Operations and Maintenance	\$1,444,000	\$361,000
Facility Maintenance	\$4,106,000	\$1,027,000
Fleet Maintenance	\$8,192,000	\$2,048,000
Golf Course Maintenance	\$3,515,000	\$879,000
Marina Operation and Maintenance	\$469,000	\$117,000
Convention Center Operation and Maintenance	\$5,548,000	\$1,387,000
Old Town Operation and Maintenance	\$885,000	\$221,000
TOTAL	\$52,345,000	\$13,086,000**

Source: City of Sacramento FY 2009/10 Budget backup data

*Expenses rounded to the nearest \$1,000.

**Due to rounding, there is a difference of \$2,000 between the column and the row

The costs of the services identified in Table 16 are funded by the General, enterprise and special funds. Management Partners estimates the General Fund impact at \$5.5 million. This includes both direct General Fund savings as well as the ability for savings in the Golf Fund to go toward paying off General Fund loans and freeing up TOT revenue by reducing the Convention Center costs. As noted above, the application of TOT to the General Fund is subject to voter approval. The estimated \$7.6 million in savings to enterprise and special funds could be applied to capital projects, such as street maintenance, or used to fund the maintenance of parks built with development fees.

The potential for a cost savings of this magnitude, without requiring a reduction of services, suggests that this option should be seriously considered. It should not be rejected out of hand, even if strongly opposed by some stakeholders.

Furthermore, economies can be even greater if multiple agencies providing the same service come together and secure a joint contract. By aggregating service volume, larger contractors may bid on the work and unit costs are often lower. The writing of multi-year contracts with fixed cost increases provides greater predictability of service costs and tends to provide for slower cost growth than the same service publically provided.

Contracting Considerations. Three considerations need to be addressed when considering contracting a service currently provided by City employees.

- **Impact on Employees.** A major concern about outsourcing is the impact on existing employees. Competitive sourcing can be structured to include a contract bid by the existing municipal workforce providing the service. Often, when placed in a competitive environment, the existing workforce can innovate and change operations in a way to win the contract. In the event the decision is made to outsource a service, contract terms with the provider can be written to include the requirement to hire existing workers.
- **Compensation of the Contract Workforce.** A second concern is the employment conditions for those working for a contractor. The City Council has adopted a Living Wage Ordinance that requires City contractors to meet compensation standards. The minimum hourly rate varies depending on the contractor's employee health insurance practice. As of February 2010, the City's living wages rates are as follows:
 - If health benefits **are** provided and the employer's contribution for the benefits is **at least** \$1.61 for each hour of work, the living wage rate is **\$10.72 per hour**.
 - If health benefits **are not** provided or if health benefits are provided but the employer's contribution is **less than** \$1.61 for each hour of work, the living wage rate is **\$12.33 per hour**.
- **Analysis of Financial Impact.** In comparing private bids with City department bids, care must be taken to analyze the true financial impact on the City. While including all appropriate indirect costs and overhead in the public bid may accurately reflect true costs, certain City overhead costs may remain even when the service is contracted. The bottom line for the City is to know the "go away" costs that would result from outsourcing.

Recommendation 20: Conduct competitive selection processes for services where qualified alternative providers exist. Conduct a thorough cost analysis to ensure that the full cost of the service is being considered,

as provided by the City and as proposed by the outside vendor or other agency submitting a proposal. Prepare a plan for addressing the employees who will be displaced through an awarded contract to an outside entity.

Management Partners recommends the City begin the competitive sourcing process with the following services.

Fleet Management: Body and Paint Function

Fleet management in the City of Sacramento is a division of the General Services Department. The body and paint shop provides a good place to begin to evaluate outsourcing. In FY 2009/10 this unit has an annual cost of \$410,000, including all supplies and services as well as personnel costs for four equipment body mechanics.

Recent federal regulations that require the Sacramento Metropolitan Air Quality Management District to implement new coating regulations will necessitate the installation of new paint booth equipment to satisfy emission standards. The estimated cost for these upgrades is between \$150,000 and \$200,000. In Management Partners' experience, most municipalities contract their body and paint function due to the large investment required for paint booth equipment and the regulations that impact the operation. Based on an analysis of the City's workload for body and paint services as well as the cost to outsource this function, the estimated annual savings is \$100,000. This is largely due to the fact that the function can be accomplished with one FTE instead of the current four. One-time savings are connected to the cost avoidance of capital improvements for the paint booth which, as indicated above, is estimated at \$150,000 to 200,000.

Park Maintenance

The City has over 200 parks and has experience contracting for park maintenance. The results of the recent competitive sourcing for the maintenance of six parks demonstrate significant opportunities for savings. Currently the City spends almost \$10 million per year on park maintenance. While the City should retain some staffing for complex and specialized services as well as to respond to emergencies, Management Partners assumes that approximately \$5.6 million of parks maintenance work could be subject to a competitiveness assessment.

With this approach the City Manager and Parks and Recreation Director would be asked to develop a request for proposal (RFP) process that would enable contractors, current parks maintenance staff and even other neighboring agencies (local cities and the County) to submit proposals for these services. Annual cost savings are estimated at approximately \$1.4 million.

Golf Course Maintenance

Until 2005 the City operated its golf courses as an enterprise, meaning all costs associated with operating, maintaining and improving the courses were funded by greens fees and concession revenue. This also meant

that the Golf Fund was reimbursing the General Fund for indirect administrative costs and paying a fee to the General Fund in lieu of the taxes the City receives from a privately-owned course. The competitive dynamics of the golf market did not allow rates to be raised to cover increased costs and the Golf Fund began to be subsidized by the General Fund, particularly for capital improvements. As a result the City is now subsidizing the customers of the golf courses with General Fund revenue that should be available for core services.

Contract maintenance of public golf courses is common and multiple providers exist. In Northern California the cities of Pleasanton, Livermore and Fremont all use private contractors. With five golf courses, an RFP for contract maintenance should generate considerable interest. Management Partners estimates an annual cost savings of approximately \$878,000 could result from outsourcing maintenance. This would allow the Golf Fund to begin paying back its General Fund debt, providing critical funds for other Citywide uses.

Convention Center and Related Facility Operations and Maintenance

Aside from the golf course operations discussed above, the City spends approximately \$21 million per year operating the Convention Center, Old Sacramento, the Sacramento Marina, Zoo and a number of other facilities. Aside from the golf courses, these facilities generate approximately \$4 million in direct revenues. The Convention Center is the largest in terms of expenditures and revenue generation.

Currently it costs the City approximately \$12.4 million to operate the Convention Center. Factoring out the estimated \$3.7 million in revenue to the Community Center Fund from facility use and catering revenues not derived from golf or the TOT transfer, the estimated "subsidy" required for operation of the Convention Center is \$8.7 million. Most convention centers in secondary market cities such as Sacramento do not make a profit and require some type of subsidy. The benefit of such facilities is to support other economic activity.

Convention centers such as the Sacramento's can be operated under lease, contract or by City employees. Of the 11 peer cities' data analyzed, Management Partners found that 10 operate convention centers. Of those, four are operated by the city and six (Denver, Oklahoma City, Albuquerque, Long Beach, Fresno and Bakersfield) are operated by a contract with SMG. SMG is a national firm that operates convention centers in several states, and is just one example of a competitive option for this service.

A common metric in benchmarking such facilities is the amount of expense incurred for every dollar in revenue, or EIDR. Research indicates that this ratio for the Denver convention center is \$1.32 with expenditures of about \$14 million and revenues of about \$10 million. It appears that the EIDR for Sacramento's Convention Center is about \$2.35. This may be one reason that contract operation by a provider such as SMG is a popular option.

As discussed above in the revenue section of this report, the City should consider allocating a greater share of the TOT revenue currently going to the Convention Center to the General Fund. Part of this increased share of TOT to the General Fund can be provided by lowering the operating costs of the Convention Center. Contracting the maintenance and operation of the Convention Center would reduce operating costs and free approximately \$1.4 million annually for the General Fund.

Service Eliminations and Reductions

The reality of the harsh economic climate facing California local government today is that some services, many of them long established, will need to be eliminated or scaled back significantly. This is hard to do. Existing services were created to address an expressed community need or enhance the quality of life for residents. Eliminating or reducing services will result in a loss or at least an inconvenience for some residents.

In deciding which services to eliminate or reduce, management and elected officials will want to consider a number of factors, including:

- Is the service essential?
- If it is essential, can it be provided at a lower level?
- Is the service one that most other cities provide?
- How many people are served or use the facility?
- How reasonable is the cost for the number served?
- Are other public or private alternatives available for the service?

While the elimination or scaling back of services is the core of the City's POD budget review, Management Partners has identified two opportunities that are discussed below.

Parks and Recreation: Public Pools

The City of Sacramento operates 13 public pool sites, of which one is a high school pool at Natomas High School. The other sites are McClatchy, Cabrillo, Oki Johnston, Doyle at Northgate Park, Hall, Mangan, Southside, Tahoe, Clunie at McKinley Park, Pannell and George Sim pools. George Sim pool was closed in 2008 and 2009 for renovations and is expected to be operable in the summer of 2010.

The FY 2009/10 Aquatics expense budget is \$1,765,765. Program revenue is estimated at \$142,702. The net General Fund subsidy is \$1,623,063. The FY 2009/10 budget indicates a total of 25.99 FTEs are assigned to Aquatics with employee costs of \$1,233,533.

Table 17, below shows the number of city-owned pools in the peer cities. The number of city pools ranges from three to 12, with Albuquerque and Sacramento having the most. This data indicate that the number of pools that the City staffs can be reduced while an adequate recreation swim program is maintained.

TABLE 17: CITY-OWNED SWIMMING POOLS IN PEER CITIES

Jurisdiction	Number of Pools
Albuquerque	12
Bakersfield	6
Fresno	11
Long Beach	5
Oakland	5
Sacramento	12
San Jose	6
Santa Ana	5
Stockton	3
Average	7.22

Table 18 shows the attendance figures for recreation swimming in 2008 and 2009 for 12 pools. The 13th pool, George Sim, was closed for renovation and thus is not included. In addition, the Natomas High School and Mangan pools closed in July 2009 in response to the need to reduce costs. The Parks and Recreation Department is considering a similar closure for summer 2010. The total recreation swim attendance for 2009 was 80,971. Recreation swim does not include swim lessons or any fee-based aquatic classes.

TABLE 18: ATTENDANCE FOR RECREATION SWIM PER POOL*

Recreational Swim	2008 Attendance	Days of Operation	2008 Avg. Attendance	2009 Attendance	Days of Operation	2009 Average Attendance
Natomas HS	8606	85	101	481	18	27
McClatchy	4,410	70	63	2,447	58	42
Cabrillo	5,146	70	74	2,790	41	68
Oki	8,756	69	127	4,172	60	70
Johnston	7,381	60	123	4,608	54	85
Doyle/Northgate	9631	70	138	5,688	60	95
Hall	12,071	70	172	5,452	50	109
Mangan	7993	69	116	2,241	18	125
Southside	14951	70	214	6,923	54	128
Tahoe	16,593	68	244	10,692	60	178
Clunie/McKinley	36,057	85	424	17,231	72	239
Pannell	46,105	82	562	18,246	71	257
Total	177,700			80,971		

* Denote the top four pools with the lowest attendance in each year

Recommendation 21: Continue the closure of Natomas High School and Mangan pools and close the McClatchy and Cabrillo pools. These were selected based on past reductions/closures by staff and recreation swim attendance. In addition, the George Sim Pool will be reopening and this will place constraints on the budget. It is estimated that the annual savings will be a minimum of \$335,000. This estimate includes personnel costs only; it excludes additional maintenance savings.

The closure of four pools would still allow the City of Sacramento to operate eight pools, which is just slightly above the 7.22 peer average. Functionally, the closures will require residents to travel to another pool that is offering a program that meets their needs.

General Subsidy for Fee-Charging Non-profit Agencies

The City of Sacramento has historically committed General Fund revenue to facilities and programs that are operated by non-profit organizations and that charge a fee for resident access. While such a practice was reasonable when City finances were adequate to fund core services, the current and projected financial condition requires that this practice be reconsidered. Below are several fee charging non-profit organizations and the amount of financial subsidy they received from the City in FY 2009/10.

TABLE 19: GENERAL FUND SUBSIDIES TO FEE-CHARGING NON-PROFIT AGENCIES IN FY 2009/10

Non-Profit Entity	Financial Subsidy
Crocker Art Gallery	\$1,427,910
Sacramento Zoo	517,985
Discovery Museum	143,527
Center for Sacramento History	339,314
Sacramento History Museum	143,527
TOTAL	\$2,572,263

Since these organizations have the ability to raise funds to replace the City subsidy either through increased fees and/or increased fund raising, any service reduction from withdrawal of the General Fund subsidies need only be temporary. The City's ability to provide no subsidy to the Crocker Art Gallery needs to be evaluated in the context of the deed transferring the property to the City.

Recommendation 22: Eliminate annual subsidies non-profit entities that charge fees to clients.

Successful implementation of this recommendation will require the City to work carefully with each impacted organization. Organizations have different levels of capacity and some will need more time than others to replace the City subsidy. It is realistic that all of the subsidies can be

phased out over the three year timeframe for reaching financial sustainability.

Business Practice Changes

In addition to the model used for delivering services, the manner in which service is provided shapes expenditures. In many cases the traditional approach or *business practice* embedded within service delivery organizations has changed very little over time. However, technology, social change and innovation all make it possible to change traditional service arrangements to be more efficient. In this section we identify business practice changes which can improve the efficiency and/or effectiveness of the City government.

Law Enforcement Civilianization

Over the last 30 years it has become much more common to fill roles within police departments with non-sworn or civilian employees. The benefits of this approach are mainly fiscal since non-sworn employees have a lower cost, but there is also a benefit from the greater continuity associated with a non-sworn employee. California has always been a leader in this area and Sacramento has been very aggressive at using civilian personnel. However there are several areas where Sacramento can make further gains by assigning administrative and technical duties that do not require sworn status to civilian employees.

Executive Lieutenant Positions

The Sacramento Police Department employs three executive lieutenants, one for each patrol division. Other sworn management personnel in each patrol division include a captain and three to four watch commanders. Executive lieutenants are responsible for administrative and technical duties in planning, coordinating, assigning and directing the functions of patrol units. Such duties can be performed by non-sworn management personnel, at a lower cost. If possible, existing executive lieutenants can be transferred to a funded vacant sworn position or a position that is vacated by a retirement or attrition.

Recommendation 23: Replace three sworn executive lieutenant positions with non-sworn administrative officers (or a similar civilian classification). Estimated annual savings will be \$90,000 to 180,000, depending on the final position classification

Fiscal Bureau Lieutenant Position

The Management Unit in the Police Department has a lieutenant position that oversees the Fiscal Bureau. Fiscal services, however, is a standard administrative function that can be found in many departments throughout the City. The responsibility assigned to fiscal service managers does not necessitate a sworn position. In Management Partners' experience, most large criminal justice agencies employ a civilian manager to oversee financial functions and act a liaison to the central budget office. In addition, to a supervising lieutenant over the Fiscal Unit, the Sacramento

Police Department employs a police administrative manager as well as several accounting and analyst positions.

Recommendation 24: Eliminate the sworn Fiscal Bureau lieutenant position. It will be important to determine if existing civilian staff can effectively manage the Fiscal Unit. If an additional manager is warranted, the position should be classified as non-sworn mid-management. Estimated annual savings are \$90,000 to 180,000, depending upon civilianization or elimination of the lieutenant position.

Opportunities for Restructuring in the Fire Department

The Sacramento Fire Department (SFD) is a full service provider of fire suppression, fire prevention, advanced life support (ALS) paramedic service and ambulance transport services. As with most full service cities, Sacramento's Fire Department represents the second largest General Fund expenditure, with a current year budget of \$100,080,897. Approximately 20% of department funding is derived from ambulance transport revenue and charges for fire permits and inspections.

Service is provided from 23 stations utilizing the following apparatus: 23 engines, staffed with four-person crews; 9 trucks, staffed with four-person crews; and 12 ambulances, staffed with two firefighter/paramedics. The companies are structured into four battalions, three with six stations and one with five stations.

Response activity for 2009 is distributed among a number of categories identified in Table 20.

TABLE 20: FIRE CALLS FOR SERVICE IN 2009

Call Type	Number of Calls
Fire Calls	2,405
Emergency Medical Services	44,786
Overpressure Rupture Calls	618
Hazard Condition Calls	831
Service Calls	3,254
Good Intent Calls	9,302
False Alarms	3,871
Natural Disaster	17
Other	5,727
Total	70,811

Response time standards for fire departments are critical performance measures. This budgetary analysis did not examine the response time issue, as such a study requires a very intensive analysis. Management Partners reviewed the comprehensive analysis conducted with the

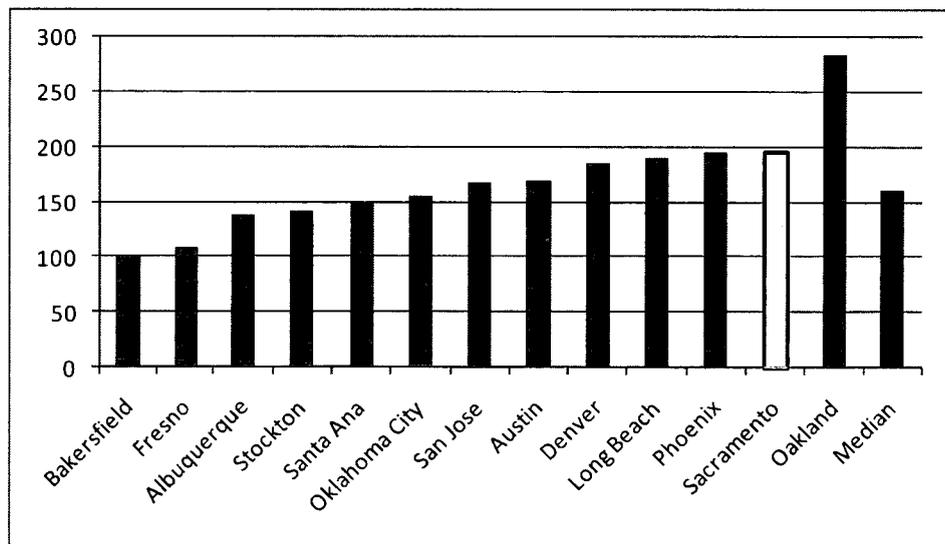
assistance of the project team that worked with the consultant to prepare the Fire Department's 2007 Draft Master Plan.

The 2007 study, based on extensive analysis of 2005 data, did reveal that while the distribution of resources appeared to be appropriate, actual response times for fire calls for a four-minute travel time standard for the initial unit were met 69% of the time and 63% of the time when dispatch time and reflex times are included. Ambulance response time performance exceeded the 90% standard.

Discussions with staff of the SFD chief officers revealed that measures have been taken to improve call handling time in dispatch and reflex time (the time it takes for a fire unit to get "enroute" to an emergency alarm once they receive the alarm notification from dispatch) as well as other actions.

In comparison with the peer cities surveyed, the City's fire expenditures per capita are at the upper end of the range, as shown in Figure 15 below. One reason for this result may be the fact that Sacramento provides ambulance transport services while some others do not.

FIGURE 15: PER CAPITA PEER CITIES FIRE EXPENDITURES FOR FY 2009/10



Source: Management Partners' survey. Sacramento includes unincorporated population.

Restructuring Analysis

Any restructuring of the current service delivery model for fire or ambulance services must be carefully considered in the context of the impacts on response capability and worker injury exposure. As the ambulance crews are an integral part of the overall fire response protocol, Management Partners took a holistic view of the entire suppression/advanced life support/transport delivery organization and system. This included examining a number of separate but interrelated and dependent areas including:

- Engine and truck company staffing;
- The number of different types of apparatus — engines, trucks and ambulances;
- The number of resources dispatched to calls; and
- The capability of the dispatch system.

Because this study is intended to identify and advance ideas for reducing expenditures by the City of Sacramento, we have by necessity focused on how expenditures for fire services could be feasibly reduced. Any discussion of significant reductions in fire staffing will encounter opposition. Opposition is likely to center on concerns about public safety and the safety of firefighters. While such concerns are important, it is reasonable for policymakers, management and staff to expect that such concerns be documented with specifics about how any proposed change will impact responses and actual service provision. Blanket assertions that public safety will be compromised by any change to existing business practices and is therefore infeasible ignore the reality that the City is unable to afford a “business as usual” approach in the Fire Department or any area of City operations.

The City of Sacramento is certainly not alone in considering options to reduce fire service costs. For example, the City of San Jose is considering options to either change the deployment of fire resources or reduce the number of engine and truck companies.

Engine Company Staffing

Sacramento has historically staffed all truck and engine companies with four personnel. Table 21 shows that among the fire departments of the California peers, some department staff with three people while others staff with four.

TABLE 21: PEER FIRE DEPARTMENT ENGINE COMPANY STAFFING (FTEs PER ENGINE)

Jurisdiction	Number of Personnel Assigned per Engine
Bakersfield	3
Fresno	3
Long Beach	4
Oakland	4
San Jose	4
Santa Ana	4
Stockton	4

While four-person engine companies are typical for high-density urban communities, much of the Sacramento’s service area is suburban in nature. Because Sacramento is an older city that began with an urban core, the Fire Department has long operated with four-person engine companies and this staffing pattern has continued even as newer more suburban areas developed.

However, engines in suburban California fire departments are most typically staffed with three-person crews. As displayed in Table 22, the fire departments adjacent to the City who are part of mutual aid agreements all staff engine companies with a crew of three.

TABLE 22: ENGINE COMPANY STAFFING OF ADJACENT FIRE DEPARTMENTS

Sac-Metro Fire Prevention District	3
West Sacramento Fire Department	3
Folsom Fire Department.	3

The number of persons staffing engine and truck companies in fire departments has been the subject of numerous studies. In general “more is better;” that is five persons is better than four, which is better than three. However, higher staffing levels are by far most beneficial in downtown areas with multi-story buildings and higher risk occupancies. There is much less benefit to staffing above a three-person level when dealing with single story occupancies associated with suburban areas.

The most often cited research is that of the “Dallas Study,” conducted by the City of Dallas Fire Department. This study measured the amount of time it took for a first-responder crew to complete key tasks required of a single story residential structure of 2000 square feet. The conclusion after extensive testing was that the average difference between a first responding company with a four-person crew and one with a three-person crew was approximately 40 seconds for individual tasks, but approximately 20 seconds when all tasks were averaged together for the residential structure fire.

Another issue sometimes raised to justify across the board four-person engine company staffing is the National Fire Protection Association’s (NFPA) Guideline 1710, which provides suggested standards for career fire departments regarding a number of response parameters. One standard is to have four firefighters on-scene at a fire incident in four minutes or less. However, this personnel complement does not need to respond in the same unit. As detailed in further discussion to follow, Sacramento’s current response configuration results in staffing at fires which is more than adequate under NFPA 1710 guidelines.

Looking discretely at the nature of the City’s various response environments, avoiding a one-size-fits-all approach provides the opportunity for the Sacramento Fire Department to staff some engine companies with three personnel. Based upon our analysis, we recommend that some of the department’s engines be staffed with crews of three firefighters.

Recommendation 25: Implement three persons per engine at stations where the suburban nature of the primary service area and call volumes makes this a feasible alternative. Management Partners' analysis shows that 11 of the department's engine companies could move to the three-person configuration, resulting in a savings of approximately \$4.2 million per year.

Truck Company Staffing and the Number of Truck Companies

Truck companies in the California peer cities are mostly staffed with four-person crews. Santa Ana staffs trucks with three-person crews; San Jose and Stockton use five-person crews. Given the functions trucks provide in both fire and ALS service and the call volume in Sacramento, Management Partners has concluded that staffing truck companies with four-person crews is the appropriate practice for Sacramento.

The number of trucks required for a department is typically based on the geographic size and configuration of the service area as well as a ratio of engine companies to truck companies. In 2007 the Sacramento Fire Department prepared a Draft Master Plan. As part of this process, the department evaluated truck deployment in other agencies. The results of this study concluded the average number of engines to trucks was 4.4:1. Currently, with nine trucks, the Sacramento Fire Department is at a 2.5:1 ratio.

Based on Management Partners' analysis, seven trucks are more than adequate to meet Sacramento's call demands. This will maintain a ratio of 3.3:1, still above average. For a point of reference, the City of Fresno, with approximately the same density and about the same size and geographic area as Sacramento, has an engine to truck ration of 3.8:1, with three-person truck staffing and without the firefighter-staffed ambulance of Sacramento to supplement fire ground staffing.

While the number of trucks can be reduced, looking at the system as a whole, Management Partners recommends (based on call volumes) that one truck be replaced with a three-person engine company and one be replaced with an ambulance. Using this approach, the City would retain the same number of fire response units but the two trucks taken out of service would be replaced with one engine and one ambulance unit. Although maintaining the same number of apparatus, this deployment configuration requires three fewer on-duty firefighters.

Recommendation 26: Replace two truck companies with one additional engine company and one additional ambulance unit. This will result in the need for three fewer on-duty firefighters and reduce expenses by \$1.9 million per year.

Response Configuration

The department's current response to a single family structure fire is three engines (four persons each); two trucks (four persons each); an ambulance (two persons); and two battalion chiefs. This puts 28 persons at the fire ground. This is far above what most jurisdictions muster for a single family dwelling and far in excess of the NFPA Standards. The current NFPA 1710 minimum standard to ensure firefighter safety while executing their mission is 15 people including an aerial ladder truck.

From a risk management standpoint, Sacramento's practice puts an unnecessary number of Code 3 vehicles on the road, which places more risk to firefighters as well as the public. This practice also creates an unnecessary amount of wear and tear to the apparatus, which reduces its useful life and increases maintenance repair costs. It should also be noted that in many cases a "fire" call is cancelled because no fire is actually taking place.

Management Partners believes that it would be adequate for the SFD to respond with three engines (minimum is three-persons each); one truck (four persons); one ambulance (two persons); and one battalion chief. This will enable the assembly of a minimum of 16 at any one incident within the desired time. The optimal response with three four-person engines would result in 19 firefighters on scene. This range of personnel response is greater than the initial response of 11 to 12 personnel used by some departments and the recommended NFPA guideline of a minimum of 15. Protocols can be used to increase the initial response if it appears warranted; should fire or smoke be confirmed by the closest responding company, they can increase the alarm for additional units. In addition, if dispatch gets a confirmed fire they automatically increase the response to a second truck.

This recommendation will reduce the emergency responses for truck companies and provide a more realistic work load of emergency responses, as the current data are distorted by the heavy response numbers generated by "over response" loads to residential structure fires. This recommendation will also keep more pieces of apparatus in place to provide a faster response to multiple incidents.

Additionally, responses to automatic alarms in commercial, industrial, and high rise buildings can be reduced, since the history and probability of false alarms is so high. This should also have a corresponding increase in the ability of engines and trucks to manage company inspections and training. It should also have a positive impact on the availability of ambulances, should a review of the alarm responses find that more than one ambulance is being dispatched to unnecessary alarms.

Recommendation 27: Change initial response configuration for fire calls to reduce the number of equipment and vehicles initially dispatched. This will have a relatively minor savings from consumables as well as wear and tear on emergency response vehicles,

estimated at \$50,000 per year. However, this action will also reduce the risk for accidents and injuries during responses. In addition it will result in equipment being in position for optimal response a higher percentage of the time.

Ambulance Staffing

The call load of ambulances consistently averages more than six calls per day. While this is low by the standard of a stand-alone ambulance, as Sacramento's ambulance crews are firefighters that respond to and assemble for fire ground purposes, this call volume generates many significant peaks. The workload issue should be addressed.

The addition of one full-time ambulance (as a replacement for one truck noted above) will reduce the call load per ambulance and provide the numbers necessary on fire responses. The cost of staffing the additional ambulance is estimated at \$768,300 annually. SFD staff has indicated that ambulance revenues would offset the additional cost of staffing an additional full time ambulance.

Recommendation 28: Add one ambulance unit with the expectation that costs will be fully offset by additional revenues. To the extent that revenues do not cover full costs the other recommendations made with respect to other fire staffing and business practices more than offset some additional minor expense.

Dispatch Coordination

Any changes in the number of apparatus that are fully staffed on a daily basis or daily staffing of personnel on particular pieces or types of apparatus will require a review of dispatching criteria for certain types of emergency responses, so as to meet minimum established criteria for structure fires.

Recommendation 29: Review dispatch criteria and protocols prior to implementing changes in apparatus staffing and initial response numbers.

Battalion Reorganization

Another opportunity to enhance the efficiency of the Fire Department without compromising response is to restructure the department in three rather than the four current battalions. The expansion of the span of control for a battalion chief from six fire stations to eight is not unrealistic as measured against many other agencies.

Recommendation 30: Eliminate one duty battalion (three positions) and restructure fire companies into three battalions. This reorganization is estimated to provide annual cost savings of \$384,150.

The recommendations, along with the department's continued diligence in reducing dispatch time and reflex time, should allow the Fire Department to either meet or come much closer to the response standard on 90% of fire calls. The extra ambulance will help maintain the ability to meet and exceed the response time standard 90% of the time to ALS calls.

Summary of Fire Restructuring Opportunities

Management Partners' evaluation suggests the following adjustments in the Fire Department:

- Implement three persons per engine staffing at stations where the suburban nature of the primary service area and call volumes makes this a feasible alternative. This would include staffing 13 engine companies with four-person crews and 11 with three-person crews;
- Replace two truck companies with one additional engine company and one additional ambulance unit;
- Change the initial alarm response for residential fire structures and automated commercial fire alarms until a fire is confirmed;
- Review dispatch criteria and protocols prior to implementing changes in apparatus staffing and initial response numbers; and
- Eliminate one duty battalion (three positions) and restructure fire companies into three battalions.

Phasing in these changes will take time and the department should be tasked with developing a plan to do so in a way that does not disrupt service delivery.

Recommendation 31: Develop the optimum deployment plan for the distribution of the new asset pool based upon an analysis of target response standards. Monitor actual performance monthly and compare with target outcomes so that appropriate deployment adjustments can be made.

Because the fire department budget is largely driven by line staffing, any significant expenditure reductions would need to come from staffing reductions. If the total personnel count is left unchanged the only ways to significantly reduce operating costs would be through changes in compensation and benefits (discussed in another section of the report) or from a substantial change in the schedule worked by line staff.

An alternative approach to reorganize fire service delivery and achieve roughly equivalent savings to what was outlined in the restructuring recommendations is to change from the current three-platoon 56 hour week schedule to a two-platoon 72 hour week scheduled used throughout the state by Cal Fire.

While this structure relies on more scheduled overtime for fire personnel, the number of personnel needed to staff the department is less, which results in significant savings in benefit costs. A careful evaluation of this approach would need to be conducted to understand all of the impacts that such an approach would produce.

This would also require meeting and conferring with the IAFF. Given the historical opposition by municipal fire labor unions to this staffing pattern, it would be expected that opposition from labor would be very strong.

Lease Rooms at Community Centers

Leasing of underutilized recreation centers can reduce the current cost incurred by the City for operations and maintenance. Some City centers have space that would be attractive for day care, non-profit or for-profit recreation program providers as well as a variety of office uses for non-profit organizations, accountants, architects, advocacy groups, and attorneys. The following community centers appear to have the potential for leasing. Since each is unique in its location and operation, it is difficult to use the same common criteria for selecting these sites.

Clunie Community Center at McKinley Park. The facility is currently not staffed unless there is a paid reservation. In addition, the Sacramento Public Library currently utilizes space in the north wing of the Clunie Community Center. The facility is 1.97 miles from Coloma Community Center and 3.18 miles from a Sacramento Area YMCA facility. The programs offered by the YMCA (swim lessons, youth fitness, child care, group fitness and safety) are similar to those offered by the City. Day care operators such as Rainbow Day Care Center, Discovery Tree School, Sacramento Montessori School and the Boys and Girls Club of Sacramento may be potential tenants. Since this facility is primarily used for rental facilities, City programs would not be negatively impacted by the leasing of such facilities.

South Natomas Community Center. In addition to the uses noted above, this facility may be an attractive space for a fitness center. The City may want to consider contacting the Spare Time Club, a developer of private, multi-recreational fitness clubs. They have been in operation since 1972 and offer a unique combination of quality sports, racquet, fitness and social programs for singles, couples and families.

George Sim Community Center: Three community centers, George Sim, Oak Park and Pannell/Meadowview, are within a three-mile radius of each other. The quality of the facility may assist the City in attracting private and non-profit sector organizations to leasing rooms or the entire facility. This site also includes a newly renovated pool.

If all three facilities were leased, the annual potential savings would range between \$478,000 and \$588,000. This is according to data received from staff. In addition, a successful award of a lease agreement would generate revenue for the City. Any terms in the agreement should also

include language stipulating the responsibility of the City and tenant regarding capital improvement projects. There may be additional savings in management or administrative costs depending on the impact to the Parks and Recreation Department's staffing needs.

Recommendation 32: Lease rooms or the entire facility at the Clunie, George Sims and South Natomas community centers. The City would need to ensure that any new uses are compatible with the surrounding neighborhood.

Code Enforcement Notification

The Sacramento Code Enforcement Department is responsible for enforcing City codes related to junk and debris, abandoned vehicles, zoning, graffiti, dangerous and substandard structures, rental housing inspections, vectors, and environmental health. The department also issues tobacco retailer licenses, entertainment permits, and taxi cab permits and works with the business community to promote health and safety in the workplace. In the current 2009/10 fiscal year, the Code Enforcement Department has a staff of 90 FTEs and budgeted expenditures of \$10,696,979. Approximately 70% of department expenditures are covered by fees for permits and dedicated revenue for specific functions such as abandoned vehicle abatement. The net General Fund cost for FY 2009/10 after accounting for program specific revenue is \$3,779,000.

This is a very good cost recovery ratio and one reason that Management Partners believes that other local area cities and the County of Sacramento may be interested in contracting for services or considering service consolidation with Sacramento City Code Enforcement.

In addition to the Administration Division, the department is comprised of the following four divisions.

Business Compliance. Works in cooperation with other City departments to issue permits and licenses and enforces various state and local codes and ordinances relating to businesses. Inspections are conducted to ensure code compliance and to promote public health, safety, and welfare.

Housing and Dangerous Buildings. Enforces City- and state-mandated codes relating to residential and commercial structures that are dangerous, substandard, blighted, or vacant. This division also enforces codes related to pests and mechanical noise through our environmental health section. Building inspections are performed for permit holders repairing or demolishing substandard structures.

Neighborhood Code Compliance. Charged with handling community and neighborhood nuisances such as illegal dumping, abandoned or inoperable vehicles, graffiti, and zoning violations.

Rental Housing Inspection Program. Charged with addressing the issue of substandard rental properties; promoting greater compliance with health and safety standards; and preserving the quality of Sacramento's neighborhoods and available housing. The program achieves compliance of health, safety and welfare code violations in/on residential rental property that are a threat to the occupant's safety, a threat to the structural integrity of the building, and negative impact on the surrounding neighborhoods.

The work that is completed by the Code Enforcement Department is critical to maintaining and improving the health and safety of the Sacramento community. A viable strategy to reduce expenditures for this function while maintaining a high level of service is to implement a letter notification system for initial non-emergency violations and complaints. At present, the department dispatches a code enforcement officer to investigate all potential violations that come to the attention of the department.

Alternatively, initial inspections can be limited to violations that do not pose an immediate danger to the community. It is estimated that implementing a letter notification system for initial, non-emergency violations will significantly reduce the inspection workload by 20%, thereby allowing for a reduction of five of the current 20 code enforcement inspector positions.

Examples of non-emergency violations proposed for letter notification are:

- Illegal dumping of garbage on public or private property, such as junk and debris like old furniture, car parts, appliances or other visual nuisances.
- Inoperable or abandoned vehicles on private property.
- Illegal placement of fences located in the front yards, street side yards, abutting alleys or other public right-of-ways.
- Parking vehicles on unimproved surfaces. (Unimproved surfaces can include but are not limited to lawn, dirt, gravel and plywood.)

Examples of emergency violations that will necessitate an initial inspection are:

- Graffiti (necessary to determine if it possesses a criminal threat to the community).
- Compliance of health, safety and welfare code violations in/on residential rental property.
- Plumbing, electrical or mechanical hazards creating a danger to human health.
- Infestations of rodents, cockroaches or other vector violations.
- Electrical issues that are reported to present a clear and present danger of fire or electrocution.

Recommendation 34: Implement a letter notification system for initial, non-emergency code enforcement violations. Annual savings are estimated at \$365,000.

Information Technology

Information technology (IT) has become embedded in the delivery of all city services in the City of Sacramento. Residents and businesses rely on technology to pay bills, register for recreation classes and obtain important information. Police and fire services are heavily dependent on technology to meet response times, provide efficient communications and manage large volumes of public records. Traffic signals, energy management systems and park and median watering cycles are dependent on technology. As the City of Sacramento adjusts its service delivery to work within constrained finances, the demands for IT for both internal operations and external service delivery will grow.

Management Partners conducted a high-level review of the City's information technology program. This included conducting interviews with IT management and reviewing budget and staffing of the City's IT program as well as comparing the City's to industry norms.

The City's total IT budget, including both centralized services as well as those in departments, is \$22.6M. This constitutes 4.47% of the total operating budget of \$504M. (The operating budget includes the General Fund plus the operating budget in parking, solid waste, storm water, water, sewer, and marina, with heavy non-operating costs factored out in certain utilities.) Expenditures for IT are higher than the typical range of 2% to 4%, suggesting the possibility for savings citywide. Bringing the percentage of budget down to 4% would reduce annual costs by approximately \$2.4 million.

Management Partners did not identify excessive costs in the central IT budget. The 132 Citywide IT-identified employees are approximately 2.9% of total staff, which is at the low end of the typical range of 2% to 5% of total staff in IT-titled positions.

Sacramento's IT operations are heavily decentralized. Of the 132 full time IT employees, 54 are in the central IT department and 79 are distributed among operating departments. Some departments maintain significant IT operations. This inherently results in duplication and unnecessary redundancy and contributes to a myriad of different systems to maintain. One example is that the City Attorney and City Treasurer, two small departments, maintain separate LAN administrators.

The City's web usage is also highly decentralized, with weak oversight of content and with inconsistent branding on the pages of City departments. The decentralized GIS program appears to be well coordinated across department boundaries, aided by having the GIS manager in IT.

Industry Trends

The general trend of the IT industry is to consolidate support of all general infrastructure under the central IT organization. In such models network communications, personal computer, and shared network services such as file and print sharing, e-mail, and all central organization information services are consolidated. Central IT organizations, if equipped with proper technological tools, up to date computers and a strong customer service orientation can support personal computers remotely. This approach raises the number of PCs that can be supported by a single technician from 150 to 200 to over 300 in most cases. This approach is used in many cities and counties and is clearly a trend.

The server computers providing file, print sharing and e-mail services can also be consolidated into a maximally efficient number. When coupled with modern software tools, consolidation can offer reductions in the number of server computers required by as much as 30% to 50%. Consolidation can also offer a reduction in the number of staff necessary to support the servers, a reduction in the number of server rooms required and lower electricity cost. An IT consolidation can clearly offer the City some cost savings. The exact amount and how the transition should occur will require a more detailed investigation and planning process.

Of equal importance to cost considerations, a consolidated approach can increase the overall capacity of IT resources to the entire organization. As noted in the *Principles of Organization* discussed earlier, a service common to departments is best served by a single, independent department. Organizations with highly decentralized IT tend to have some departments that are IT-rich and others that are IT-poor, as often decisions on major investments are made based on which department has resources rather than what adds the most value to the broader organization and community.

A central IT staff, with qualified personnel and a strong customer service approach, can meet the needs of all departments and, by leveraging pooled resources, serve those who have not had access to significant IT capacity. An enterprise focused governance committee with a strong chief information officer (CIO) oriented toward maximum IT value will guide investment based on the highest citywide priorities.

A Continually Evolving Industry

The IT industry will continue to evolve, presenting the City with a variety of options to meet future needs. "Cloud computing" is a term that describes several types of IT services delivered to an organization through the web. It is an emerging trend for providing IT services in the private and public sectors. The City of Los Angeles has recently entered into an agreement with Google to provide email and a suite of organizational collaboration tools delivered to city employees through the Internet. It will take some time to evaluate the effectiveness and cost-efficiency of this approach for those core services. However, other software services have proven to be successful. The City of Sacramento

has already contracted for several department-specific software services to be delivered in this manner.

The demands for IT will continue to grow as the public expects to use the web for service and business transactions and the organization is pushed toward greater efficiency and productivity in a constrained financial environment. IT staffing structures that are both responsive and efficient will be increasingly important.

Recommendation 35: Conduct an optimization study to identify ways to more efficiently organize IT governance, operations and systems. While the City could expect to reduce IT costs by \$1 to \$2 million annually, care must be taken to ensure adequate IT capacity. Many organizations, not recognizing the strategic enterprise importance of IT, have decimated IT functions to the point where they are only capable of “keeping the lights on.” This approach hampers the City’s effort to maximize efficiency and effectiveness. The City can probably reduce some costs and improve efficiency by shifting the balance between centralized and decentralized operations, with all common functions operating out of central IT and department specific applications remaining within departments. An optimization study would also allow for the evaluation of emerging technology trends such as cloud computing.

City management can expect strong resistance to consolidation from operating departments that currently have significant IT resources. Arguments will be made that a department is unique and must have its own resources. Service agreements between the IT department and operating department are a commonly used tool to specify IT standards for line departments. Police departments often perceive that security and records confidentiality require independent IT capacity. There are some very specific external mandates that must be met to meet State Department of Justice and F.B.I. standards, and to protect them against civil liability for violations of privacy. Addressing these will require the development of appropriate firewalls and extensive background checks for IT personnel handling police systems. Central IT must work very closely with the Police department to ensure the external mandates are addressed in a centralized system.

IT Strategic Planning

A \$100M Strategic Plan was prepared by the Gartner Group in 2001. All of the projects the City decided to implement have been completed and it is time to develop a new strategic plan. Prior to developing a new plan, a formal enterprise-wide IT governance structure should be in place to establish priorities for investment.

Recommendation 36: Develop a new IT Strategic Plan that will guide the City's investment in technology. The plan should place specific focus on improving IT services that meet broad organizational needs as well as support collaboration and sharing of IT resources. This will enable the City to derive the most benefit to the most business functions at the lowest possible organization-wide cost. Plan development would follow the optimization study.

Citywide Compensation Changes

The most significant expense in a city government is the cost of maintaining the work force. Most city services are labor-intensive and the cost of salaries and benefits consume the largest portion of general revenue. In Sacramento, 85% of the City's General Fund expenses go to employee salaries, benefits and related costs. The financial impact on the General Fund of a 1% increase or decrease in compensation costs is approximately \$3,200,000 annually.

The dynamics of employee compensation issues in California local government are complex. Some information is useful in understanding the context.

The vast majority of local government workers in California and in the City of Sacramento are covered by collective bargaining agreements and represented by unions. Local government is much more highly unionized than most of the private sector. In the City of Sacramento over 85% of all employees are represented by one of 17 bargaining units.

While local government is highly unionized, this is a fairly recent development. Collective bargaining and union representation as we now know it was authorized for employees in California cities in 1968 by the Meyers, Milias, Brown Act (MMBA). Prior to this legislation, local government workers were often covered by a civil service or similar systems, and pay and benefit issues were not formally negotiated.

Current Compensation Practices

Compensation policies and practices for the City are established during the collective bargaining process between the City and the 17 bargaining units representing the City's 4,500+ employees. Several factors determine the compensation practices of an employer, including

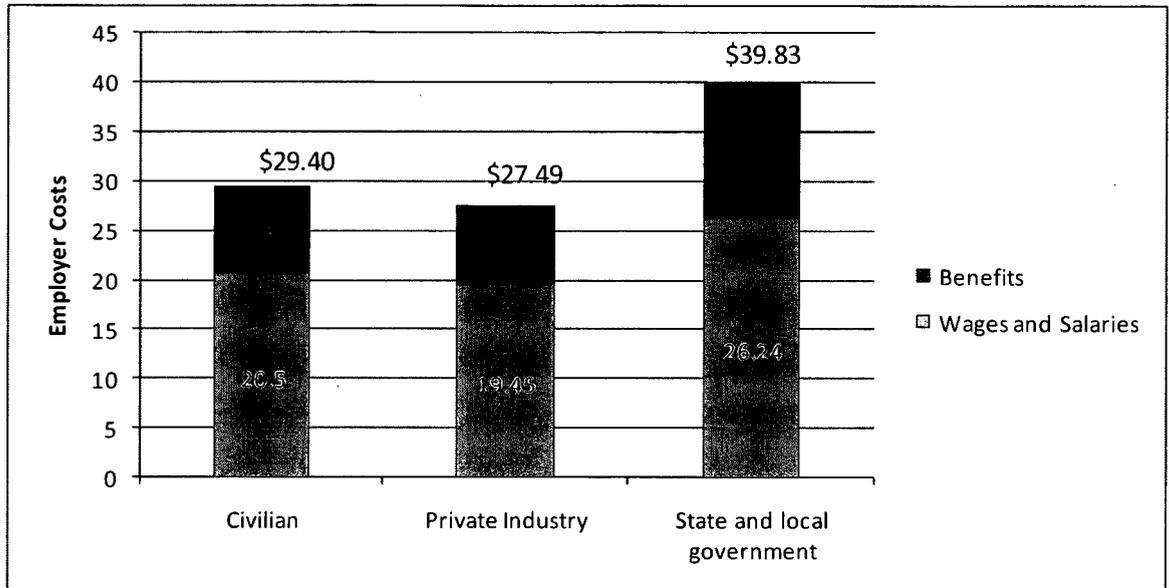
- Ability to pay,
- The desired level of experience and skill in the employer's workforce,
- Competition in the labor market, and
- Union negotiations.

Compensation decisions in the private sector are largely market driven, and the degree of collective bargaining is less than in the public sector. In public agencies political factors come into play with respect to compensation and benefit decisions. These include the ability of unions

to engage in the electoral process and the perception of value of employee groups in the eyes of the public.

Ever since collective bargaining was allowed for public agencies, employee bargaining groups have been very successful in improving compensation and benefits in the public sector. Currently, public salaries and benefits in the aggregate are greater than private salaries and benefits. Figure 16, below graphically shows this difference on a national basis.

FIGURE 16: PRIVATE VS. PUBLIC PERSONNEL COSTS



As Figure 16 shows, the salaries and benefits of state and local government employees are 45% greater than the private sector. Some of this is due to the fact that local government employs relatively fewer service workers than the economy as a whole, and this class of workers tends to be the lowest paid. Looking deeper, research from the Bureau of Labor Statistics suggests that public salaries tend to be higher than those in the private sector for comparable jobs in the clerical, mid-management and maintenance fields and lower for those in highly specialized professional positions such as lawyers, and executive management positions.

One example of a significant disparity between market compensation levels and the compensation levels in the public sector are the pension benefits in the public sector. Public pension benefits in California are significantly greater than those in the private sector. In the early 2000s, most California cities agreed to costly increases in pension benefits. It turns out that these pension benefits are not necessary to attract and

retain personnel, and many see the existing levels as economically unsustainable.

Another factor in public sector compensation and benefit packages is that change is very difficult. With the legal requirements for collective bargaining, the City Charter provisions for binding arbitration for police and fire personnel and the inclusion in the Charter of disability leave payments greater than state law, the City Council has limited direct control over compensation policies and practices.

As the City prepares for negotiations with bargaining units in 2013, Management Partners makes the following recommendations regarding opportunities for the City to reduce and moderate the growth of compensation expenses. Employee groups and the unions that represent them will probably not support many of these changes. However, it must be noted that the City does not exist as an economic "island" where the factors shaping the overall economy and the ability to pay workers do not apply. If the suggested changes are implemented the City will remain a very progressive and attractive employer, and quite able to attract and retain good workers.

Retirement

Defined benefit retirement plans are provided to City employees through three Public Employees Retirement System (PERS) plans and the Sacramento City Employees Retirement System (SCERS) plan. The SCERS plan is a closed system with all new employees coming into a PERS plan. For the current fiscal year the City's pension plan costs are approximately \$50 million. Due to the need to make up recent year stock market losses, PERS rates will increase significantly over the next five years, increasing the City's total pension cost by \$16 million a year.

The three current PERS plans provide benefits based on the combination of age, years of service in the system, compensation and the plan formula:

- Sworn police personnel: (3% at 50). An employee with 25 years of service can retire at age 50 with a lifetime benefit of 75% of their final year of compensation.
- Sworn fire personnel: (3% at 55 with the City paying the employees contribution). An employee with 30 years of service can retire at age 55 with a lifetime benefit of 90% of final year compensation
- Miscellaneous personnel: (2% at 55). A non-safety employee retiring at age 55 with 30 years of service receives a lifetime benefit equal to 60% of the final year compensation.

Pension costs are funded through employer (City) contributions and employee contributions. In FY 2010/11 the employer contribution rates will be 23.187% for police and fire and 11.727% for miscellaneous employees.

Although employee contribution rates are established at 7% for miscellaneous employees and 9% for safety employees, in labor agreements the City has agreed to pay up to 4% of the contribution for certain miscellaneous employees and the full 9% for safety employees.

It does not make sense to most current council members and residents why the *employer* would pay the *employee's* retirement contribution. This practice began in 1978 when in the wake of the property tax losses from Proposition 13 the state approved a temporary "bailout" plan for local governments. One of the conditions of accepting this funding was that cities and counties not give salary increases during the term of the bailout.

Many cities and counties, in light of the high inflation at the time, thought this was an unfair burden on employees and that recruitment and retention would be hampered. Picking up the employee's share of PERS was a legal way to give the equivalent of a salary increase while accepting the bailout.

The City's current pension provisions are so expensive that they threaten the future financial sustainability of the enterprise. If changes are not made, increasing amounts will have to be dedicated to funding pension obligations, forcing cuts in services and the elimination of positions.

The long-term projections used by CalPers to justify the offering of the plan enhancements have proven to be inconsistent with the actual performance of the economy. Because of this more cities in California are moving back to pension levels used prior to 2000. Not only are these less costly and financially sustainable, they begin to close the gap between private sector and public sector pension benefits. Public employees are one of the few remaining segments of the labor force to enjoy a defined benefit pension plan.

It is not possible to change pension plans for existing employees. California courts have ruled that a public employee has a property interest in their employment and that pension benefits are a contractual obligation. However, given the cost of current plans, cities in California have started negotiating lower retirement benefit plans for new employees. Although the savings from new plans will not have a significant immediate impact on City costs, the long-term impact is substantial.

The lower cost PERS plan available for miscellaneous employees is 2% at 60. This was the City's plan until 2000. Some California cities that have gone back to this plan include Palo Alto and South San Francisco. Plans can also be structured to calculate pension benefits based on a three-year average of salary rather than the single highest year. Orange County and the City of San Diego have introduced hybrid plans that include a lower defined benefit portion coupled with a defined contribution portion.

Optional plans for safety employees include 3% at 55, 2.5% at 55, 2% at 55 and 2% at 50. The 2% at 50 plan was the statewide standard and the City's plan prior to the enhancement to the current plans in 2000. The City of Vallejo recently entered into an agreement with their Fire union to establish 2% at 50 as the retirement plan for new hires.

Given the number and volatility of factors that drive pension plan costs, providing a dollar estimate of the long-term savings of lower benefit plans for a specific agency is not possible without an actuarial review. Based upon general assumptions prepared by the actuarial firm of Bartels and Associates, by switching to the 2% at 60 plan for miscellaneous and 2% at 50 plan for safety, the City could expect an annual savings after 10 years in excess of \$3.5 million in current dollars and more than twice that amount when all employees under the first tier system are retired.

Recommendation 33: Institute a lower cost retirement plan for new hires.

The savings to the City from changing pension benefits for new employees is significant, but will take many years to materialize. A way to get immediate retirement savings is to have current employees pick up more of the cost of their enriched plans. Each 1% of PERS "pick-up" by the employee is worth approximately \$3 million, of which \$2.25 million is in the General Fund. The most significant opportunity to do this is in the public safety pension plans where the cost of the plan is very high and employees currently do not make any direct contribution to the plan.

Recommendation 34: Negotiate for existing employees to pay the full employee contribution for the existing "high benefit" retirement program.

Medical Insurance

The cost of providing medical insurance for employees and a medical contribution for retirees is a significant expense for the City. Currently the City spends approximately \$23.8 million a year on medical insurance premiums for existing employees and approximately \$10 million a year on contributions to retirees. For active employees, the City is paying 73% of the total premium cost with employees paying 27%.

The City's contribution to employee medical insurance varies depending on the level of coverage provided. The base contribution rate is determined by the cost of the lowest priced plan available for single coverage. There are different contribution rates for single, single + 1 and family plans.

The City can better contain and manage medical insurance costs in a number of ways. This includes negotiating plans with higher deductibles and co-pays and fixing the City's maximum contribution rather than having it tied to a plan or index beyond the City's control. The annual reduction in costs for medical insurance can be substantial. For example,

under the current agreements the average monthly City payment per employee for health care is approximately \$431 and the average employee cost is approximately \$159. Lowering the City's average contribution to \$400 month would reduce the City's annual cost by approximately \$1.7 million. Employee costs, on average, would increase \$31.00 per month.

Recommendation 35: Negotiate a fixed dollar City employer contribution for employee health care.

Through this strategy, the City's cost increases to known and negotiated levels could then be capped.

The City makes payments to retirees to offset their medical expenses. The payment amount is based on an employee's years of service with the City. Under current agreements police and miscellaneous retirees receive up to \$365 a month. Fire retirees receive \$365 a month or the lowest cost health and dental plus \$25.00 which ranges from \$400 to \$591 a month. The current annual cost for retiree medical contributions is \$10 million a year. The City's retiree medical contributions continue even when a retiree reaches the age of 65 and is eligible for Medicare. Of the \$10 million annual City cost, approximately \$6 million a year goes to retirees that are 65 and older.

People over age 65 are eligible for Medicare if they or their spouse worked for at least 10 years in Medicare-covered employment, and are a citizen or permanent resident of the United States. Many of the retirees for whom the City currently pays medical insurance may be eligible for Medicare, which is the primary and well regarded system of medical insurance coverage for the vast majority of the population over age 65. Because of changes in Medicare law in the 1980s most, but not all existing City retirees would be eligible for Medicare.

The commitment to pay medical benefits to retirees creates an open ended and unfunded liability. Sacramento, like most cities, funds retiree medical payments on a pay-as-you go basis, with the cost of payments included in the annual budget. Government accounting standards that went into effect in FY 2007/08 require public agencies to report the cost of retiree medical benefits on an accrued actuarial basis and put forth a plan to fund the benefit. An actuarial report completed for the City in 2008 estimated the unfunded retiree medical benefit at \$380 million. Fully funding this benefit would increase the City's budget by approximately \$25 million annually.

Recommendation 36: Negotiate a phase out of the City's contribution to retiree medical care and negotiate the establishment of Retiree Health Savings Accounts (HSAs). HSAs allow employees to contribute tax free to a personal account to be used for qualified medical expenses in retirement. Funds drawn out of HSAs are not subject to tax if used for qualifying medical expenses. As an incentive to employees, the City could

offer to match contributions to a specified level. This would provide for some City contribution to post retirement health, but the amount would be controlled by the City and the obligation would end at retirement.

Recommendation 37: Develop an incentive program to move retirees over 65 to Medicare. This can be done by requesting such employees or retirees to sign up for Medicare A and B coverage. The City can then submit all claims first to Medicare. Should City insurance cover something Medicare does not, the City can pay the difference. A small financial incentive for signing up for Medicare should result in major savings from reductions in the current payment of \$365 per month. The City of San Jose operates this type of a program successfully.

Under current labor agreements and policies, employees who are eligible for health insurance may waive coverage and receive \$200 per month. This commonly occurs when employees elect to take insurance coverage under the plan of their spouse or domestic partner. This is not a typical approach used by employers who view the provision of health insurance as a discrete benefit and not a part of overall compensation.

Historically, health insurance cash-outs were typically agreed to based on a recognition of the overall cost savings to the City. In today's economy, this practice bears review and analysis.

The City cost for employees who waive health benefits is estimated at approximately \$1.8 million for the current fiscal year. Although discontinuing this practice may result in some employees opting to take City coverage, there may be an overall net savings.

Recommendation 38: Evaluate the estimated impact of ceasing the health insurance op-out payment to determine if projected savings make this a viable proposal for future negotiations.

Disability Pay

Section 253 of the City's Charter provides that all employees disabled during the course of their employment are eligible to up to a full year continuation of salary and benefits. California law only mandates this benefit for public safety employees. Conforming the Charter to state law will decrease the City's cost for this benefit, resulting in an estimated annual savings of \$300,000.

Recommendation 39: Initiate a City Charter revision to conform the payment of disability leave payment for non-safety employees to state law.

Overtime Pay

Employees receive overtime pay if they exceed a designate number of hours in a week or other designated work period. Federal law provides for overtime payment only when an employee's *actual hours worked* in the designated time period exceeds the maximum amount.

The City of Sacramento generally calculates overtime based on the *total number of hours paid* during the designated period. Under this practice, paid time off such as vacation is treated as hours worked. An employee on a schedule of 40 hours a week who worked an hour of overtime on Monday, Tuesday, Wednesday and Thursday and took vacation on Friday would be compensated for four hours of overtime for that week, even though they actually worked 36 hours. It is difficult to precisely estimate savings from this change because overtime use may be impacted by other paid leave time use. However, assuming an overall budget of approximately \$25 million in overtime per year and that 5% of the time paid is derived from the use of paid leave opposed to time worked, the estimated annual savings to the City would be \$1.3 million.

Recommendation 40: Change overtime calculation practices to be consistent with federal law.

Binding Arbitration

Articles XVIII and XIX of the City Charter provide for binding arbitration for sworn police and fire personnel. Binding arbitration removes the final authority for determining salaries, benefits and other conditions of employment from directly elected representatives and vests it in the hands of a party with no financial responsibility for managing the public's money. Police and fire personnel costs represent more the 50% of City's General Fund budget. An arbitrator looks only at the prevailing practices of other public agencies and does not consider the City Council's interest in establishing priorities for the expenditure of public funds that reflect a balance of services to the community.

The City has been to binding arbitration twice. In a 2000 arbitration with the police union, the City settled many significant cost issues including enhanced retirement benefits out of fear for faring worse in arbitration. In 2004 the City went to arbitration with the fire union and generally prevailed. The reality of binding arbitration is that the employer, fearful of the dynamics of the arbitration process, will often concede and enter into agreements that are more costly and result in fewer dollars available to provide other services.

Recommendation 41: Place a Charter Amendment on the ballot that removes the requirement for binding arbitration for sworn police and fire personnel.

Compensation Comparisons

Surveys of the compensation provided by other agencies for similar jobs are usually conducted in conjunction with contract negotiations and used as reference points to negotiate salaries and benefits. In the City's case, some contracts include a requirement to undertake surveys and specify which cities and agencies must be surveyed. The City's compensation surveys only include information from other public employers. This closed system removes compensation decisions from a real labor market and results, in most cases, with compensation being significantly greater than that received for the same or similar jobs in the private sector.

Good private sector compensation information is available from many private employers. The inclusion of private sector compensation information in negotiations will better inform the process with a more accurate perspective on what the real labor market is for the positions under consideration. Examples of such jobs include maintenance, trades, administrative support, professional and technical positions in finance, human resources, engineering and planning.

Recommendation 42: Utilize private sector compensation information in negotiating salaries for those classifications where good job matches and reliable data are available.

Cost of Living Adjustments

Multi-year labor agreements typically provide for annual increases so the value of employee earnings keep pace with inflation in the economy. These increases are called COLAs (cost of living adjustment). In practice, COLAs take two forms: a negotiated fixed percentage by which the salary schedule will be adjusted or a variable amount usually tied to the U.S. Department of Labor's Consumer Price Index. For the purposes of maintaining earning power, salary schedules should not be increased by an amount greater than the Consumer Price Index (CPI).

Entering into agreements with COLAs greater than the CPI can lead to significant City cost increases beyond what is required to maintain employee earning power. For example, in the fiscal years 2005/06 through 2008/09, City police and fire salary schedules were increased 5% annually and Local 39 salary schedules increased by 4% per year. During the years covered by these agreements, the CPI for the San Francisco area increased annually at an average rate of 2.5%. As noted above, every 1% increase in payroll, in current dollar value, increases City costs by approximately \$3.2 million per year. The City can address this in the short term by negotiating contracts that freeze current salaries to recover the cost of previous COLAs that exceeded CPI. In the long term, future labor contracts can be negotiated to ensure that annual across the board salary adjustments do not exceed the CPI.

Recommendation 43: Factor the recent salary adjustments that were greater than the increase in the CPI into upcoming negotiations. Negotiate future labor agreements so that cost of living adjustments to salary ranges do not increase more than a defined index such as the Consumer Price Index.

UTILITY ENTERPRISES

The City of Sacramento provides the following utilities:

- Water treatment and distribution;
- Sewage collection (treatment and some collection is provided by the Sacramento Regional County Sanitation District);
- Solid waste collection (all residential and some commercial); and
- Storm drainage collection.

With a FY 2009/10 budget of \$192,264,000, the Utilities Department is responsible for 21.7% of the City's total budget. Water service is provided to over 132,000 residential and business customers. The wastewater collection system serves 60% of the City's properties; new development is served by the Sacramento Regional County Sanitation District (SRCSD). The Solid Waste Division serves over 124,000 residential and 1,200 commercial accounts. The storm drain utility maintains a collection system that includes hundreds of miles of pipe, canals and ditches, 45,000 drain inlets and 104 pumping stations.

Utilities are the most basic and universal of all municipal services. Without potable water and effective sanitation cities would not exist. Every resident and business is dependent on daily access to the City's utilities. Reliable, adequately sized, and cost-efficient utilities are essential to maintain and grow the City's economy.

Sacramento's utilities are also important to the provision of general City services. As a result of a voter-approved charter action, an amount equal to 11% of gross revenue from the water, sewer and solid waste utilities is paid to the General Fund. This acts as an in lieu franchise fee, or tax, ensuring the City receives the general revenue to cover service cost impacts associated with utility operations that it would receive if the utilities were privately owned. In the current 2009/10 fiscal year, this General Fund revenue is estimated at \$20 million.

As part of this engagement Management Partners reviewed the overall financial condition of the utility funds. Utility operations are funded by direct charges for service to users. As is detailed below we believe the overall financial condition of most of the utility enterprise funds requires attention. While our review did not focus on operational issues, there are several recommendations relating to operations that would result in cost reductions and thereby improve the overall financial condition of the utility enterprises. These efforts will help address the fiscal situation in a limited

way. The main solution to the issues discussed below is that utility user rates must be set at a level that is consistent with long-term sustainable operations.

Financial Conditions

The City of Sacramento's utility funds are in a weak financial position. Unless actions are taken to bolster the financial condition of the utilities, there is a real threat they will begin to require General Fund subsidies for operations and be unable to fund the infrastructure maintenance necessary for continued reliable service. The Utility Rate Advisory Commission recommended a multi-year rate structure to the City Council last year that was projected to be sufficient to maintain the solvency of the water, sewer and solid waste funds and generate sufficient revenue for adequate capital funding. The rates approved by the City Council for FY 2009/10 and 2010/11 were less than those recommended by the Utility Rate Advisory Commission and are inadequate to place the funds on solid footing.

Water

The Water Fund's balance at the beginning of the current fiscal year was \$1.8 million. This represents 2.4% of total annual expenses from the fund. Table 23 below shows the fund balance of the California peer cities that operate water utilities. Sacramento is far below the fund balance of peer cities.

TABLE 23: JUNE 30, 2009 ENDING WATER FUND BALANCE AS A PERCENT OF ANNUAL COSTS FOR MUNICIPAL SYSTEMS

Jurisdiction	Water Fund Balance As a Percent of Costs
Bakersfield	70.0%
Fresno	56.0%
Stockton	43.0%
San Jose	15.0%
Long Beach	11.0%
Sacramento	2.4%

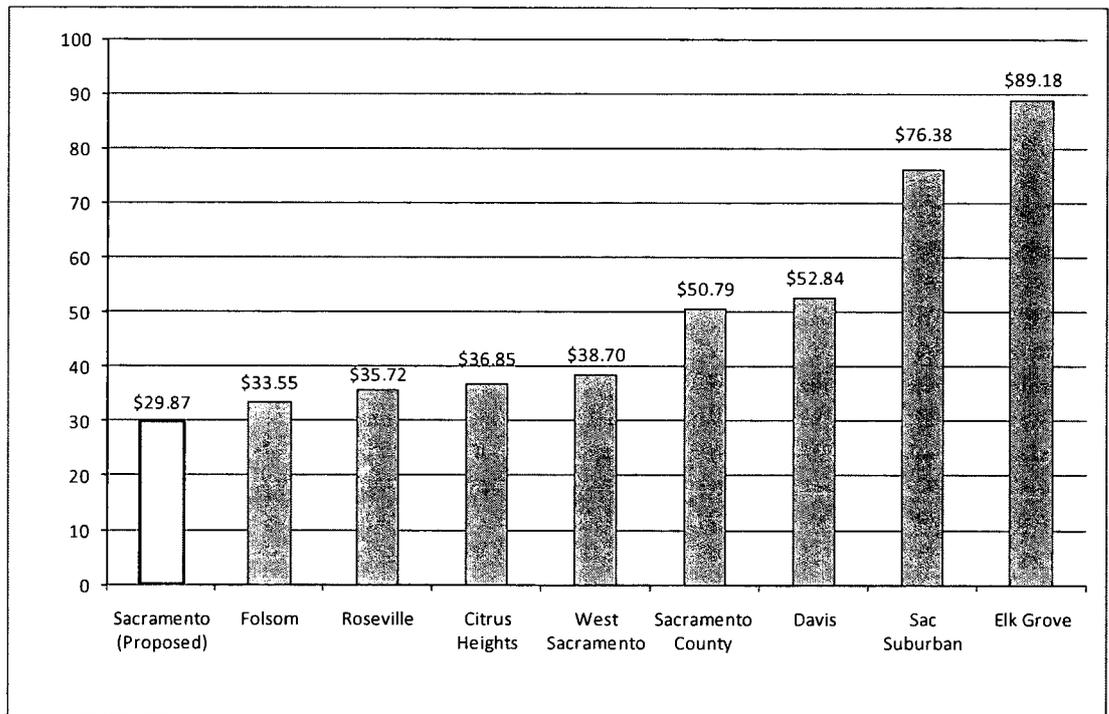
Source: Management Partners Benchmarking Survey

With the current rate structure, the Water Fund is projected to run a deficit of \$1.7 million in FY 2009/10, which will bring the ending fund balance to a scant \$81,000, which is less than 0.10% of annual expenditures. For FY 2010/11 the fund is projecting a surplus of \$288,000 bringing the fund balance to \$369,000, also quite inadequate at 0.40% of annual Water Fund expenditures. The Government Finance Officers Association (GFOA) recommends that cities maintain an unrestricted reserve or fund balance equal to two months of operating expenses; this is 16.6% of annual operating revenue.

Utilities often have higher reserve levels because of the need to have capital to invest in system rehabilitation and renewal. Credit rating agencies usually look at fund balance as an indicator of overall fiscal condition of utilities seeking bond financing. Fitch Ratings recently noted that the median fund balance for AA rated water utility issuers was approximately 73% of annual operating and maintenance expenditures.

The City's charges for current services are among the lowest in the region as illustrated in Figure 16 below. This indicates there is an opportunity through rate adjustments to bring the Water Utility Fund to the level necessary to fund infrastructure maintenance and maintain fiscal solvency while keeping rates at reasonable levels.

FIGURE 16: SACRAMENTO REGION MONTHLY WATER RATE COMPARISON



Source: City of Sacramento's typical single-family customer monthly bill

Recommendation 44: Adopt a multi-year water rate plan sufficient to meet infrastructure investment during the next 20 years and build the fund balance to a minimum of 17% of annual operating costs during the next five years.

The need for rate increases to build an adequate fund balance can be mitigated by reducing operating costs. One opportunity to accomplish this objective is to eliminate the water fluoridation program. When the City Council authorized the water fluoridation program in 1998, the annual operating costs was estimated at \$350,000. In FY 2008/09, fluoridation

costs \$761,650. This amount is estimated to increase by approximately \$74,000 in the current fiscal year to \$835,900.

In a recent analysis of the Fluoridation Program, the Department of Utilities identified major issues with the program and recommended that the program be eliminated. The principal conclusions of the analysis are:

- Sodium Fluoride is becoming increasingly expensive to purchase.
- Fluoridation advances the deterioration of equipment and results in increased infrastructure maintenance costs.
- The City is not contractually or legally obligated to fluoridate its water.
- Several industrial water customers, such as Campbell Soup, Coca Cola, and Proctor & Gamble do not need fluoridated water and have a process to remove it.
- Fluoride is mainly beneficial to infants and small children and there are other effective sources of fluoride (such as fluoride mouthwash and toothpaste) that are readily available to the public.

In light of the need to increase the Water Fund balance while minimizing the rate increases required to do so, elimination of the fluoridation program provides a cost-savings opportunity to help the fund achieve financial stability.

Recommendation 45: Eliminate the water fluoridation program. Estimated annual savings are \$836,000. It is recommended that elimination of the program not affect the rate structure. This will allow the savings to accrue to the Water Fund balance.

Some cities have sold or are considering selling their water systems to private providers. There are a number of water companies in the United States that supply fresh water to cities. The largest in California is the California Water Service Company. Evaluating the impacts of this approach on a system as large as Sacramento's is very complex. Given the current competitive rates and the stable General Fund revenue that comes from the voter approved fund transfer, we do not see this evaluation as being a high priority at the current time.

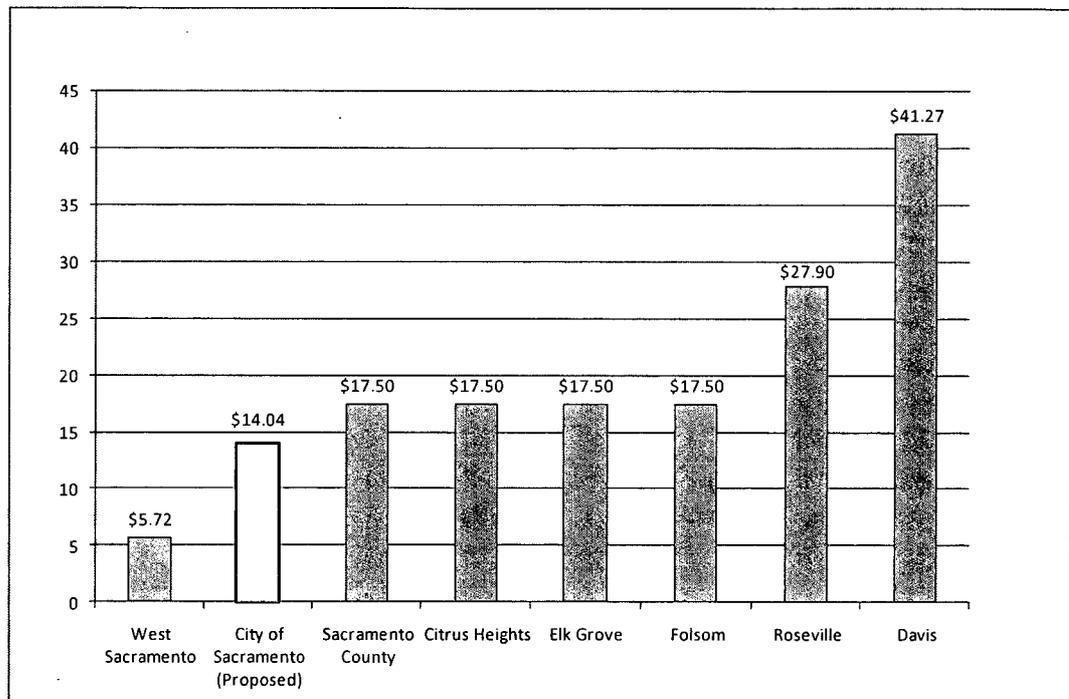
Sewer

The Sewer Fund is projected to have a surplus of revenue over expenditures in the current fiscal year of \$117,000. The projected year-end fund balance for June 30, 2010 is \$2,823,000, which is 12.7% of annual fund expenditures. However, the fund is projecting a deficit of \$1.7 million in FY 2010/11. This will bring the fund balance to \$1,156,000, representing 4.6% of total annual expenditures. Unless rate increases are made to sufficiently cover annual costs, the fund balance will continue to decline. This poses the threat that the Sewer Fund will become a

General Fund burden and will not have insufficient funding for system maintenance.

Like water, the City's sewer service charges are among the lowest in the region, as shown in Figure 17 below. The opportunity to develop a financially sound enterprise while maintaining reasonable rates should be achievable.

FIGURE 17: SACRAMENTO REGION MONTHLY SEWER RATE COMPARISON (EXCLUDING SRCSD CHARGES)



Source: City of Sacramento's typical single-family customer monthly bill

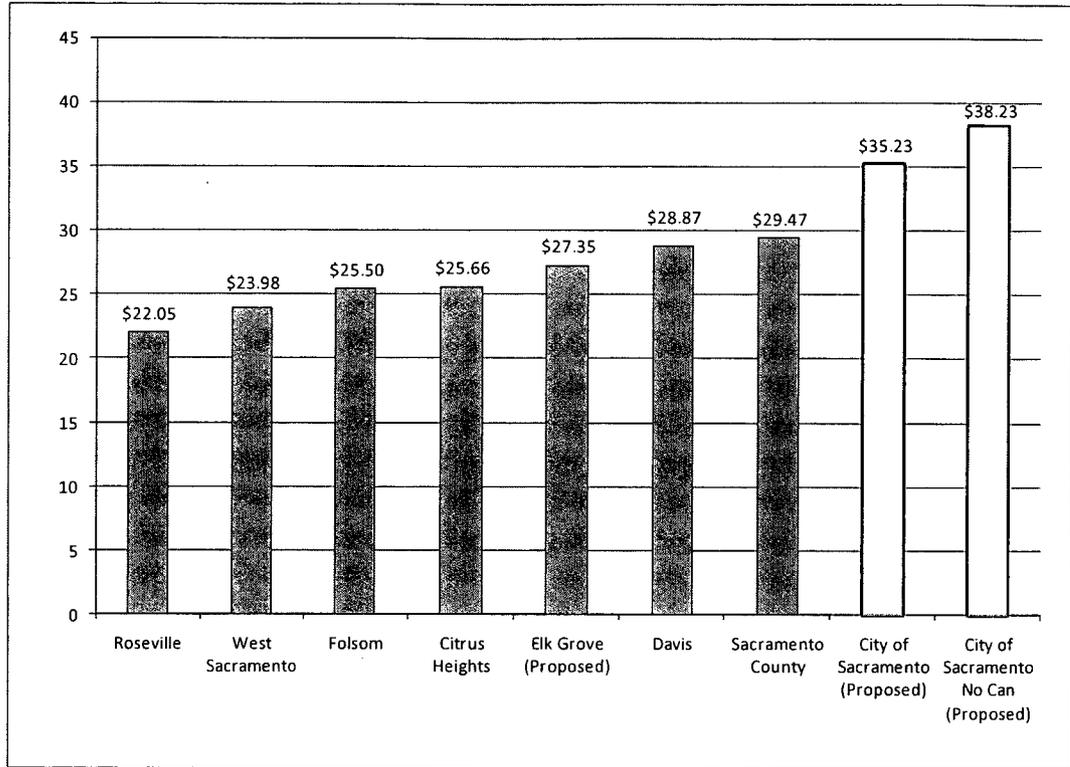
Recommendation 46: Adopt a multi-year sewer rate plan sufficient to meet necessary infrastructure investment during the next 20 years and build the fund balance to a minimum of 17% of annual operating costs during the next five years.

Solid Waste

The projected year-end fund balance of the Solid Waste Fund for June 30, 2010 is \$17,000 with an annual expenditure budget of \$56,485,000, representing only 0.03% of expenditures. As currently operated, the City's solid waste enterprise is not on sustainable footing. An insufficient Solid Waste Fund has resulted in practices that have increased ongoing operating costs. For example, the lack of adequate capital funds to purchase new collection trucks results in the City buying used trucks.

While the initial cost is lower, the ongoing maintenance costs are higher and the equipment will last a shorter amount of time. In contrast to water and sewer, the City's solid waste collection charges are the highest in the region, as shown in Figure 18.

FIGURE 18: FY 2009/10 SACRAMENTO REGION MONTHLY SOLID WASTE RATE COMPARISON



Source: City of Sacramento: Typical single-family customer monthly bill

As significant rate increases will be required to maintain a financially sound Solid Waste Fund, getting out of the solid waste collection business may be in the City's best interest. Many California cities provide solid waste collection by granting a competitively bid franchise to a private disposal firm. The franchise is regulated by the city and the city retains rate-setting authority. This is the standard service delivery method used in the San Francisco Bay Area, and much of Southern California. The competition moderates rates and tends to improve collection efficiency. Given the size of the customer base, a competitive bid for the City's waste franchise would generate considerable interest.

Recommendation 47: Conduct a competitive franchise bid for the City's solid waste service.

The City will need to take care to ensure that the franchise fee paid by a private firm keeps the City's General Fund whole, being at least equal to

the 11% of gross receipts from the voter-approved tax that is currently collected from the solid waste operation.

The City provides yard waste collection as part of the solid waste enterprise. For years, the collection method was for residents to place piles of leaves in the street for collection crews. This is a costly and inefficient collection method. Making containerized collection of green waste mandatory is an opportunity to decrease operating costs for solid waste. Unfortunately, this would require removal of a prohibition on such a mandate approved by the voters (as Measure A) many years ago.

However, the City has been transitioning residents to voluntary use of green waste collection containers, the standard practice in most communities for yard waste, over the last few years. As a result, a majority of residents now use containers. Management Partners recommends that the City institute a surcharge for users who do not transition to containerized collection and phase out of the "loose collection" practice as soon as possible. This will generate some one-time revenues from the sale of surplus equipment (improving the solid waste enterprise's balance sheet) and reduce solid waste operating costs, which will translate into more competitive rates for customers.

Recommendation 48: Implement a phase out of "loose collection" of green/yard waste and move to containerized collection, using a price incentive. Use savings to benefit the Solid Waste Fund and improve the competitiveness of City rates.

Storm Drainage

Because of the restrictions of Proposition 218, the City Council cannot raise storm drainage rates without voter approval. The last rate adjustment for this fund was in FY 1996/97. While the fund has a projected June 30, 2010 fund balance of \$5.5 million, representing 14% of total annual expenses, with rates remaining flat and expenditures projected to increase, it will run yearly deficits and exhaust its fund balance by June 30, 2012. At that point, there will be no dedicated source of capital funds and storm drainage will become a growing drain on the General Fund, exceeding \$10 million a year by FY 2014/15.

Recommendation 49: Place a measure on a future ballot asking voters to approve a rate adjustment for storm drainage services and to establish a framework for the City Council to establish future rates. The measure should provide for rates that are sufficient to meet anticipated capital requirements during the next 20 years and build the fund balance up to a minimum of 17% of annual fund expenditures within five years.

CONCLUSION

The City of Sacramento has managed well through the most challenging financial times in 75 years. By making a number of difficult decisions and tactical actions the City has decreased expenditures significantly in response to a near-free fall decline in revenue. Unfortunately, the impacts of the recession are more severe and prolonged than a simple economic downturn. Even with the actions taken, a structural budget deficit of \$30 to \$45 million exists in the coming 2010/11 fiscal year. Therefore, the City has embarked upon the development of a plan to achieve long-term financial and service stability.

Two discrete initiatives have been undertaken to develop this plan. The first, to thoroughly review and determine priority categories of all current services, was accomplished by City staff. The second was to engage Management Partners to identify revenue and expenditure strategies to achieve financial sustainability while remaining, as much as financially possible, a full service government. Together, these two initiatives provide the Mayor and City Council with fact-based tools that will allow them to transcend the emotional reactions and arguments that are frequently attendant to difficult public decisions.

Management Partners has presented several strategies that, if implemented, will achieve the City's goals. The strategies that are recommended are all grounded in the real world where they have been successfully used by other cities. Using a combination of revenue increases, changes in service delivery, reorganization, service reductions and changes in compensation policies, the City can develop a balanced plan that is doable over the next three years, credible with the public and not reliant on the slash and burn approach of gutting all non-mandatory and essential services.

Implementation of the strategies will be difficult. Increasing general purpose revenue significantly will require going to the voters with one or a package of tax measures. The City will need to demonstrate to the electorate that hard decisions were made to reduce expenditures and that some increase in taxes is essential to maintain the high quality of life enjoyed by residents and to retain a vibrant climate for business.

The economic realities that have dictated the tough policy decisions already taken by City leaders drive the decisions discussed in this report. Management Partners stands ready to support and assist the City as it works through its decisions to meet the requirement that the budget be 4balanced.

ATTACHMENT A – SUMMARY OF RECOMMENDATIONS

Recommendation 1: Reorganize City functions into a department configuration that reduces costs and improves the alignment of functions with related missions.

Recommendation 2: Reestablish a Construction Codes Advisory and Appeal Board that will consolidate the mission of the Housing Code Advisory and Appeals Board, the Building Code Advisory and Appeals Board, the Mechanical and Plumbing Advisory and Appeals Board, and the Electrical Code Advisory and Appeals Board.

Recommendation 3: Eliminate the Sacramento Relocation Appeals Board, Board of Plumbing Examiners, Meadowview Development Committee, Sacramento Commission of History and Science, and the Community Racial Profiling Commission.

Recommendation 4: Establish sunset clauses in the authorizing resolutions and ordinances for boards and commissions that have a specific focus.

Recommendation 5: Determine voter willingness to approve various tax measures and develop ballot measure(s) accordingly.

Recommendation 6: Pursue legislation that allows the City to collect payments to the General Fund from SMUD equal to the voter-approved amount collected from City-owned utilities.

Recommendation 7: Increase the commercial solid waste collection franchise fee from the current 8% to 11%.

Recommendation 8: Utilize Community Development Block Grant funding to pay for eligible code enforcement services and eliminate General Fund support.

Recommendation 9: Utilize Landscape and Lighting District funds for the Urban Forestry Program and eliminate General Fund support.

Recommendation 10: Revise the current Council policy regarding the recovery of costs for private development and adjust fees to decrease the General Fund subsidy.

Recommendation 11: Adopt and implement an ambulance subscription program.

Recommendation 12: Establish a fee schedule for Fire Department company inspections. The amount of fee is subject to Council policy.

Recommendation 13: Select a single company to supply police-generated tows using a competitive bid process.

Recommendation 14: Establish a policy that designates revenue derived from the use of City assets as General Fund revenue.

Recommendation 15: Consolidate animal care services with either Sacramento County or the Humane Society, and move towards a countywide JPA structure of all animal care services.

Recommendation 16: Consolidate public safety dispatch with Sacramento County and other interested cities.

Recommendation 17: Establish a law enforcement support joint powers agency with the County Sheriff's Office and other interested local law enforcement agencies.

Recommendation 18: Pursue a contract with the County Sheriff's Office to provide helicopter services or develop a jointly staffed air support unit, should the County express interest in reestablishing their air support program.

Recommendation 19: Initiate a process to evaluate, select and implement multiple service consolidations with the concurrence of the Sacramento Area Council of Governments and member agencies. SACOG would serve as the lead agency.

Recommendation 20: Conduct competitive selection processes for services where qualified alternative providers exist.

Recommendation 21: Continue the closure of Natomas High School and Mangan pools and close the McClatchy and Cabrillo pools.

Recommendation 22: Eliminate annual subsidies non-profit entities that charge fees to clients.

Recommendation 23: Replace three sworn executive lieutenant positions with non-sworn administrative officers (or a similar civilian classification).

Recommendation 24: Eliminate the sworn Fiscal Bureau lieutenant position.

Recommendation 25: Implement three persons per engine at stations where the suburban nature of the primary service area and call volumes makes this a feasible alternative.

Recommendation 26: Replace two truck companies with one additional engine company and one additional ambulance unit.

Recommendation 27: Change initial response configuration for fire calls to reduce the number of equipment and vehicles initially dispatched.

Recommendation 28: Add one ambulance unit at an additional annual cost of \$768,300, with the expectation that costs will be fully offset by additional revenues.

Recommendation 29: Review dispatch criteria and protocols prior to implementing changes in apparatus staffing and initial response numbers.

Recommendation 30: Eliminate one duty battalion (three positions) and restructure fire companies into three battalions.

Recommendation 31: Develop the optimum deployment plan for the distribution of the new asset pool based upon an analysis of target response standards.

Recommendation 32: Lease rooms or the entire facility at the Clunie, George Sims and South Natomas community centers.

Recommendation 34: Implement a letter notification system for initial, non-emergency code enforcement violations.

Recommendation 35: Conduct an optimization study to identify ways to more efficiently organize IT governance, operations and systems.

Recommendation 36: Develop a new IT Strategic Plan that will guide the City's investment in technology.

Recommendation 33: Institute a lower cost retirement plan for new hires.

Recommendation 34: Negotiate for existing employees to pay the full employee contribution for the existing "high benefit" retirement program.

Recommendation 35: Negotiate a fixed dollar City employer contribution for employee health care.

Recommendation 36: Negotiate a phase out of the City's contribution to retiree medical care and negotiate the establishment of Retiree Health Savings Accounts (HSAs).

Recommendation 37: Develop an incentive program to move retirees over 65 to Medicare.

Recommendation 38: Evaluate the estimated impact of ceasing the health insurance op-out payment to determine if projected savings make this a viable proposal for future negotiations.

Recommendation 39: Initiate a City Charter revision to conform the payment of disability leave payment for non-safety employees to state law.

Recommendation 40: Change overtime calculation practices to be consistent with federal law.

Recommendation 41: Place a Charter Amendment on the ballot that removes the requirement for binding arbitration for sworn police and fire personnel.

Recommendation 42: Utilize private sector compensation information in negotiating salaries for those classifications where good job matches and reliable data are available.

Recommendation 43: Factor the recent salary adjustments that were greater than the increase in the CPI into upcoming negotiations.

Recommendation 44: Adopt a multi-year water rate plan sufficient to meet infrastructure investment during the next 20 years and build the fund balance to a minimum of 17% of annual operating costs during the next five years.

Recommendation 45: Eliminate the water fluoridation program.

Recommendation 46: Adopt a multi-year sewer rate plan sufficient to meet necessary infrastructure investment during the next 20 years and build the fund balance to a minimum of 17% of annual operating costs during the next five years.

Recommendation 47: Conduct a competitive franchise bid for the City's solid waste service.

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