



# City of Sacramento City Council

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**Meeting Date:** 8/23/2011

**Report Type:** Staff/Discussion

**Title:** Budget Strategies and Restructuring Workshop

**Report ID:** 2011-00640

**Location:** Citywide

**Recommendation:** Discussion and possible action

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**Department:** City Manager

**Division:** Executive Office

**Dept ID:** 02001011

**Attachments:**

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- 1-Description/Analysis
  - 2-Background.
  - 3-Workshop PPT
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**City Attorney Review**

Approved as to Form  
Matthew Ruyak  
8/17/2011 5:04:27 PM

**Approvals/Acknowledgements**

Department Director or Designee: Betty Masuoka via email- 8/17/2011 2:14:44 PM

Assistant City Manager: Dawn Bullwinkel - 8/17/2011 2:20:01 PM



## Description/Analysis

**Issue:** The City of Sacramento faces a considerable challenge in returning to long-term financial and structural stability. Even with the \$39 million that was reduced from the Fiscal Year (FY) 2011/12 budget, a structural deficit is projected to persist over the next five years that will require the City to address an additional \$26 million gap. Resolving this deficit and realigning the City organization and its services/service levels will require difficult policy choices and a longer-term strategic approach.

This report presents an overview of labor, budget and restructuring strategies, along with a Master Business Plan that will govern the City's restructuring efforts. Management Partners, Inc., an experienced professional local government consulting firm, will be providing assistance to the City to evaluate opportunities for cost savings and efficiencies in several key focus areas, assisting with analysis, developing recommendations and an actionable implementation plan by early 2012.

**Policy Considerations:** After four consecutive years of reductions, the City continues the monumental task of rightsizing the organization. Given the size of the challenge, and the fact that ongoing efforts to align revenues and expenditures have not been able to keep pace with the revenue declines in prior years and significant year-to-year expenditure increases, it is critical that future reduction efforts reflect the need to initiate major permanent changes to ensure long-term fiscal sustainability.

**Environmental Considerations:** The recommendation does not constitute a "project" and therefore is exempt from the California Environmental Quality Act (CEQA) according to Section 15061(b)(1) and 15378(b)(3) of the CEQA guidelines.

**Sustainability:** Not applicable

**Commission/Committee Action:** None

**Rationale for Recommendation:** Fundamental changes to the City's organizational structure and the services delivered are needed to create a sustainable budget that can meet the most critical needs of the community.

**Financial Considerations:** The City must resolve a \$26 million structural deficit and realign the City organization and its services/service levels.

**Emerging Small Business Development (ESBD):** Not applicable



## Background

The City of Sacramento faces a considerable challenge in returning to long-term financial and structural stability. The Sacramento region is struggling to recover from the most significant recession in more than 75 years, with employment losses in virtually all major sectors of the economy. Sacramento employment levels continue to track below both statewide and national trends. Even with the \$39 million that was reduced from the FY2011/12 General Fund budget, a structural deficit is projected to persist over the next five years that will require the City to address the remaining \$26 million gap. This gap reflects only the variance between estimated revenues and expenditures and does not include the pent up demand for services and the growing volume of workload resulting from population growth. Resolving this deficit and realigning the City organization and its services/service levels will require difficult policy choices and a longer-term strategic approach.

The adopted Fiscal Year 2011/12 General Fund operating budget includes 2,796.48 authorized full-time equivalent (FTE) positions, a reduction of 330 positions. This follows several years of budget cutting in which more than \$120 million has been reduced from the net General Fund budget alone.

<b>FY2007/08 - FY2011/12 Net General Fund \$ Change</b>				
<b>Department</b>	<b>3 Year Cumulative \$ Change</b>	<b>FY2011/12 Approved \$ Reductions</b>	<b>Total \$ Reductions</b>	<b>% Reduction in \$</b>
Mayor & Council	(661,614)	(247,500)	(909,114)	-33%
City Attorney	(1,191,830)	(423,000)	(1,614,830)	-30%
City Clerk	(179,311)	(30,000)	(209,311)	-16%
City Manager	(1,425,708)	(125,000)	(1,550,708)	-49%
City Treasurer <sup>1</sup>	(990,243)	(131,000)	(1,121,243)	
<b>Mayor/Council &amp; Charter:</b>	<b>(4,448,706)</b>	<b>(956,500)</b>	<b>(5,405,206)</b>	
<b>Parks &amp; Recreation:</b>	<b>(16,426,585)</b>	<b>(1,786,800)</b>	<b>(18,213,385)</b>	<b>-61%</b>
Fire	(10,640,433)	(9,108,000)	(19,748,433)	-27%
Police	(23,399,349)	(12,197,000)	(35,596,349)	-28%
<b>Public Safety:</b>	<b>(34,039,782)</b>	<b>(21,305,000)</b>	<b>(55,344,782)</b>	
Community Development	(10,149,341)	(1,329,117)	(11,478,458)	-87%
Convention, Culture & Leisure	(2,654,860)	(293,565)	(2,948,425)	-69%
Economic Development <sup>1</sup>	(1,227,290)	(707,406)	(1,934,696)	
Finance	(3,523,712)	(592,000)	(4,115,712)	-66%
General Services	(8,963,069)	(1,547,471)	(10,510,540)	-73%
Human Resources	(2,096,965)	(240,000)	(2,336,965)	-57%
Information Technology	(3,333,969)	(647,000)	(3,980,969)	-44%
Transportation <sup>1</sup>	(5,440,396)	(480,458)	(5,920,854)	
<b>Operating/Support:</b>	<b>(37,389,602)</b>	<b>(5,837,017)</b>	<b>(43,226,619)</b>	
<b>Totals:</b>	<b>(92,304,675)</b>	<b>(29,885,317)</b>	<b>(122,189,992)</b>	

<sup>1</sup> Net General Fund impact is positive.

The remaining budget gap will persist unless permanent corrective actions are taken to change the City's revenue and cost structures, including the complement of services delivered, in order to create a financially sustainable way to meet the most critical needs of our community.

On June 2, 2011, the Interim Deputy City Manager presented an overview of available options and discussed a strategic framework related to labor, budget and restructuring for addressing the City’s long range structural imbalance. The Council provided feedback on the City’s overall strategy and identified other important issues for consideration including stakeholder communication.

This report expands on possible labor, budget and restructuring strategies and presents an overview of the City’s restructuring efforts to achieve long-term structural balance.

Summary	Budget	Labor	Restructuring
<b>Goals</b>	<i>Address \$26 million structural imbalance</i>	<i>Align labor costs with budget strategy</i>	<i>Reduce organization to fit resources and prioritize for future “rebuild”</i>
<b>Strategies</b>	10% economic uncertainty reserve	Employee paid retirement contributions	Review span of control metrics
	One-time funds/additional reductions pay for restructuring	Two-tiered retirement formula	Re-engineer processes
	Quarterly progress reports on implementation	Retiree medical/health care costs	Service delivery models

## Labor Strategies

Labor costs represent more than 80 percent of General Fund expenditures. Overall, the costs of providing employee benefits have risen in recent years while growth in City revenues has declined. A labor strategy that will become the benchmark for future contract negotiations occurring over the next 18 months with City bargaining groups is currently being developed. Initial steps towards pension reform have already started. The contract with the new City Manager sets the tone with the requirement that he pay the employee’s share of retirement costs, which for non-safety employees is 7%. In addition, Local 522 (Fire) has also agreed to contribute to their PERS retirement. The employee share of PERS costs for Fire employees is 9.81% and is currently paid for by the City. Beginning in 2013, the employees have agreed to pay an amount equal to 6%. While both of these are important steps towards pension reform, further discussion and action is warranted.

The City’s April 2011 Audit of Employee Health and Pension Benefits noted that moderate changes can help rein in rising costs. Specific opportunities include:

Increasing City Employee Pension Contribution Rates. The City of Sacramento pays an employer contribution to the California Public Employee Retirement System (CalPERS) on behalf of City employees. The 2012 CalPERS rates required the City to pay rates of 12.66% on top of salary for its non-safety employees and 27.53% for its safety employees. In addition to the City’s contribution, CalPERS designates employee contribution rates of 7% (non-safety) and 9% (safety) to fund pensions. Currently, employee contribution rates range from 0% to 4%.

Because CalPERS sustained significant investment losses in 2008, the employer and employee contribution rates have been increasing adding financial costs to the City's budget. Based on CalPERS' projections, and assuming that the City contributes to the employee share in the same way and that this percent remains the same, the City will contribute the equivalent of between 17.6% (14.6% + 3%) and 42.6% (33.6% + 9%) of salaries to pensions in FY2013/14.

**Figure A: City Pension Contribution Rates Are Increasing**

	<b>FY2009/10</b>	<b>FY2010/11</b>	<b>FY2011/12</b>	<b>FY2012/13</b>	<b>FY2013/14</b>
Miscellaneous	11.22%	11.73%	12.66%	13.10%	14.60%
Safety	22.58%	23.19%	27.53%	29.30%	33.60%

- **Implementing Two-Tiered Retirement Formulas.** Local governments and public employee unions across the California are reaching agreement to modify the retirement formulas for newly hired members. While the short-term cost-savings are nominal, the long-term impact on an agency can be far reaching. In some cases, new pension formulas have been applied to new hires via a ballot measure. Typical changes have included scaling back pension formulas to plans similar to those noted below that existed prior to the year 2002. Newly hired police officers in the City of Folsom, for example, participate in a 2% @ 50 pension formula.

**Figure B: Pension Formulas**

<b>Sacramento</b>	<b>Current Formulas</b>	<b>Pre-2002 Formulas</b>
Fire	3% @ 55	2% @ 50
Police	3% @ 50	2% @ 50
Miscellaneous	2% @ 55	2% @ 60

- **Reducing Retiree Medical Costs.** The City contributes funds for the health premiums of about 1,800 retirees. However, not all former Sacramento employees receive health benefits from the City, as these benefits are generally provided only to those with at least 10 years of City service. Retiree health benefits are negotiated and specified in labor agreements. Under most agreements, retirees receive a set amount towards premiums. The amounts paid are based on years of service and the number of dependents covered. Retirees pay the difference between the City contribution and the monthly premium costs.

Contributions for Fire retirees are calculated differently. Amounts are based on the premium amounts of the retiree health and dental coverage. There is no additional City contribution if retirees have dependents. For both general and Fire retirees, City-paid contribution amounts increase with years of service and employees must work at least 20 years to receive the full benefits.

The amount paid each year towards retirees' health benefits will increase from about \$11.6 million from FY2010/11 to more than \$20.8 million in FY2018/19, according to the

City Auditor, representing a nearly 80 percent increase over eight years. The City contributes as much as \$365 per month to health premiums for most retiree classifications, and a greater amount for Fire retirees. City contributions for non-fire retirees and Fire retirees are shown in Figure C.

**Figure C: City Contributions To Retiree Health Premiums**

Years of Service	Percent	Most City Employees		Fire Retirees
		Retiree	Retiree + 1	All
20+	100%	\$300.00	\$365.00	\$634.34
15-20	75%	\$225.00	\$273.75	\$475.75
10-15	50%	\$150.00	\$182.50	\$317.17
<10	0%	\$0	\$0	\$0

- Increasing Employee Health Insurance Contributions. Employee contributions toward health insurance have fluctuated in recent years. For those enrolled with one dependent, the employee share has ranged from 14% to 20% in recent years. Employees with two or more dependents have seen more variation, paying between 9% and 21% of premiums. Because health care costs continue to rise at levels greater than inflation, it will be necessary to develop long-term strategies to reduce the City’s exposure to these premium increases.

**Budget Strategies**

The Council has identified several budget strategies to help resolve the City’s structural imbalance. Because labor costs account for more than 80% of General Fund expenditures, addressing the labor strategies outlined above will remain the City’s principal approach. Staff will present the Council with quarterly progress reports.

The following budget strategies will complement the City’s efforts to achieve long-term structural balance:

- Creating a 10% Economic Uncertainty Reserve. As the City begins to rebuild itself from the impacts of the recession, Council has directed staff to restore its economic uncertainty reserve. A minimum reserve of 10% (approximately \$36 million) is targeted to ensure funds are available for unforeseen expenses. The City’s current reserve balance is \$14.3 million (3.9%).
- Consideration of Citywide Landscaping and Lighting District. Staff has conducted a preliminary feasibility analysis to determine whether to create a new citywide landscaping and lighting district to fund park and recreation facility maintenance expenses. Such a district will provide a reliable dedicated funding source to ensure park maintenance expenses are not severely reduced if General Fund dollars become scarce. An initial feasibility analysis indicates a new district has the potential to generate up to \$6 million or more annually depending on its structure. Creation of an Engineer’s Report is necessary

before a formal assessment may be developed and submitted to property owners for consideration.

## **Restructuring/Re-Engineering Efforts**

The City will continue to pursue efforts to restructure and re-engineer the organization concurrent with business plan efforts. Right-sizing the organization to fit available resources requires engagement on both internal and external fronts.

- Internal Restructuring. This fall, the City Manager's Office will be evaluated in concert with the arrival of the new City Manager to evaluate opportunities to achieve cost-savings, streamline workflow and improve organizational performance. Examples includes:
  - o *Web Restructuring*: Over the next year, City staff will be working on a web restructuring effort that will increase volume of web visitors, provide customers with the ability to conduct eCommerce, interact with the City on a 24/7 basis and improve customer services on a 24/7 basis and employee efficiency.
  - o *Streamline Review Processes*: Actions that require multiple layers of signature sign off are being reviewed with the intent of reducing layers and clarifying responsibility and authority to the lowest appropriate level.
  - o *Restructuring Pilots*: Furthermore, as noted in the Restructuring Process outlined below, Management Partners, Inc., an experienced professional local government consulting firm, will be providing assistance to the City to evaluate the capacity for process improvements in select departments and functions that may offer opportunities for restructuring, efficiencies and cost savings. This analysis will include the City Council's recent request to consider consolidating the administrative functions of the City Clerk's Office and Mayor/Council Offices.
  
- External Restructuring. Reevaluating service level expectations and service delivery approaches will be the focus of the City's external restructuring efforts. The City will also continue to evaluate service delivery strategies to determine if cost-savings are achievable. Examples include the use of technology enhancements, evaluating the potential to functionally consolidate services, contracting in services, and determining if there are additional service costs that can be reduced via contracting with alternate service providers.

The City is already moving forward on several restructurings to improve efficiency and service levels and reduce costs if possible. In one effort, the City is in discussions with the private/nonprofit Sacramento Society for the Prevention of Cruelty to Animals (SPCA) regarding a potential agreement with the SPCA for the care of animals at the City shelter. Under the agreement, the City would retain animal control/enforcement services including responding to strays and injured animals. Similarly, plans are underway later this summer to formalize the functional consolidation of the City/County Office of Emergency Services operations by Ordinance and to create a Joint Powers Authority to formalize the working relationship between the agencies.

It is also noteworthy that the City has successfully completed the consolidation of several departments in the past year that have resulted in cost-savings and increased efficiencies, including:

- Code Enforcement and Community Development Departments
- Human Resources and Labor Relations Departments
- Parks and Recreation, Neighborhood Services and Office of Youth Development Departments

## **Restructuring Process**

In early 2010, the City utilized the services of Management Partners to conduct a citywide macro-level financial and organizational review. The review identified potential City functions that could be reorganized to achieve department configurations that reduce costs and improve the alignment of functions with related missions.

The City is now embarking on a focused realignment initiative consisting of labor, budget and restructuring strategies. This is a priority project for the City and will result in recommendations that can be implemented by the beginning of the FY2012/13 budget year. Council guidance will be sought on several broad policy issues to position the City to rebuild thoughtfully as expenditures realign with revenues.

The City has identified five focus areas requiring a thorough examination, with the intended outcome being significant cost savings and/or efficiencies in each of the areas. Management Partners will work closely with the City Manager's Office and a team of department directors to identify cost-savings estimates, conduct analysis, develop recommendations, and an actionable implementation plan no later than February 2012. Management Partners will provide overall project management and guide the methodologies used for the project.

### *Objectives*

The City's current organizational structure and service delivery profile was developed in an era where resources were more plentiful. Due to the current economic environment the assumptions underpinning current service delivery arrangements are no longer valid and the organization must be restructured to fit available resources. In order to accomplish this, the City has embarked on a focused realignment initiative consisting of labor, budget and restructuring strategies.

This project, which is the latter of the main three strategies identified above, has as its objective the evaluation of consolidation potential, broadening of the span of control and other organizational efficiencies designed to reduce costs.

### *Products and Process*

While each focus area project is different, the overall project is designed to achieve several equivalent products which are:

1. The development of an estimate for cost savings in each focus area
2. The identification and subsequent implementation of action to generate significant cost savings and/or efficiencies
3. An evaluation of span of control broadening opportunities aimed at achieving cost savings
4. Identification of service delivery changes aimed at achieving cost savings
5. Assessment of organizational structure changes which would streamline operations and/or improve performance
6. As appropriate an examination of potential redundancies and overlaps where consolidation could generate efficiencies
7. Development of a methodology that may be replicated for future improvement efforts

For each project area a designated project team will be developed and tasked with the analysis project. Each of the focus areas will have an initial work-plan which will identify the types of analysis to be conducted and the cost savings estimates and revenue additions). Work plans will be developed by the designated project team with assistance from the project consultant, Management Partners, Inc. In addition to a work plan, the project will include the following elements developed to complete the analysis necessary, while involving stakeholders as appropriate:

1. The goals of the analysis, drawing upon the expected products defined above
2. A communications plan for sharing information on potential strategies with stakeholders
3. A benchmarking and best practices analysis plan as appropriate for the assignment
4. Process mapping as needed in order to understand ability to streamline existing procedures as well as to identify redundancies and overlaps
5. An estimate of net cost savings from each improvement recommendation as well as an estimate of one time implementation costs
6. Provision for an implementation action plan to include implementation schedule milestones and deliverables
7. A schedule for both monthly progress reports and for completion of the analysis by February 2012

### *The Five Focus Areas*

1. Department of Utilities and Department of Transportation. This focus area will identify overlaps and opportunities for cost reductions and possible consolidation of various functions in the Departments of Utilities and Transportation. Specific areas of study include:
  - Capital project/engineering functions
  - Field maintenance service functions
  - Paving and street maintenance related functions
  - Business support functions

The evaluation of these functions will seek opportunities to optimize span of control, evaluate in-source and out-source models, establish economies of scale, and

maximize resources. The review may include the review of capital project and maintenance functions within two other departments: Parks and Recreation and the General Services Department.

2. Public Safety. The City's Police and Fire Departments are primarily responsible for the protection of life and property for the citizens of Sacramento. The departments each have specific challenges unique to their specific missions, but share certain common processes and functions.

This focus area will evaluate opportunities for future cost savings and/or improving efficiencies in two of these common areas:

- Reduction of fleet related inefficiencies and expenses
- Consolidation of administrative processes

These target areas will be analyzed to determine best practices and identify potential revenue saving reductions.

3. Citywide Contracting and Purchasing. Policies and practices pertaining to contracting and purchasing will be examined to determine opportunities for increasing cost savings by making changes in how business is conducted. Areas of study include:

- Identifying purchasing and contracting strategies that will achieve sustainable cost savings/avoidance, increase compliance and leverage resources
- Evaluating best practices and recommendations outlined in recent purchasing and contracting audits for implementation
- Developing strategies and work plans for reengineering/restructuring purchasing and contracting citywide
- Implementing a citywide purchasing and contracting model consistent with available resources, with quantifiable efficiencies and savings

4. Parks and Recreation Department and the Convention, Culture and Leisure Department. Parks and Recreation and the Convention, Culture and Leisure Departments administer programs that require strong coordination involving facilities, non-profit organizations, and volunteers. The departments also manage maintenance activities for City parks and City golf. Opportunities for cost savings and/or efficiencies collaboratively identified by the departments include:

- Reducing park maintenance and golf operations costs
- Creating strong community center partners
- Identifying revenue opportunities for city facilities (community centers and parks)
- Implementing cost recovery for park planning services for proposed developments

Strategies to identify cost savings and/or efficiencies will include analyzing current operational processes and identifying best practices.

5. City Clerk's Office and Mayor/Council Administrative Functions. This focus area will identify opportunities for cost reductions and possible consolidation of various administrative functions of the City Clerk's Office and the Mayor/Council Offices including:
- Public records requests
  - Payroll/human resource/fiscal functions
  - Staff coordination

The evaluation of these functions will include a review of best practices and evaluation of peer agencies.

#### *Limits and Exclusions*

As with any project of this type, there is great potential for a variety of "scope creep" to impede timely delivery of the specified objectives. For this reason, as issues arise which may be outside the specific scope of this project the Project Lead will have responsibility for monitoring and determining if such issues are outside the focus and objective of this effort and / or would hinder timely delivery of the recommendations and action implementation plans. Issues which are not germane or which would impede scheduled performance will be placed in an "issue parking lot" and considered at a future date or in conjunction with implementation analysis.

# Budget Strategies & Restructuring Workshop



## AGENDA

- \* The Challenge
- \* Strategies
- \* Restructuring Process
- \* Focus Areas
- \* Q&A

# Current Challenge

- \$26 million structural deficit over the next five years.
- Gap will persist unless corrective actions are taken

# Strategies

	Budget ↔	Labor ↔	Restructuring
<b>Goals</b>	<i>Address \$26 million structural imbalance</i>	<i>Align labor costs with budget strategy</i>	<i>Reduce organization to fit resources and prioritize for future “rebuild”</i>
<b>Strategies</b>	10% economic uncertainty reserve	Employee paid retirement contributions	Review span of control metrics
	One-time funds/additional reductions pay for restructuring	Two-tiered retirement formula	Re-engineer processes
	Quarterly progress reports on implementation	Retiree medical/health care costs	Service delivery models

# Restructuring Process

- Seeking cost savings and efficiencies via:
  - Evaluating consolidation potential
  - Broadening span of control
  - Service delivery changes
- Complete analysis and implementation plan by February 2012
- Develop methodology to replicate for future improvement efforts

# Focus Areas

- Utilities and Transportation Departments
- Public Safety
- Citywide Contracting and Purchasing
- Parks & Recreation and Convention, Culture & Leisure Departments
- City Clerk's Office and Mayor/Council Administrative Functions

# Utilities & Transportation

- Capital project/engineering functions
- Field maintenance service functions
- Paving and street maintenance functions
- Business support functions

# Public Safety

- Reduction of fleet related inefficiencies and expenses
- Consolidation of administrative processes

# Citywide Contracting & Purchasing

- Reengineering purchasing strategies
- Develop a citywide purchasing and contracting model
  - Implementing best practices/audit recommendations
  - Increasing compliance
  - Leveraging resources

# Parks & Recreation / CC&L

- Reduce park maintenance and golf operations costs
- Create strong community center partners
- Identify revenue opportunities for city facilities
- Implement cost recovery for park planning services

# City Clerk / Mayor & Council

- Public records requests
- Payroll/human resources/fiscal functions
- Staff coordination



# Questions?