City of Sacramento

Citywide Innovation and Efficiency Assessment, Potential Strategies

March 2020

Management Partners

Management Partners

March 3, 2020

Mr. Jorge Oseguera
City Auditor
City of Sacramento
915 I Street, 2nd Floor, Room 219
Sacramento, CA 95814

Dear Mr. Oseguera:

Management Partners is pleased to transmit this innovation and efficiency assessment on behalf of our firm and Faegre Baker Daniels Consulting. This assessment was designed with two primary objectives:

1. Provide an independent assessment of the City's current and projected near- and medium-term fiscal condition; and
2. Identify 10 to 20 opportunities to gain efficiency/cost savings and generate additional revenue, without displacing existing public employees.

In addition to preparing a fiscal model and financial forecast, the consulting team conducted this assessment through an extensive, but high level, review of documents and data, numerous individual interviews, outreach to City departments through focus groups, and research about best practices in six other large cities in California, Colorado, Arizona and Minnesota.

This report identifies 26 strategies, including six that were first presented in our *Citywide Financial and Operational Review (2010)* and *Fire Innovation and Efficiency Study (2012)*. These combined strategies could increase ongoing revenues, or cost savings, ranging from $69.3 million to $79.3 million, and one-time revenues, or cost savings, ranging from approximately $20.3 million to $22.9 million.

Along with the efficiency and innovation strategies, this report includes 39 recommendations for improving City operations in connection with strategy implementation.

Thank you for the opportunity to assist you and the City of Sacramento.

Sincerely,

Jerry Newfarmer
President and CEO

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Executive Summary

In January 2019 the City contracted with Management Partners and a sub-contractor to Management Partners, Faegre Baker Daniels Consulting, to complete a Citywide Innovation and Efficiency Assessment.

The two primary objectives of this work were to:

1. Provide an independent assessment of the City's current and projected near- and medium-term fiscal condition; and
2. Identify 10 to 20 opportunities to gain efficiency/cost savings and generate additional revenue, without displacing existing public employees.

To accomplish this work, Management Partners delved into all facets of the City of Sacramento's management and operations. We conducted extensive interviews with City leaders, the executive team and City employees. We also facilitated numerous employee focus groups. We reviewed pertinent documents that shape City operations and management, including master plans, budgets, performance metrics, resident surveys and workload information and related data. We conducted benchmarking of other similar cities, evaluated Sacramento service levels and compared Sacramento operations to industry best practices where available. Overall, we worked to assess the efficiency of staff deployment, work processes and organizational structure.

While a report such as this can be read as being critical, because its very nature involves probing existing operations for potential improvements, that is not our intent. In fact, Sacramento should be proud of the services it offers residents. Few, if any, large urban cities in California can boast of the range of services delivered by the City of Sacramento. The City was also quite literally devastated by the Great Recession in 2008-2011, when it lost nearly a third of its full-time staffing and implemented many service-delivery changes in order to survive. This was a traumatic experience and Sacramento has been understandably focused on rebuilding over the last several years.

Therein lay the challenges going forward. Our detailed analysis shows that the City's fiscal position is tenuous, even with the approval of the Measure U sales tax in November 2018.

In the foreseeable future the City will not be able to afford staffing levels such as those it had in 2008. And while there are some revenue options available to the City, it has already passed one of the most effective revenue measures with the sales tax initiative. Given the growth in service demand since 2008, and the fact that "doing more with less" is not a sustainable manner of operations, the City simply has no choice but to either embrace alternative service delivery approaches or reduce services.

Given the City's objective of not displacing existing employees, transitioning service delivery will be challenging but not impossible. Existing employees can be retrained and transferred to fill vacancies, and other strategies are possible as well. In addition, transitioning services can be phased in as employees resign or retire on a voluntary basis.

As dictated by the objectives of the City, this report is organized into two major sections. The first is a discussion of the detailed fiscal model we have developed for Sacramento. This can also be thought of as a statement of the problem the City faces. The second major section is a discussion of various efficiency and innovation strategies the City may choose to deploy in order to address the fiscal challenges; in other words, a menu of possible solutions.

Below is a brief summary of each section of the report. The summary of efficiency and innovation strategies includes a description of several items initially considered by Management Partners, and discussed with City Management, but ultimately not recommended for implementation.

The Fiscal Model

The fiscal model shows Sacramento's likely fiscal condition over a 10- and 20-year forecast period. We focus on the 10-year forecast because it is, due to the nature of forecasting, the most accurate, and it is within the next 10 years that the City will face its most serious fiscal challenges. By 2030, the pension cost issue currently pushing so much of the City expenditure side of the equation will have begun to abate, and employer rates are projected to diminish (assuming no further retirement enhancements are provided).

The model is structured to be rigorous and realistic. It is rigorous in the sense that it tracks a large number of variables and draws deeply from City source documents such as actuarial projections, payroll data and spending history in order to be as accurate as possible. It has been

updated to reflect the labor MOUs approved by the City Council in December 2019, the 6/30/19 CAFR and the midyear budget review. The model's architecture derives from bankruptcies in Stockton and San Bernardino, where the cities were forced to develop a forecast that could not only pass muster with a Federal Bankruptcy Court, but also withstand attack from extremely well-funded and motivated bond insurance firms and Wall Street financial institutions. The model is realistic in the sense that the assumptions used are designed to reflect "real world" circumstances. For example, recessionary events are modeled based on actual observed impacts on California cities over the last 50 years. The workforce and payroll assumptions are modeled in a dynamic way with step raises, vacancy and employee turnover savings, and overtime based on historical trends. Another major difference from many other forecasting approaches is the fact that gradual increases in employee compensation are included, because it is unrealistic to assume no increases will be granted in the presence of general price level increases and collective bargaining agreements.

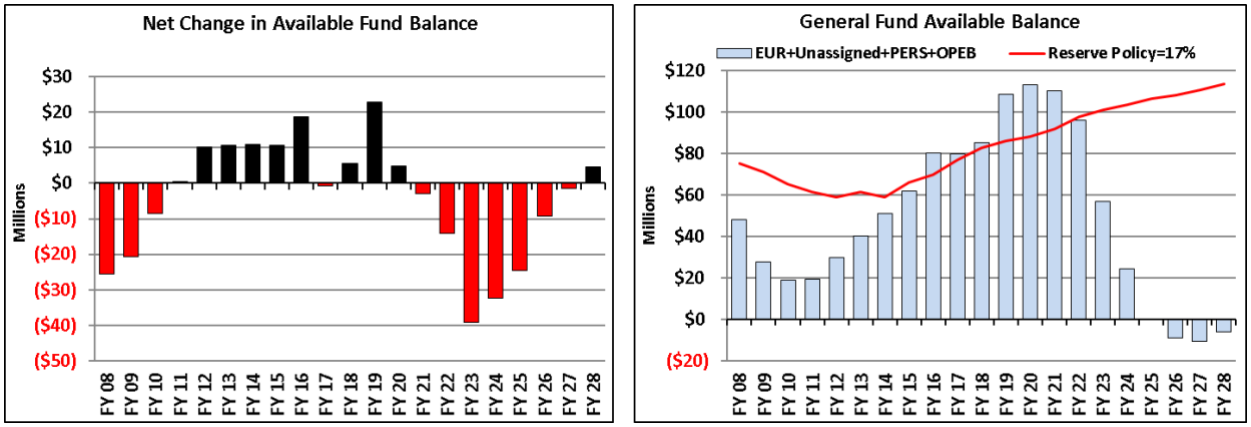
There are a number of uncertainties and unknowns which impact model outcomes. These include the magnitude of an unavoidable future recession, construction and development levels, sales and property tax growth levels, salary cost-of-living adjustments (COLAs), the degree to which deferred infrastructure maintenance is addressed and the California Public Employees' Retirement System (CalPERS) pension discount rate. These are all risks the City faces in common with other California local governments. Sacramento also has some unique uncertainties. These include the degree to which Measure U funds are used for existing programs or new initiatives, the potential loss of the enterprise tax, and the fate of the Children's Fund Initiative on the March 2020 ballot.

What we call the base case or most likely scenario would involve a moderate economy along with moderate spending levels. This scenario assumes that $25 million in annual Measure U funding is "set aside" for funding new projects and programs. With this set of economic and spending assumptions, there is an average annual shortfall in the General Fund of approximately $13 million per year in Fiscal Years 2019-20 through 2027-28. This would result in the available General Fund balance being exhausted in FY 2024-25.

A very important and positive point about Sacramento's fiscal position is that it currently has strong reserves. As of June 30, 2019, the General Fund had $55.2 million in its Economic Uncertainty Reserve, $20.1 million in reserves for pension and other post-employment benefits (OPEB), and

$32.9 million in unassigned balance. These are in addition to $102 million in fund balance committed to capital projects and other programs. These reserves provide the City with time to make changes to increase revenues or decrease expenditures.Graphically the baseline forecasts are shown in Figure 1 below which shows both the annual shortfall and the cumulative General Fund balance. Figures have been updated through January 2020.

Figure 1. Annual Deficit and Cumulative General Fund Available Balance in Millions from FY 2007-08 to FY 2027-28



Obviously, results will be worse if the City funds maintenance projects it is currently deferring, the Enterprise Tax is lost, or if the Children's Fund Initiative (Measure G) is approved by the voters on March 3. These outcomes are discussed further below. To the extent that a higher vacancy rate is experienced, expenditures will be lower and this will result in lower shortfalls.

In summary, the purpose of the financial forecast in this report is to provide context and illustrate the need for pursuing strategies that will increase revenue and/or lower expenditures. For instance, Table 8 indicates a potential range of $13-90 million in average annual shortfalls, depending on the outcome of the issues discussed above. In contrast, the strategies listed in Table 1 below identify opportunities to increase ongoing revenues or reduce expenditures by $69-79 million.

Revenue Generating and Cost Saving Strategies

The narrative below provides a summary of the strategies developed as potential options for the City of Sacramento in dealing with the deficit situation discussed above. A full description of each strategy can be found later in this report.

As discussed previously, these strategies were developed from an intensive review of Sacramento operations and budget materials. Management Partners has estimated economic impacts based on the information available, but each strategy will require more study and analysis before implementation. In addition, many of the strategies may require collective bargaining. However, the strategies presented in this report are used in other local governments in California.

Probably the biggest challenge or paradigm shift the City of Sacramento faces is to become open to alternative service delivery approaches, and specifically to be open to delivering services with fewer public employees. Historically, Sacramento and many cities in California have delivered services by employing workers and having those workers perform the services. Unfortunately, and mainly because of pension cost increases, which neither employees nor the City have much control over, public employees have become much more expensive than was the case prior to the Great Recession. Therefore, going forward, the City will have no choice but to raise revenue, employ fewer public employees or deliver service differently, at least over the next 10 to 12 years. While the objective of avoiding displacement of existing employees will be a challenge as noted above, it is not inconsistent with reducing the number of employees over time, because a variety of strategies can be employed to avoid displacement and use voluntary attrition to reshape the organization.

Table 1 summarizes the potential benefits in ongoing and/or one-time cost savings and revenue enhancements associated with implementing the "efficiency" (E), "innovation" (I) and "previous recommendation" (PR) strategies presented in this report. The strategies are further grouped by their level of achievability.

We use the term achievability as a gauge for whether a particular strategy is possible and the extent to which it will yield the estimated results. For example, a high degree of achievability means that the available data, and/or experiences from other cities, suggests that a strategy can be implemented and is likely to result in significant savings. In contrast, a low degree of achievability means that there was less available data or that other unknown factors may influence whether a strategy will result in substantial or predictable savings. However, achievability does not imply the ease or likelihood of implementation. As noted previously, each of the strategies in this report present a level of difficulty and many may be unpopular.

As shown in the first row of Table 1, the City can realize between $69.3 million and $79.3 million in annual revenue or cost savings, and between $20.3 million and $22.9 million in one-time revenue or cost savings. In some cases, the City will need to seek voter approval for revenue increases. Additionally, a number of the cost saving initiatives may require bargaining with employee unions. Neither is easy or fast to accomplish.

These strategies represent opportunities to enhance organizational effectiveness, generate cost savings/revenues or advance broader community/societal goals. Specific monetary benefits or potential added costs are not included for some of the strategies because such analysis was beyond the scope of work; or they represent best practices for which quantifiable savings cannot be estimated; or additional data and analysis would be necessary to quantify them.

Though efforts can be made to minimize the impacts on City employees, the significant changes that are necessary to create financial sustainability in Sacramento will, inevitably, affect employees. While we examined the strategies to estimate how many employees could be affected it became apparent that such an estimation would be too speculative because the strategies can be implemented in various ways and combinations.

Like most cities, Sacramento will also need to consider how to implement strategic changes in the context of its labor agreements and negotiations. As a result, some of the strategies may require more lead time and may require consideration in the negotiation process.

Table 1. Ongoing and One-time Benefits Associated with Implementing Recommended Strategies

	Strategy	Range of Annual Benefits	Range of One-time Benefits	Savings in Which Fund?	Achievability
	Total potential benefits resulting from implementing the recommended strategies:	***From $69.3 million to $79.3 million in revenue or cost savings upon full implementation***	***From $20.3 million to $22.9 million in revenue or cost savings***		
EFFICIENCY STRATEGIES					
E1	Modernize Business Operations Tax	Up to $9.3 million in tax revenue		General Fund	High
E2	Civilianize Administrative Positions in Police and Fire	$287,000 in cost savings		General Fund	High
E3	Reduce overtime	Between $3.1 and $3.3 million in cost savings for police/fire alone		General Fund	High
E4	Change staffing on ambulances to one firefighter/paramedic and one firefighter	$500,000 in cost savings		General Fund	High
E5	Conduct a Utility Billing Audit	$2.2 million in fee revenue		Utility funds	High
E6	Implement an Energy Savings Performance Contract (ESPC)	$1.8 million in energy cost savings		General Fund, other funds	High
E7	Implement a Business Operations Tax Amnesty Program and explore additional compliance opportunities	Modest upward adjustment in base revenue	Between $650,000 and $1.3 million in revenue	General Fund	High
E8	Update Pavement Cut fees	$1.7 million to $2.4 million in revenue, plus $530,000 in project management savings		Other funds	High
E9	Reduce the number of take-home vehicles	$904,800 in cost savings		General Fund, other funds	Moderate
E10	Automate Human Resources processes	At least $179,000 in cost savings		General Fund	Moderate
E11	Explore opportunities to implement managed competition	$3.0 million to $8.2 million in cost savings[1]		General Fund, other funds	Moderate

	Strategy	Range of Annual Benefits	Range of One-time Benefits	Savings in Which Fund?	Achievability
E12	Continue to innovate parking services	Between $875,000 and $1 million in revenue		Other funds	Moderate
E13	Use Design-Build to expedite the completion of Capital Improvement Projects	$6.8 million in capital cost savings $741,000 in General Fund cost savings		General Fund, CIP	Moderate
E14	Evaluate the feasibility of Public Employee Gainsharing	Up to $5 million after implementation		General Fund, other funds	Moderate
E15	Restructure Solid Waste Service Delivery Through Contracting, Managed Competition or Gainsharing[1]	Between $1.9 million and $3.2 million in fee revenue	Between $19.6 million and $21.6 million in revenue	Solid Waste Fund, General Fund	Low/Moderate
INNOVATION STRATEGIES					
I1	Improve Fleet Procurement	Better fleet utilization will produce overall savings		General Fund, other funds	High
I2	Establish a Capital Asset Management System	Adequate planning will reduce risk of failure, enhance public health/safety and optimize cost		Other funds	High
I3	Expand the use of Green Infrastructure	Broad environmental, social and economic benefits for city and property owners		Other funds	Moderate

	Strategy	Range of Annual Benefits	Range of One-time Benefits	Savings in Which Fund?	Achievability
I4	Analyze the cost-benefit of the Community Workforce Training Program (CWTP)	Costs and benefits must be quantified to determine optimal community benefit		CIP	Moderate
I5	Monetize Sewer and Stormwater Assets for Fiber Optic Deployment	Can be pursued on a pilot basis through intergovernmental partnerships		Utility funds	Low/Moderate
PREVIOUS RECOMMENDATIONS					
PR1	Closely Monitor and Manage City Hiring, Eliminate Vacant Positions and Give Departments Greater Flexibility on Staffing	Addresses the current growth rate of full-time equivalent (FTE) positions, which is fiscally unsustainable. Eliminating 50% of currently vacant positions saves $20.8 million per year		General Fund, other funds	High
PR2	Calculate Fair Labor Standards Act Overtime in a manner consistent with federal law	$1.1 million in savings		General Fund	Moderate/High
PR3	Eliminate General Fund subsidies for all non-essential services	$2.6 million in savings		General Fund	Moderate
PR4	Establish a Paramedic/Ambulance Subscription Program	$1 million to $1.5 million in fee revenue		General Fund	Moderate
PR5	Pursue legislation to collect franchise fees from the Sacramento Municipal Utility District	$5 million to $7 million in fee revenue		General Fund	Low
PR6	Amend Charter to remove binding arbitration for police and fire	Potential significant salary/benefit savings and increased collective bargaining leverage		General Fund	Low

[1] The range of cost savings excludes potential savings from managed competition in solid waste, as shown in Table 16, to avoid double-counting, because strategy E15 assumes that solid waste would be contracted out.

Deciding which strategies to pursue and then implementing the selected strategies will be a major undertaking for the City. It will almost certainly require one-time costs and consultant services. In addition, implementation has to take place in the 2020 – 2022 period when the City will still have reserves to fall back on.

Vetting by City Management and Strategies Initially Considered but Not Included

The consultant team had the advantage of "fresh eyes" which allowed us to examine Sacramento broadly and, as a result, resulted in identifying numerous efficiency and innovation strategies. However, we learned after exploring some of these strategies further that some would not be workable and some had already been implemented by the City. The consulting team provided an initial draft report to the City in September 2019, and an extensive dialogue took place at that time and with respect to a second draft submitted in November 2019. This dialogue resulted in a number of refinements for accuracy and completeness. For instance, examples of strategies that had been considered but had already been implemented in full or in part are outlined below.

- Conducting dependent healthcare audits;
- Conducting cell phone/information technology equipment audits;
- Pursuing naming rights and sponsorships at community facilities;
- Contracting for supplemental staffing capacity in Development Services;
- Expanding animal care partnerships; and
- Eliminating retiree health care benefits for newly hired firefighters to align the group's benefits with other bargaining groups[1].

In addition, several other strategies were included in the first draft of the report but later excluded from the final report. These strategies, and the rationale for eliminating them, are discussed in the following sections.

Better Monetize City Property and Facilities

We reviewed and analyzed opportunities to monetize the City's surplus property and facilities. However, we also learned that the City Auditor's Office was in the process of completing a review of City-owned and

1 This change was implemented on December 10, 2019 with the City Council's approval of the Memorandum of Understanding with the Sacramento Area Firefighters, Local 522.

leased properties. We agreed with the City Auditor's Office that this is an important area to improve efficiency and general cost savings. But since an analysis of this issue was already underway, we concluded it would be duplicative to include an analysis in this report. However, we encourage the City to conduct periodic updates to its analysis to ensure that assets are not contributing to the City's deferred maintenance backlog.

Increase the Transient Occupancy Tax

In our 2010 report (Citywide Financial and Operational Review), we noted that the Transient Occupancy Tax (TOT) represented an opportunity to raise additional General Fund revenue (among other revenue raising options). We noted that the City had been dedicating most of this revenue source (83%) to support the Sacramento Convention Center. By submitting a local ballot measure and dedicating a higher percentage of revenue to the General Fund, the City could have realized significant revenue gains. (Local ballot measures to increase the TOT have a high likelihood of success, given that the tax is paid by visitors and the threshold for approval is a simple majority vote (50% plus 1) if the revenue is used for general purposes.

We revisited this strategy for the current report but ultimately decided not to recommend it for further consideration. Given the City's continued commitment to support the Convention Center and tourism, including recent decisions to pledge TOT revenues to repay debt, diverting existing TOT revenues is not feasible.

Monetize the City's Off-Street Parking

Monetizing off-street parking is a common strategy used by cities as they explore ways to improve financial conditions. So, while we examined this issue in Sacramento, we also had numerous discussions with City staff about past efforts to innovate and improve efficiency. City leaders believe that operational innovations and better parking management will produce better overall results in the long-term without impacting existing staff.

For example, the City initially contemplated monetizing the parking system in 2011. The City engaged Walker Parking Consultants and Bank of America/Merrill Lynch to estimate the value of the City's off-street parking assets. The studies valued the assets at between $89 million and $128 million. At the time, City leaders made the decision to modernize the parking operation rather than pursuing a monetization strategy.

Our preliminary analysis indicated that the City could realize at least $150 million in one-revenue if it pursued an off-street parking monetization strategy, though a portion of this would be used to liquidate existing debt. The particulars of the existing debt and the uncertainty of the value of potential lease agreements ultimately led us to table this strategy for purposes of this report. However, given the success of parking monetization in other communities, we believe this is a strategy the City may want to reconsider in the future.

A complete list of recommendations is provided as Attachment A.

Project Approach

The consulting team (Management Partners and Faegre Baker Daniels Consulting) conducted this innovation and efficiency assessment for the City of Sacramento through a variety of methods. These included an extensive review of documents and data, outreach to City departments through focus groups, interviews with key elected and organization leaders, best practices research with other large cities, development of a fiscal model tailored to Sacramento, preparation of a long-term financial forecast, and development of innovation and efficiency strategies that would improve the organization's effectiveness, increase revenue and save money. These methods are summarized further below.

Review of Documents and Data

To inform our work, the consulting team gathered and reviewed volumes of documents and data, to the extent they were available. Of course, this included existing and historical budget data upon which the consulting team's financial model and long-term forecast are based. For example, the budget and financial analysis included a review of:

- Budget data by account code;
- Chart of accounts;
- Comprehensive Annual Financial Reports (CAFRs);
- Current City-prepared financial forecast;
- Tax revenue data, including property, sales and utility user taxes;
- Personnel costs, including detailed data such as salary step, job title, vacancies, CalPERS tier;
- CalPERS valuation reports;
- Other Post-Employment Benefits and retiree medical data;
- Memoranda of understanding (MOUs);
- Historical cost of living increases;
- Debt service; and
- Unmet capital needs.

Examples of other documents and data reviewed included:

- Overtime reports from each department;
- Software user/license fees;

- Copies of department strategic plans;
- Reports on office supply expenditures;
- Data regarding unoccupied City facilities;
- Unfunded capital improvement project backlog;
- Workers' compensation injury summary reports;
- Cost recovery data in various departments and programs;
- Fee schedule for special event billing;
- Data regarding the bail schedule and allocation; and
- Statistics regarding the City's fleet.

Interviews with Key Leaders

During March and April of 2019, the consulting team conducted 37 individual interviews with key elected and administrative officials in Sacramento. Table 2 below provides a listing of the positions interviewed.

Table 2. List of Individual Interviews

Mayor	Vice Mayor	City Councilmembers (7)
City Manager	Assistant City Managers (3)	Utilities Director
Business Services Manager (Utilities)	Wastewater Drainage Manager	Water Division Manager
Convention and Cultural Services Director	Finance Director	Fire Chief
Human Resources Director	Deputy Fire Chiefs (3)	Chief Information Officer
Deputy Police Chiefs (3)	Public Works Director	Recycling and Solid Waste Manager
Police Chief	Parking Services Manager	Facilities and Property Management Manager
Maintenance Services Manager	Youth, Parks and Community Enrichment Interim Director	Engineering and Water Resources Division Manager
Community Development Director		

Interview Themes

There were several key themes that emerged from our initial interviews with members of the leadership team, which are summarized below. These themes were helpful in understanding the organization and helped to inform our analysis and the recommended strategies.

Overtime Expenditures Are Not Well Controlled. Both Fire and Police departments' overtime utilization regularly exceed budget. Sacramento, like other communities across the country, struggles to recruit and retain police officers. A combination of low unemployment rates and heightened public scrutiny of law enforcement makes it more challenging to attract and retain police officers. As a result, police staff shared that vacant positions contribute to the increase in overtime. The Fire Department indicated that it lacks the tools to adequately monitor and track overtime use; and they noted that the Police Department has better data tools and more effective analytic tools to manage overtime. The interviews made clear that the City lacks a comprehensive system to manage employee overtime.

Sworn Personnel Are Performing Non-Sworn Duties. We learned in the interviews that 18 sworn positions in the Fire Department are performing non-sworn duties, such as providing public information. We observed similar issues in the Police Department. However, the Police Department has begun to create non-sworn positions to ensure sworn personnel can remain focused on regular police work.

Paper-Driven Personnel Processes Are Inefficient. During the interviews and focus group conversations, staff expressed frustration regarding the additional time the City's current paper-driven processes require. Staff noted the "old-fashioned" process is overwhelming and inefficient. Moreover, they said this makes it more difficult to track, monitor and analyze human resource data and trends.

Deferred Maintenance and Capital Improvement Needs Are Not Adequately Addressed. In interviews, each department shared lists of unmet capital improvement and deferred maintenance needs. In one example, staff noted that employees sometimes build parts to repair infrastructure because systems are outdated, and they cannot be serviced by private vendors. It was noted that deferred maintenance can result in higher costs in certain areas.

Approaches to Staffing Are Inflexible and Inconsistent. The City does not have a consistent strategy regarding the types of services that are delivered through contracts and contracted staff vs. in-house staff. For example, the Street Maintenance Division in Public Works utilizes

contracted services seemingly more broadly than does the Youth, Parks and Community Enrichment Department which tends to utilize more in-house staff and limited contracted services. This inconsistency may be due in part to differences in the historical growth pattern in each work unit or differences in workflow where new workload or non-routine projects, for which no staffing has been previously allocated, can be more easily contracted out without violating labor agreements.

Enhance Cost Recovery Efforts. Staff noted in interviews that there are some city fees that have not been updated to reflect the cost of services delivery such as the business operations tax. They are included in our recommendations below.

Outreach to City Departments

In addition to the individual interviews, the consulting team facilitated 12 separate focus groups with a cross-section of employees from the various departments on April 23 and 24, 2019. The focus groups included approximately 10 to 15 employees representing different functional areas within each department. Table 3 provides a listing of the focus groups conducted.

Table 3. List of Department Focus Groups

Public Works Department	Convention and Cultural Services Department
Information Technology Department	Utilities Department
Offices of the City Manager, City Attorney, City Clerk and City Treasurer	Fire Department
Community Development Department	Human Resources Department
Economic Development Department	Police Department
Youth, Parks and Community Enrichment Department	Finance Department

Focus Group Themes

In the focus group sessions, employees shared what they believe are the challenges and opportunities for improving their operations.

Recruitment Processes and Timeframes Need Improvement. As we also heard in the individual interviews, focus group participants were

frustrated about the length of time it takes to recruit and fill vacant positions. Much of the discussion focused on modernizing the recruitment process with better technology and reducing recruitment timeframes. Repeatedly, we heard that the City loses applicants to other employers because the process takes so long – and that this impacts organizational effectiveness.

Procurement Process Is Overly Complicated. Employees urged that the overall procurement process, including the number of steps involved, be improved. Although the City recently implemented a new software system, focus group participants noted that more training on the system be provided to improve efficiency.

Policies and Procedures Are Not Well Documented. Focus group participants said the organization needs a stronger commitment to documenting policies and operating procedures. We heard there is an over dependence on institutional knowledge, which is especially problematic in large, complex organizations. Employees said the City would benefit from better documentation of administrative practices and procedures.

Better Communication About Strategic Priorities and Administrative Practices Is Necessary. Employees expressed an interest in improved information sharing about organizational priorities, or when internal policies and practices change.

Improving How Information Technology Services Are Provided Is Necessary. In each of the focus groups, participants said that the level of service they receive from the Information Technology Department (IT) was reduced following the centralization of that function. Previously, employees responsible for IT duties were housed within each department. Focus group participants noted that following the organization change it became unclear who served each departments' IT needs. In addition, some participants said that it is now harder to plan for future technology needs.

Best Practices Research

To identify practices, innovations and efficiencies that have been successful in other large, complex cities, the consulting team identified a list of six peer cities. Key consulting team members conducted teleconferences with representatives from each city to explore best practices. The six cities were as follows:

1. Denver, Colorado
2. Long Beach, California

3. Minneapolis, Minnesota
4. Phoenix, Arizona
5. San Diego, California
6. San Jose, California

The best practices and key lessons from the outreach to other large cities informed our analysis. These issues are discussed in more detail in the Peer City Research section of this report.

Study Limitations

The assessment performed by Management Partners and Faegre Baker Daniels Consulting was a high-level review of major operations and business practices in Sacramento. The purpose of this work effort was to help the City identify and prioritize efficiencies that would increase revenue, reduce costs, or both. Additionally, the scope of this assessment included reviewing the organization for opportunities for innovation, including a review of best practices in other large cities.

While the consulting team had an opportunity to work with each department, this assessment was not a detailed organization review of each department and its various operations, structure, staffing or management systems. The strategies presented herein represent ideas for improvement, not a final implementation plan. More work will be required to vet and understand the ramifications of each strategy. Change within any organization is resisted and objections to the changes suggested here can be anticipated. Still, the status quo is not sustainable for Sacramento so serious consideration of revenue enhancement and expenditure control measures should be considered while the City still has time. The strategies presented here, despite their limitations, can be a useful starting point.

Further, the assessment was not an audit, and the consulting team's analysis was in some areas constrained either by a lack of detailed data available from the City or because a more exhaustive review was beyond the scope of work. More specifically, this report is consistent with Phase 1 of the City's request for proposals. The report focuses on identifying best practices, alternative service delivery options, operational changes to improve service or reduce cost, opportunities for new or increased revenue, expenditure shifts from the General Fund, and budget and cost implications. Implementation of these strategies would be part of a Phase 2 work effort, though that phase was not part of this contract.

This assessment was conducted and the report prepared between February and August of 2019. Additionally, as noted previously all strategies were discussed extensively with City management in fall 2019.

These discussions, and other updated information (such as the 2019 CAFR and FY 2019-20 Midyear Budget), resulted in refinements to the report where applicable.

Organization of Report

The remainder of this draft report is organized into various topical sections as follows:

- Peer City Research;
- Fiscal Context for Efficiency and Innovation Strategies;
- Efficiencies, Innovations and Previous Recommendations, and
- Conclusion.

Peer City Research

The consulting team identified six large cities which have evolved successfully through periods of significant organizational change or budget constraints. These cities are also recognized for innovative management or service delivery practices. Background information about these cities, along with the City of Sacramento, is provided in Table 4.

Table 4. Peer City Background Information

Peer Cities	Population Size[1]	State Capitol	Land Area (Square Miles)[1]	Number of FTEs	Total Budget FY 2019-20 (Billion)
Denver, Colorado	716,492	Yes	153	12,095	$2.45
Long Beach, California	467,354	No	50	5,645	$3.41
Minneapolis, Minnesota	425,403	No[2]	54	4,252	$1.70
Phoenix, Arizona	1,660,272	Yes	517	14,822	$4.55
Sacramento, California	508,529	Yes	98	4,774[3]	$1.20
San Diego, California	1,425,976	No	325	11,820	$4.30
San Jose, California	1,030,119	No	177	6,647	$4.66
PEER AVERAGE	954,269		213	9,214	$3.51

[1] *Source: US Census Bureau; 2018 data*
[2] *Minneapolis borders St. Paul, which is the state capitol.*
[3] *This represents the grand total of all staff positions for FY 2019-20, including all funds. The General Fund only staffing totals 3,599 FTEs.*

In each community, we spoke with staff responsible for finance, and budgeting. Our questions were focused in two areas including how the cities work to heighten efficiencies and control costs, and how the cities lead efforts that foster innovation.

Heightening Efficiency and Controlling Costs

Outsource Services. All of the cities discussed outsourcing services as a well-tested method to improve efficiency and reduce costs. Several reported outsourcing custodial services, security services and right-of-way landscaping services. Of course, Sacramento also outsources these

same services. San Jose also shared that the City released one of its infrastructure maintenance responsibilities when it legally transferred sidewalk repair to property owners, thereby reducing costs.

Reevaluate Service Levels. Each community implemented temporary and permanent strategies to reduce services, programs and expenses to rapidly adapt to the financial challenges triggered by the Great Recession. Short-term actions included closing public facilities (i.e., libraries, fire stations, etc.) as well as reducing hours of operation of others. Peer cities also implemented permanent efficiency measures. For instance, San Jose reduced costs by combining the General Services Department with the Public Works Department (which Sacramento has also implemented).

Control Personnel Costs. Most of the communities discussed methods used to control personnel costs. For example, San Diego implemented a five-year salary freeze. In addition, communities also pointed to their successes negotiating wage and pension (or pension contribution) reductions with employee groups.

Enhance Efficiency. A number of the communities discussed other efforts to heighten efficiency. The City of Long Beach noted that it continuously reviews functional areas to optimize efficiencies. An example is regularly reviewing public safety departments to ensure sworn staff perform sworn duties and segregating administrative tasks and assignments to non-sworn employees. Similarly, the City of San Jose Police Department expanded its staffing of community services officers to 40 FTEs to do as much as possible through civilian employees. Minneapolis has also begun the process for civilianizing areas of police and fire so that the sworn positions can be more focused on core public safety services.

Manage Department Budgets and Expenditures. The City of Phoenix's budget process, in particular, is a good source of best practices and its work in this area has helped to control expenditures and ensure accountability.

As in most cities, the Finance Department in Phoenix leads the budget process. What is unique, however, is the rigorous year-round budget analysis conducted by Finance staff and the resulting estimates they provide to the operating departments. These budget estimates form the basis of each department-prepared budget proposal. Moreover, budget process in Phoenix starts in October with a thorough review of the current year budget based on the first three months of revenue and expenditures. Projections are then refined for the remaining nine months in the existing budget year. This process is called the "3+9 Technical

Review." Starting the following year budget process with an intense focus on the current year has improved the overall accuracy of the budget.

The 3+9 Technical Reviews also allow the Finance Department to prepare highly accurate budget estimates for each department based on the early collaboration with the departments. These estimates also consider the independent analysis performed by the Finance Department, which includes regression analysis of prior expenditures, vacant positions, performance metrics and other variables. During this process, for example, the Finance Department evaluates each position that has been vacant for more than six months, and this can lead to positions being eliminated from the final budget estimate.

Departments then prepare their annual budget submittal based on the Finance Department's estimate, and the expectation in Phoenix is that departments will submit proposed budgets at or *below* the estimate. Further, departments whose submittals exceed the budget estimate (and this is not common unless there are service level increases) have a high bar to pass. To reinforce these practices, the performance evaluations and performance pay for department executives are, in part, based on how well they adhere to the Finance Department estimate for their department.

Leading Innovation

Employee-Identified Changes. We asked the peer cities about their efforts to foster innovation. Several communities described periodic programs to encourage employees to identify and recommend costs savings, efficiencies and innovative ideas. In Long Beach, the best ideas were recognized, and employees received a one-time payment, which was based on ten percent of the first-year savings. In subsequent years, the best employee ideas were published in City communications, though the City suspended the monetary award.

Organizational Transformation. We found two excellent examples of transformative programs aimed at improving government operations and lowering costs through employee-led innovation.

Denver – Peak Performance:
In 2011, Denver's Peak Performance program was established to "increase taxpayers' return on their investment in city government [by] empowering employees to improve processes through training, coaching and support." Denver reports that its efforts have improved efficiencies and reduced costs by working to "innovate every day." The Peak

Performance program uses some elements of the Six Sigma methodology for process improvement.

A key component of the initiative is the Peak Academy, a training/mentoring program that empowers employees to identify and implement process improvements. To date, more than 2,000 employees have received "black belt" training (a one-week course offered once per month) and more than 6,000 employees have participated in "green belt" training (a four-hour class held twice monthly). The City reports that over 2,500 innovations have been implemented with a total savings of $36 million consisting of $13 million in hard cost savings and $23 million in time savings (calculated at the average hourly rate of employees involved in each improvement process).

Participation in the Peak Academy is voluntary, though its popularity has grown so dramatically that it maintains a waitlist of interested departments and employees. One contributing factor to the program's popularity is the City of Denver guaranteed that no employee would lose their job. More important, the program has improved internal processes and transformed the organization culture in Denver.

Further, the City of Denver has also established an Innovation Fund (iFund) to support budget requests that are first vetted by an interdepartmental team of City leaders. Funding is recommended for projects that will measurably improve operations or service delivery, maintain data integrity and/or include technological advances. Improving customer experiences and eliminating backlogs/time delays are key considerations as well. Although many of the projects include implementing modern information technology solutions (e.g., replacing legacy systems, improving online portals), it is important to note that the Peak Performance program is not based on technology per se, but on changes in business practices that will result in improved outcomes.

Phoenix – Comprehensive Organizational Review Evaluation (CORE):
We found Phoenix's CORE program to be another successful model of innovation in local government services. CORE provides a system to conduct an in-depth analysis of City departments' operations. The City describes the program as way to examine:

- "Who we are;
- How we do business;
- What we could do better;
- What prevents us from accomplishing that; and
- How we measure success."

The premise of CORE is that the City must look beyond the status quo because it represents a way of working that will not be sufficient in the future. Unlike Denver's voluntary program, CORE required department heads complete a ten-page Assessment Tool and to engage their staff in the process.

Further, between 12 and 20 employees are appointed annually to the CORE Implementation Team from various departments. This team's role is to help the organization move forward with process improvements.

Recent examples of CORE successes include employee recommendations for eliminating paper warrants in the Finance Department, an updated travel policy and a new security badging system.

Since its inception, CORE has generated $135 million in savings.

Both Denver and Phoenix provide examples of public agencies that innovate through employee-led programs aimed at improving efficiency and reducing costs; but the by-product of these efforts is a transformation of the organization culture to focus on continuous improvement.

Innovation in Sacramento:
The City of Sacramento has implemented many important and innovative programs to create business and community partnerships, foster economic development and entrepreneurship, maximize the use of new technology, improve livability and encourage sustainability. Examples include:

- Rapid Acceleration, Innovation and Leadership in Sacramento (RAILS);
- Smart City Collaborative;
- Sacramento Entrepreneur Academy;
- Demonstration Partnerships Policy;
- Wireless network improvements;
- Sacramento Urban Technology Lab; and
- Green City Initiatives such as Sac-To-Zero.

The City of Sacramento also strives for innovation using its Innovation and Economic Development Program housed in the City Manager's Office. For example, the City established an Innovation Team that is led by Sacramento's Chief Innovation Officer (CIO). The CIO's role is to catalyze entrepreneurship and expansion of innovation sectors in the City. These efforts are focused on the unique mixture of government, technology, transportation, health and life sciences that converge in Sacramento and harnessing them in ways that promote inclusive economic opportunities.

Additionally, Sacramento's Innovation and Economic Development Program is committed to partnering with academic leaders to advance innovation and emerging technologies, and to bridge efforts of private enterprise with the work of lawmakers and policy leaders. Other critical goals in Sacramento include expanding innovation capacity in City Hall through training and leveraging partnerships, expanding experimentation and risk-taking, using data-driven decision making, and developing a culture of continuous improvement.

Innovation in the cities of Denver, Phoenix and Sacramento are built on common goals that reflect best practices in both the private and public sectors. However, the programs in Denver and Phoenix have been in place for a number of years. This has allowed the programs to mature and create inertia for change and innovation. One common denominator in Denver and Phoenix is having an overarching strategy that guides the overall program goals and the initiatives it undertakes. Based on our interviews, Sacramento has not yet developed a comprehensive innovation strategy. Such a strategy would provide a more structured approach to driving process improvement across departments, in addition to the current innovation priorities.

> **Recommendation 1. Create an innovation strategy to guide internal and external initiatives, drawing from the more developed similar programs in Denver and Phoenix.** The innovation strategy should include the City's Chief Information Officer in its collaborative efforts.

Fiscal Context for Efficiency and Innovation Strategies

Fiscal Context

The purpose of this section is to determine how large a structural shortfall the City faces in future years. We begin with a brief discussion of the current fiscal environment, followed by a review of the major assumptions that form the basis of a 10-year baseline forecast of the General Fund and Measure U. We test the sensitivity of key assumptions to confirm the validity of the baseline forecast, and then finish by discussing three additional areas of uncertainty in the forecast that would significantly increase the magnitude of the structural shortfall. At the close of this section the range of potential shortfalls is laid out – a necessary precusor to considering the revenue-raising and expenditure-reducing recommendations contained in this report – and how much of the potential shortfall the recommendations could resolve.

Fiscal Model Capabilities

Management Partners has prepared a long-range fiscal model for the City. The fiscal model is flexible and dynamic. It can generate a wide array of alternatives (many more than are described herein). It has a control panel of assumptions, an extensive dashboard of charts, and instant graphing of 360 categories of revenue and expense compared to past trends and budget. It provides both a 10-year and a 20-year look at the forecast. Variables can be changed to quickly generate alternate outcomes. General Fund FTE growth and budget adjustments can be adjusted in six functional areas: Admin/Support; Police; Fire; Development and Public Works; Culture, Parks, Recreation and Youth; and Non-departmental. The timing and magnitude of recessions can be adjusted, along with the funding of unmet deferred maintenance needs, changes to revenue sources, and allocation of Measure U funds. The model can show the impact of specific dollar budget reduction targets, or cutting FTEs through projected attrition, or adopting recommendations from this report. The model is not a substitute, however, for the City's detailed budget process that sets annual spending priorities.

Following "best practices," the City already engages in forecasting, but this model provides a comprehensive and impartial outside perspective on the City's financial condition and sustainability. Management Partners identified external and internal factors we believe are driving revenues and spending levels over the next 20 years for the General Fund and Measure U. The first 10 years are the most critical, and it is that period that is discussed in this report. By the early 2030s the City should begin receiving the benefit of lower annual pension costs as unfunded actuarial liabilities (UAL) are paid off. This should create fiscal capacity for the City in the years beyond, but the next 10 years will present significant challenges that must be weathered first.

The fiscal model creates a baseline forecast, given current service levels and known increases, before any corrective actions. Our goal is a realistic forecast, as illustrated by the choices shown in Table 5.

Table 5. Forecasting Methodology Promotes Realistic Alternatives

Less Realistic	More Realistic
Straight-line revenue projections	Projections reflect economic cycles as a stress test for City finances
Assume no wage increases	Build in reasonable wage increases to reflect cost pressures
Exclude impact of movement within wage scales	Include net impact of merit increases and savings from employee turnover
Budget optimistically for lower overtime	Rely on actual trends that reflect higher overtime use
Budget for gross personnel costs	Budget for anticipated vacancy savings
Hold staffing levels constant	Include some growth to respond to community and workload growth
Maintain current pension discount rate	Assume slow decline in pension discount rate over the next 20 years

After preparing the baseline forecast, alternative scenarios are generated using variations on the key baseline economic and spending assumptions, both to test the sensitivity of the fiscal model, and to get a sense of the potential risk of higher or lower structural shortfalls that will confront the City in coming years. Finally, the model can incorporate the results of budget strategies the City chooses to employ, including the recommendations contained in this report.

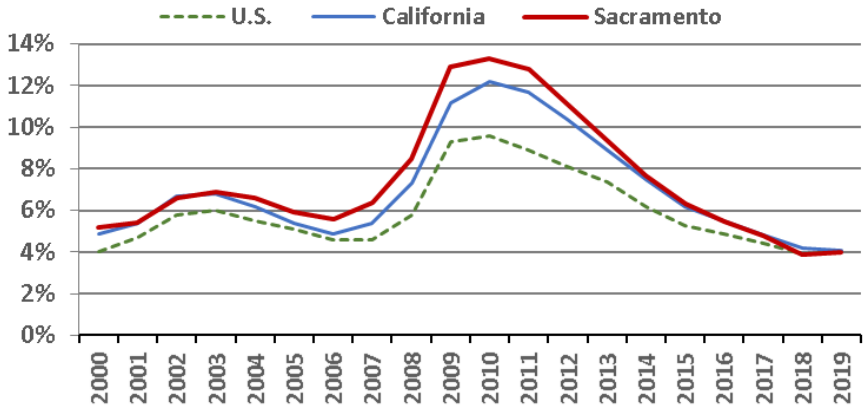
Current Fiscal Environment

Sacramento survived the Great Recession by doing what most cities did, cutting staff and eliminating cost of living increases. The City no longer

picks up a share of the employee pension contribution to CalPERS and has made greater use of contracting out in selected areas. The City performs the same basic services as it did 10 years ago, and in some cases services have expanded.

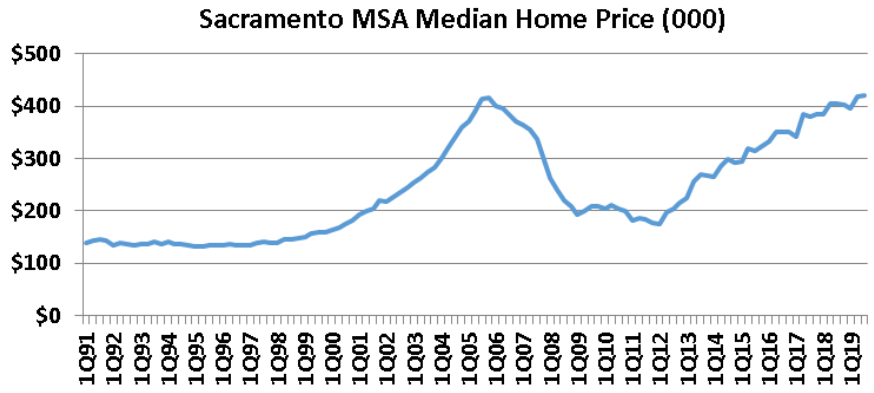
It took a long time for local agencies to recover from the Great Recession. Figure 2 shows the unemployment rate, which even in 2014 was still 8% in Sacramento and California as a whole, fully five years after the Great Recession officially ended in mid-2009.

Figure 2. Unemployment Rates, 2000 to 2019



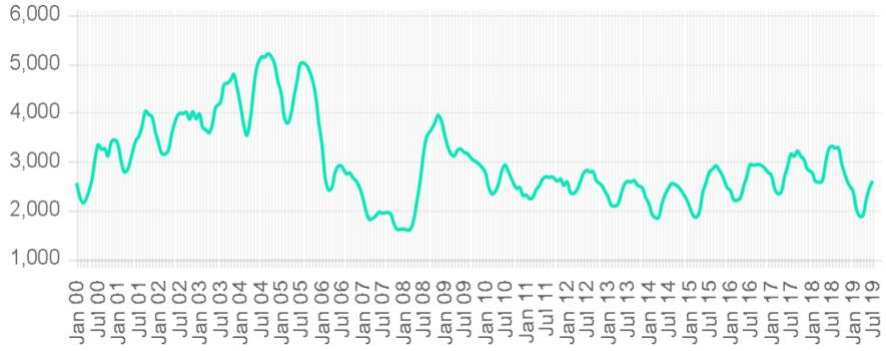
A major impact of the Great Recession was a dramatic decline in property values, following the equally dramatic rise in values that preceded it. Figure 3 shows the median home price in Sacramento from 1991 to the present. The median sales price peaked in 2006, then dropped to 2001-levels over three years, a drop of just over 50%. Prices remained stagnant for three more years until the beginning of an unsteady climb over the last seven years. Prices in 2019 have returned to the 2006 pre-recession peak.

Figure 3. Sacramento Metropolitan Statistical Area (MSA) Median Home Price in Thousands, 1991 to 2019



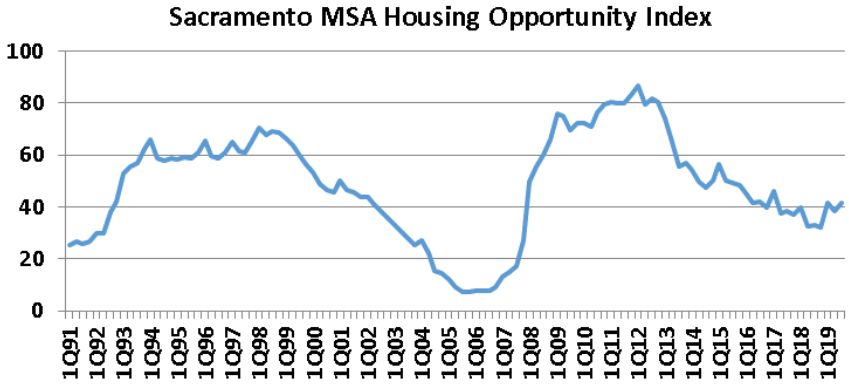
There are concerns about sustainability of prices at this level, reinforced by the slow-down of home sales over the past year (see data from Trulia.com in Figure 4).

Figure 4. Sacramento MSA Home Sales Volume, 2000 to 2019



There are also concerns about housing affordability at this level of sales price. Figure 5 shows the Housing Opportunity Index (HOI) from the National Association of Home Builders for the Sacramento MSA from 1991 to 2019. The HOI estimates the percentage of households that can afford a typical mortgage at the median home price in the metro area. The HOI is on a scale of 0 (no one can afford a typical home mortgage) to 100 (where everyone can afford it). The Sacramento HOI has steadily declined since hitting a high of 83 in 2012 (when home prices had plummeted), to 40 in 2019. Even at 40, Sacramento's HOI compares more favorably to San Francisco (7), San Jose (14), Oakland (21) and Vallejo (30), which is why there is a market for Sacramento homes for people commuting all the way into the Bay Area.

Figure 5. Sacramento Percentage of Households Able to Afford a Mortgage, 1991 to 2019



In coping with the recession, Sacramento, like many other cities, reduced its staffing levels. As shown in Figure 6, the City cut General Fund staffing by 1,205 FTEs. Over the past eight years, 850 positions have been

added. The passage of the original Measure U half-cent sales tax enabled 442 positions to be restored. The recently adopted FY 2019-20 budget approved an additional 145 FTEs, compared to the adopted FY 2018-19 budget.

Figure 6. General Fund Staffing, FY 2003-04 to FY 2019-20 Approved Budget

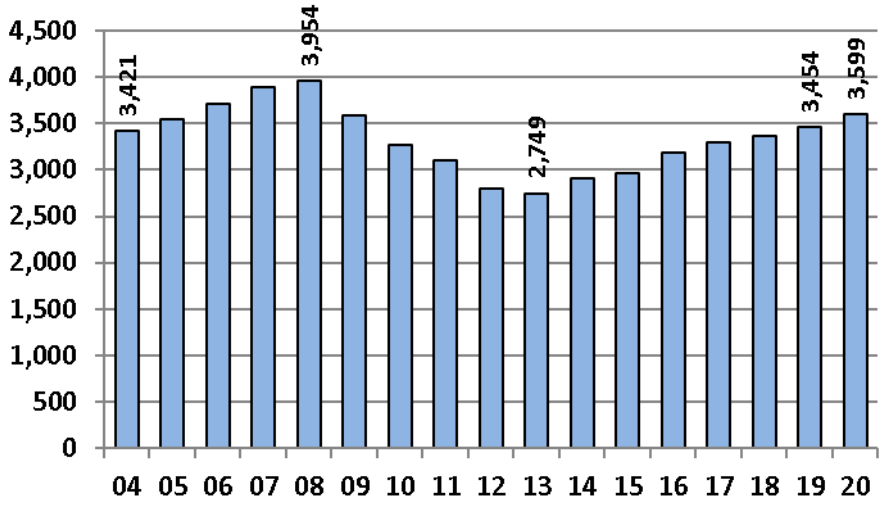


Figure 7 shows the total revenues and expenditures of the General Fund from the start of the Great Recession to the currently adopted budget and $12 million of capital spending. This chart shows the significant drop in revenues and consequent reduction in expenditures to match. Since 2014, expenditures have grown at a compound annual growth rate (CAGR) of 8.2%, while revenue growth has begun to taper off.

Figure 7. General Fund Revenues and Expenditures in Millions, FY 2007-08 to FY 2019-20

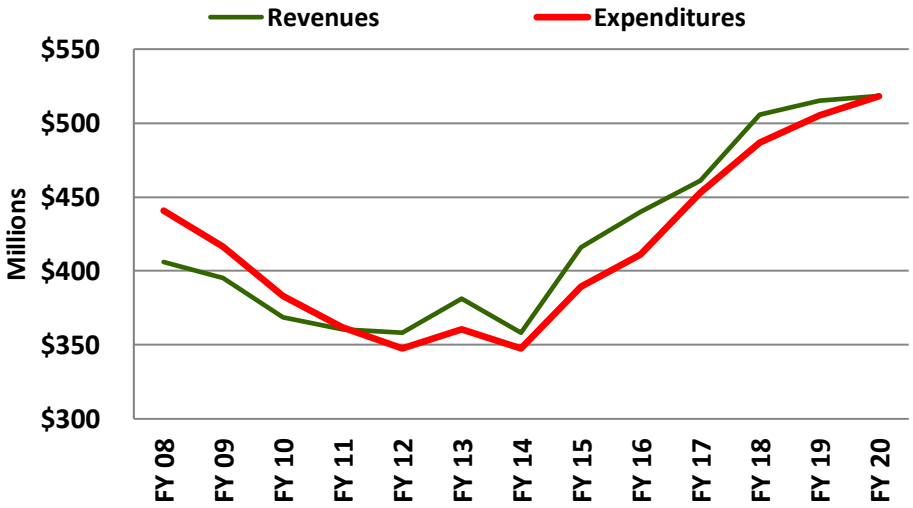
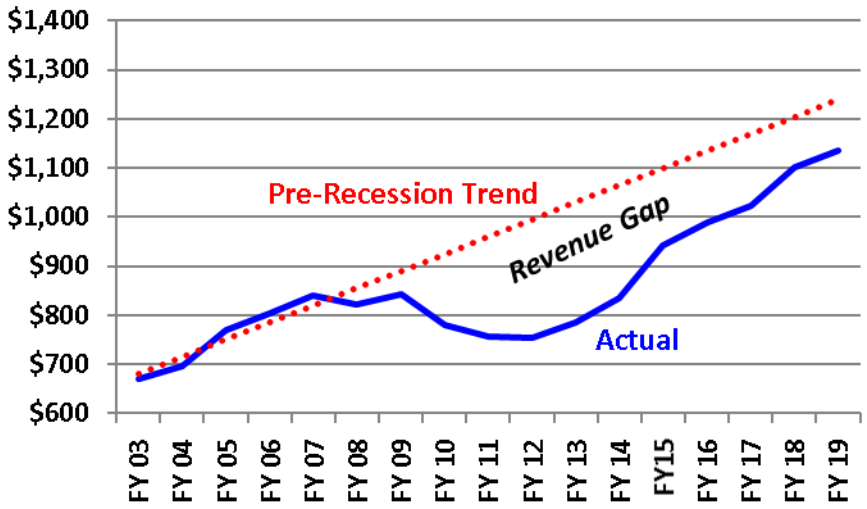


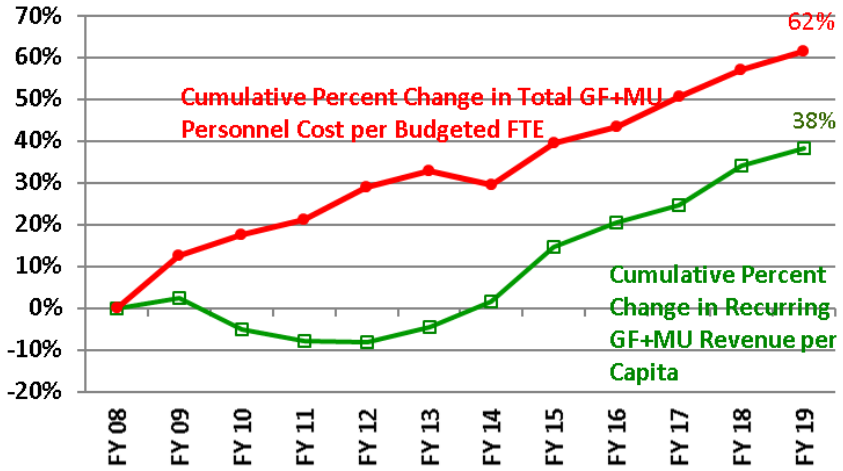
Figure 8 provides another way to view the "revenue gap" that has developed since the Great Recession. This chart shows the pre-recession growth trend in recurring General Fund revenues per capita, compared to the actual recurring General Fund and Measure U revenues per capita. A significant gap has begun to close with the passage of the two Measure U sales tax increases in 2012 and 2018. Most cities are still facing a sizeable gap which makes it difficult to restore services to historic levels, adjusted for population growth.

Figure 8. Pre-Recession versus Actual Recurring Revenues, General Fund Plus Measure U, from FY 2002-03 to FY 2018-19



However, another consideration is the rate at which expenditures are increasing. Figure 9 compares the 38% cumulative growth in recurring revenues per capita from 2008 to 2019, to the 62% cumulative rate of growth in personnel cost per budgeted FTE. Basically, the cost of an average position is growing at a rate faster than revenue adjusted for the size of the population being served.

Figure 9. Revenue vs. Personnel Cost Growth, FY 2007-08 to FY 2018-19



A major portion of personnel expenses is for retirement costs paid both to the City's legacy pension system and to CalPERS for the bulk of City retirement costs. These costs will double over the next 11 years as CalPERS increases rates to improve the funded status of the pension system, while incorporating a reduction in the discount rate of the system. Pension costs are discussed further below.

Baseline Forecast Assumptions

Management Partners has prepared a long-range forecast of the General Fund and Measure U, building upon historical revenues and expenditures and the recently adopted FY 2019-20 budget. Personnel costs are based on the City's position control report for all authorized positions (filled or vacant) under the FY 2019-20 adopted budget. Key assumptions in developing this forecast include the following:

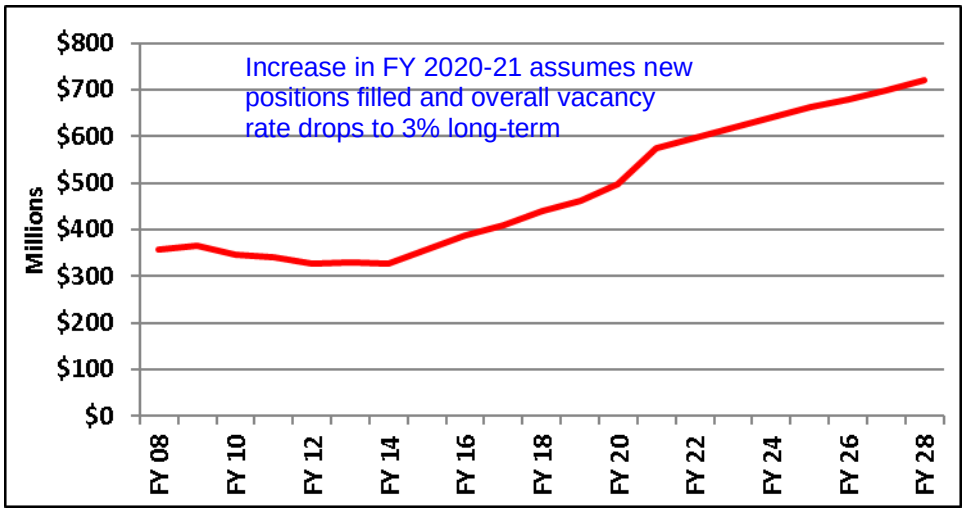
Staffing

The baseline forecast assumes growth of 13 FTEs annually. This is much lower than the FY 2019-20 budget increase of 145 FTEs over the FY 2018-19 amended budget staffing levels, and the seven-year average of 121 FTEs increase per year. However, the increases since FY 2012-13 were fueled by the recession recovery and the approval of the Measure U sales tax. It would be very difficult to sustain these levels of growth in the future without new sources of revenue or major efficiency gains. The 13 FTEs are intended to respond to the highest priority of workload demands on the City.

Wage Increases

The forecast includes an estimate of the wage and incentive increases included in the labor MOUs approved in December 2019, and thereafter assumes annual cost of living adjustments (COLAs) of 2%. The forecast also incorporates estimates of merit increases and savings from employee turnover (replacement employees being hired at lower steps than the more senior employees who left). Actual COLAs will be negotiated in the meet and confer process with employees. This forecast assumption is not intended to dictate what the outcome of such future negotiations will be but is rather a reflection of the inflationary pressure on wages, and with all other revenues and costs in the forecast inflated over time, it is only realistic to include wage inflation as well. Figure 10 shows past and projected major elements of personnel expense. The projected trend reflects the lower annual growth in FTEs.

Figure 10. General Fund Personnel Costs in Millions, FY 2007-08 to FY 2027-28 Projected

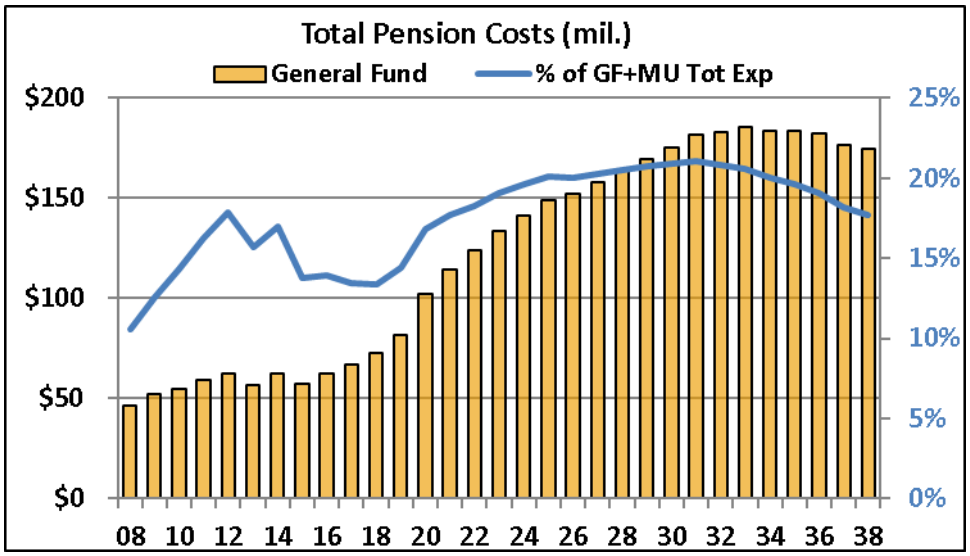


Pension

The forecast starts with the CalPERS 2018 valuation, which sets the unfunded liability amounts and employer rates for normal costs for FY 2020-21. The impacts of a workforce transitioning over time from the higher "Classic" benefits to the lower benefits accorded new hires under the Public Employees' Pension Reform Act (PEPRA) are built in. While the discount rate (the actuarial earnings rate assumption) is currently 7% and CalPERS has not yet acted to change it, their desire to reduce volatility in the rate-setting process will lead it to a lower-risk investment portfolio, which may reduce yields in the future. The discount rate has already declined from 8.75% in 1992, to 7% effective FY 2019-20. Private actuaries such as John Bartel believe that preparing for a gradual decline of another 1% is prudent. The forecast assumes a reduction in the

discount rate to 6% over a 20-year period, starting in FY 2023-24. Figure 11 shows the projected total pension costs for the General Fund from FY 2007-08 through FY 2037-38. By FY 2031-32, pension costs will be double FY 2018-19 levels due to the combination of higher salaries and rising unfunded liability payments, ultimately reaching 20.8% of total General Fund expenditures.

Figure 11. Projected Pension Costs, through FY 2037-38



Health

After the increase in health contributions approved in the recent labor MOUs, the assumed future growth rate is 3%, assuming a continuation of the recent labor MOU language for sharing of premium cost increases with employees.

Overtime/Premium Pays

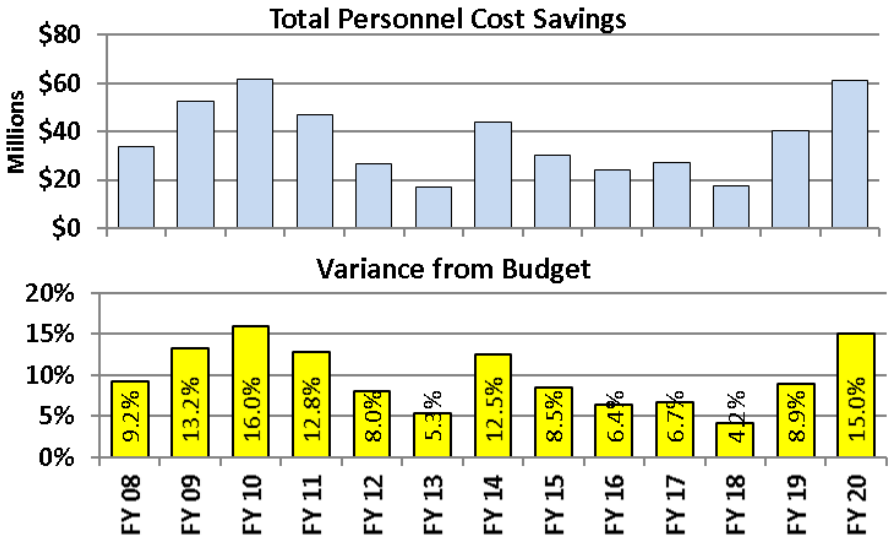
The City traditionally incurs significantly higher actual costs for overtime, and premium pays for call-back, night shift and out-of-class assignments, compared to the adopted budget. Therefore, the forecast grows these costs from estimated FY 2018-19 levels (a continuation of the trend over the past 10 years) rather than using the FY 2019-20 budget. Future increases are proportionate to projected salary increases.

Vacancy Savings

Budgeted personnel costs, excluding overtime and premium pays, have ranged from 4% to 16% below budget over the last 12 years, as shown in Figure 12. This is partly due to departments keeping vacant positions to offset costs for non-budgeted positions and overtime. The average net savings over the last five years was 6.93%. The City does not budget for

vacancy savings, but this forecast does assume a vacancy rate of 15% in FY 2019-20 (because of the 145 new positions), and 3% thereafter. This rate is applied to salaries, health, other benefits and pension normal costs. The savings are not computed on overtime costs (which often escalate as career position vacancies grow), or on OPEB costs or pension unfunded liability costs, which are computed independently of payroll in any given year.

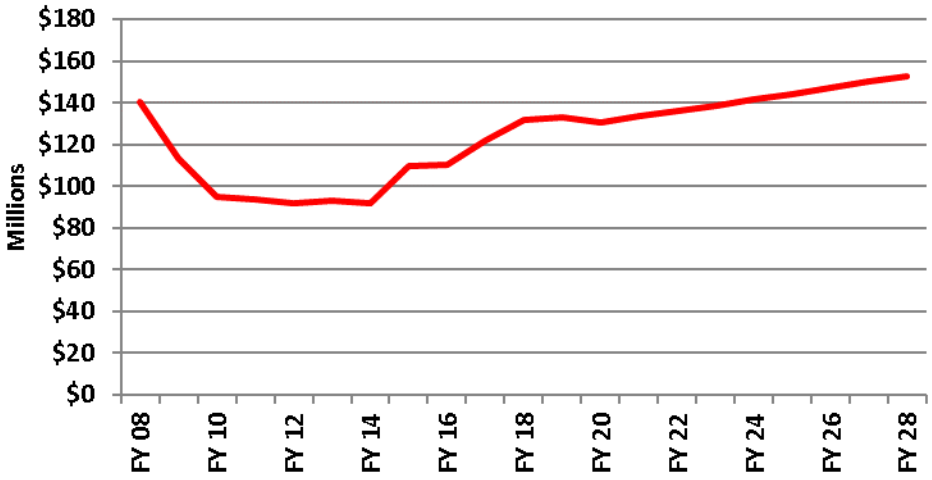
Figure 12. Cost Savings from Vacancies in Millions, FY 2007-08 to FY 2018-19



Services and Supplies/Other Expenses/Equipment

These costs took a major hit as a result of the Great Recession, as shown in Figure 13, and then increased rapidly during the recovery years. Going forward, the forecast assumes 2% growth, based on the rate of inflation.

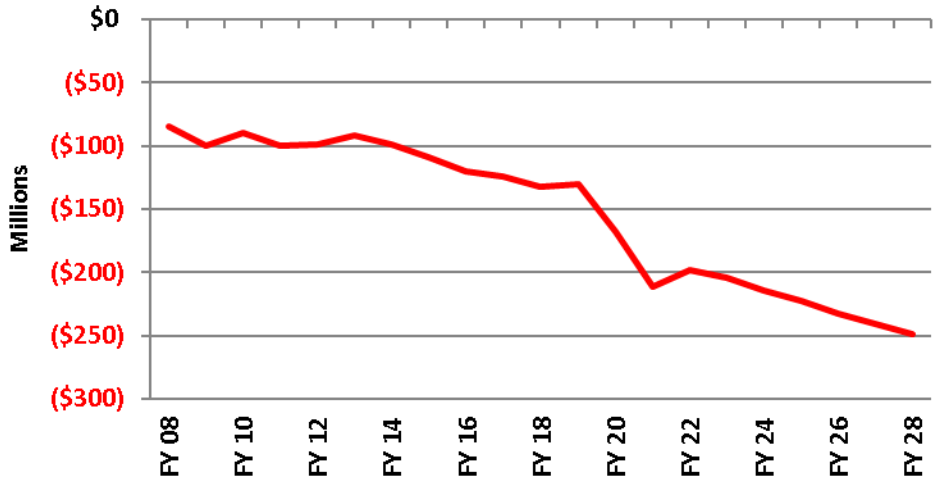
Figure 13. Service, Supplies, and Other Expenses in Millions, Projected through FY 2017-28



Reimbursements

The City maintains an extensive system of reimbursements from other funds which are booked as expense credits (negative amounts that reduce net expenditures). Figure 14 shows that reimbursements flat-lined during the recession, but growth resumed in recent years. The forecast assumes future growth in these credits proportionate to personnel cost increases. In addition, the forecast includes $20.25 million projected to be transferred from the Innovation Fund to the General Fund in FY 2020-21 through FY 2023-24; it is assumed that these amounts are one-time revenues.

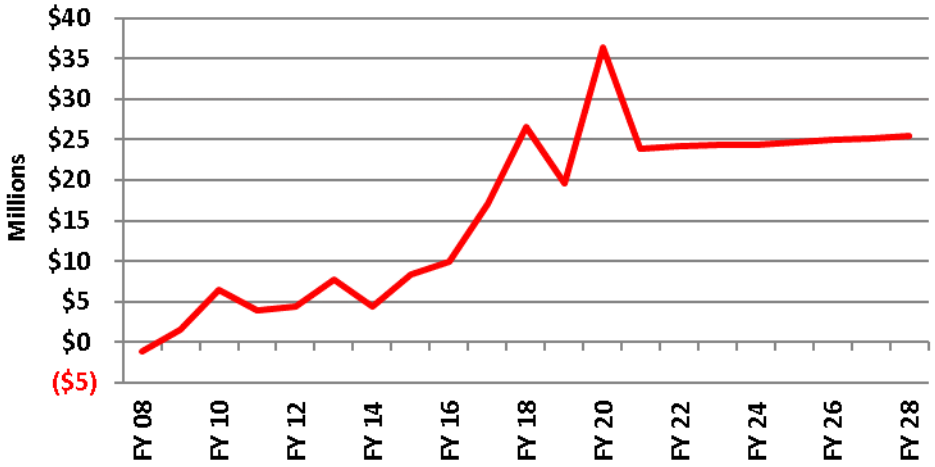
Figure 14. Projected Reimbursements to General Fund in Millions through FY 2027-28



Capital Improvement and Multi-Year Operating Programs

Capital costs are based on the Five-year Capital Improvement Program (CIP) through FY 2023-24, with $20.3 million budgeted in FY 2019-20 and an average of $8.2 million budgeted annually over the next four years, with 3% growth thereafter. Multi-year Operating Programs (MYOP) continue at the FY 2019-20 budgeted level of $10.7 million. The combined expenditure total for capital and MYOP is shown in Figure 15.

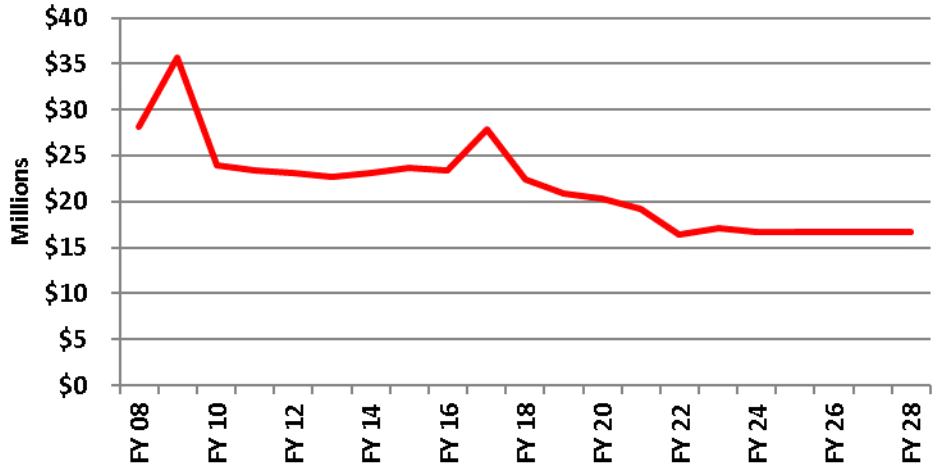
Figure 15. Combined Capital and Multi-Year Operating Programs in Millions, Projected Expenditures through FY 2027-28



Debt Service

These amounts are based on the adopted budget for FY 2019-20 and a City forecast through FY 2023-24, with a continuation at the FY 2023-24 level thereafter to preserve that level of debt financing capacity within the forecast. Debt service expenditures are shown in Figure 16. These numbers exclude debt service on any new bonds to be paid from Measure U, which is addressed in the following section.

Figure 16. Projected Debt Service Expenditures in Millions through FY 2027-28



Measure U

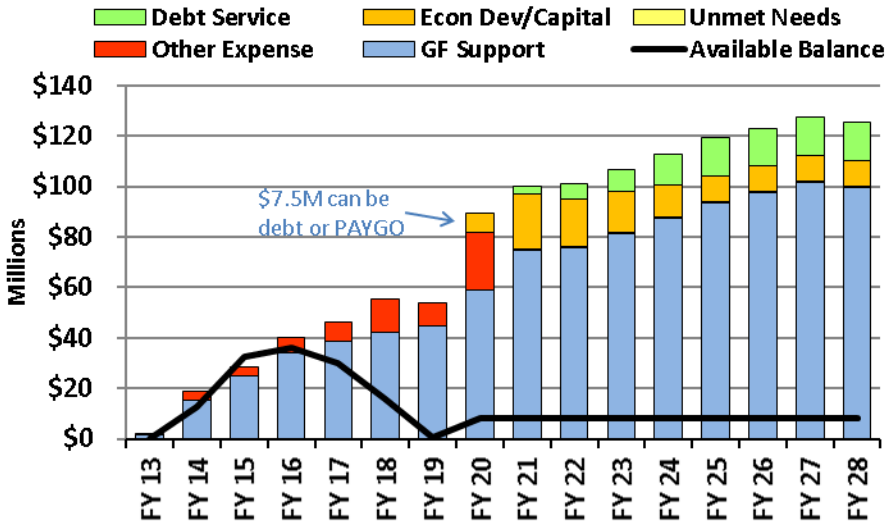
The forecast is based on the line item budget supplied by staff for Measure U expenditures (most of which are currently budgeted as reimbursements to the General Fund for expenses incurred there). The

current expenditures total $89.2 million compared to budgeted revenues of $103.6 million. The remainder is available for future appropriation. Various proposals have been made for additional expenditure of Measure U funds for affordable housing, homelessness programs, and augmented services for under-served areas of the community.

The 2018 vote that increased the sales tax rate from 0.5% to 1.0% resulted in an increase in sales tax revenue of $50 million. The question is how much of that $50 million to "set aside" for such community investment over time. This issue is of critical importance as the level of set-aside, if large enough, could come at the expense of program support to the General Fund. This would have the effect of *increasing* net General Fund expenditure levels accordingly, and thus result in a greater structural shortfall in the General Fund.

Figure 17 shows the allocation of funds assuming a $25 million set-aside starting in FY 2020-21. (A total of $7.5M was set aside in FY 2019-20, that can be either be spent as debt service or "pay-as-you-go.") The green portion represents the debt service paid on the optional issuance of bonds, which is phased in over time. If bonds are not issued, these resources continue to be available on a pay-as-you-go basis. The fund balance shown is the "available balance" as computed for the City budget ($8.1 million for FY 2019-20).

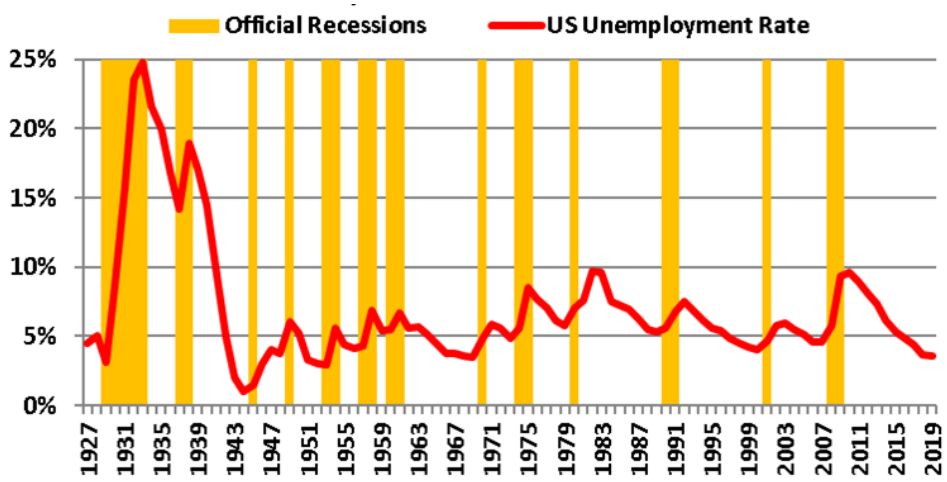
Figure 17. Measure U Allocation of Funds Projection in Millions through FY 2027-28



Economic Downturns

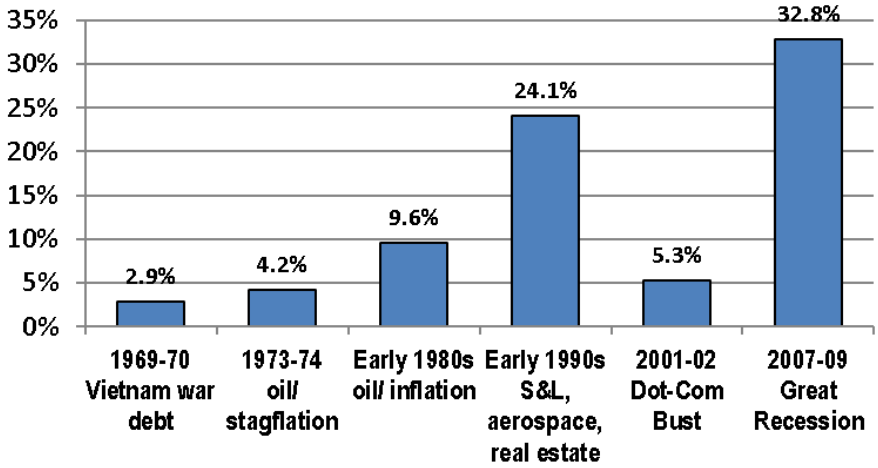
Recessions have occurred on average every seven years since 1927, as shown in Figure 18. The actual period of the recession is represented by the vertical orange bars. The red line shows the U.S. unemployment rate.

Figure 18. History of Economic Downturns in the U.S., 1927 to 2019



Based on an analysis of State Controller financial transaction reports for cities, the revenue loss from taxes and permits during the last six recessions ranged from 3% to 33% for all California cities, as shown in Figure 19.

Figure 19. Aggregate Reduction in California City Revenues from Six Recent Recessions



In terms of timing, there is no crystal ball, but there are several indicators pointing to a moderate recession starting in FY 2021-22:

- California Legislative Analyst Office (LAO) –The LAO's Fiscal Outlook for the 2020-21 State Budget includes a "recession scenario" with a downturn starting in January 2021 that roughly averages the severity of the dozen recessions following WWII. Their recession scenario assumes that the unemployment rate in California begins to rise in January 2021, eventually peaking at 8%, and begins to decline in 2022.

- UCLA Anderson School of Management –In December 2019 they indicated that "although we have lowered the risk of a recession, the second half of 2020 remains problematic for the economy."
- Business Economists – In August 2019, 74% of business economists polled saw a recession starting by the end of 2021: 2% believed it would occur by the end of 2019, 38% by the end of 2020, and 34% by the end of 2021. The other 26% believed a recession would not occur until 2022 or later.
- Inverted Yield Curve – The past seven recessions occurred after a full inversion of the yield curve (where short-term yields are higher than long-term yields). This occurred in March 2019, the first time since the Great Recession, and has continued to widen.
- JPMorgan Chase – In June the firm predicted a 45% chance of recession in 2020 (up from 20% they estimated in early 2018).

Property Tax

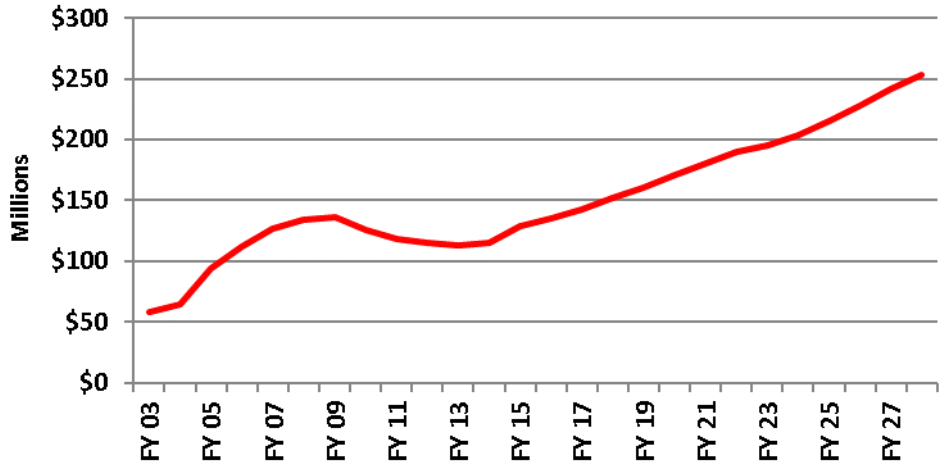
Figure 20 shows the decline from the Great Recession, and the stable recovery since FY 2013-14. The property tax growth rate is determined by several elements described below, which result in a long-term average growth rate of 5.0%.

- It is assumed that 97% of existing parcels will grow by the 2% **Proposition 13 inflator** limitation (which can be lower if the California CPI calculation is less than 2%, but 2% is assumed).
- The remaining 3% of parcels are assumed to increase an average of 35% due to **ownership transfers**, which triggers reappraisal at true market value under Proposition 13. (The average value increase for transfers is generally in the 35% to 40% range in other cities based on property tax auditor reports.)
- **Proposition 8** recoveries are based on current County Assessor projections and are assumed to phase out over eight years. (Proposition 8 affects parcels whose true market value dropped below their Proposition 13-limited values. Such parcels received the lower value until the real estate market improved, and then could be increased without respect to the 2% annual growth limit until they regained their Prop 13-limited value.)
- **New construction** is a major component of property tax growth, as it is added to the assessment rolls at true market value. Over the past 30 years, 45,497 new housing units have been constructed in Sacramento, for an average of 1,517 a year. This is a reasonable

assumption of the ability of the market to absorb new housing. Over the past 10 years the commercial sector has accounted for roughly $400 million a year in building permit value. The forecast assumes 1,500 new housing units (the average over the last 30 years) and $400 million in annual non-residential construction value increases. This means that not every new development is a windfall for the City. A significant amount of growth is already built into the forecast.

- Finally, as the Successor Agency's Recognized Obligation Payments Schedule (ROPS) is paid down, the City receives around 24% of the freed-up property tax increment.

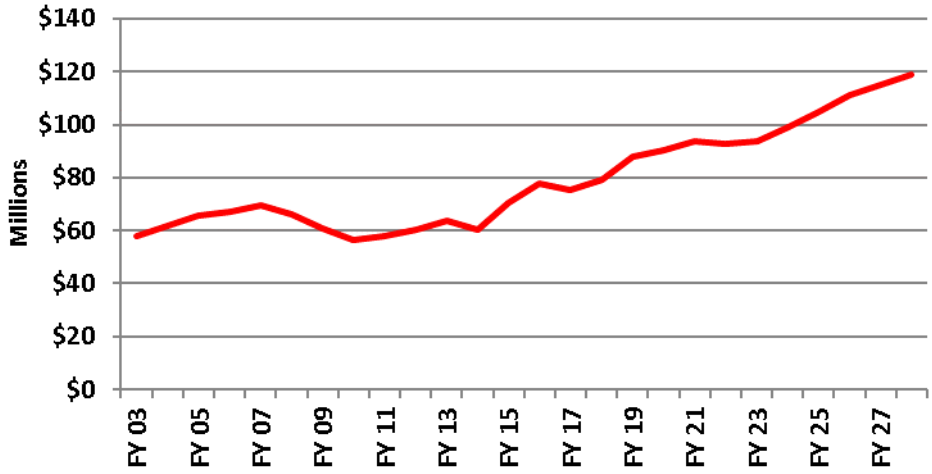
Figure 20. Property Tax Revenue in Millions, Projections through FY 2027-28



Sales Tax

Figure 21 shows the decline of sales tax revenues caused by the Great Recession. Overall, the growth rate in the City's 1% tax has averaged 2.33% over the last 14 years (FY 2003-04 through FY 2017-18). The future growth rate is determined by the short-term forecast provided by Avenu Insights (whose pre-recession growth is 3.8% in FY 2020-21) , Estimates are updated through the second quarter of 2019.

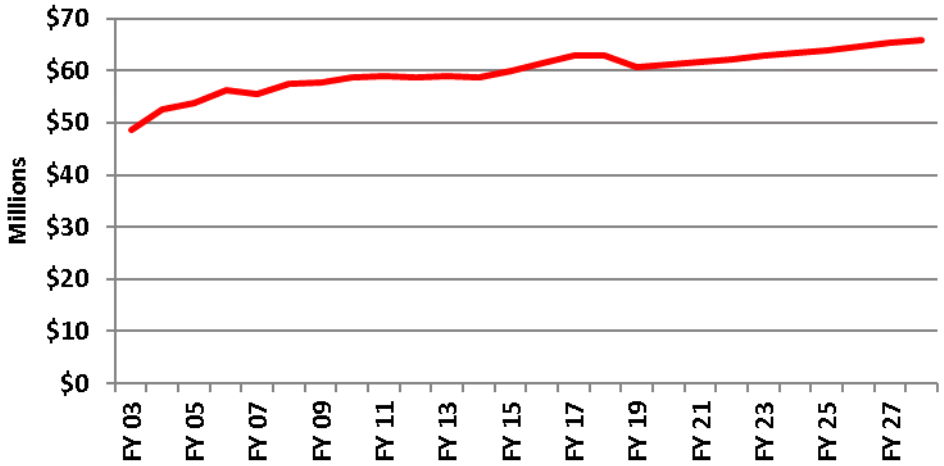
Figure 21. Sales Tax Revenue Projections in Millions through FY 2027-28



Utility Users Tax

This is a stable, but overall slow-growing tax, as shown in Figure 22. Separate growth rates are computed for the individual utility service categories based on actual payments: electric (2%), gas (1%), telecommunications (1%), cable (-0.5%), wireless (-5%), and prepaid (2%).

Figure 22. Utility Users Tax Revenue Projections through FY 2027-28

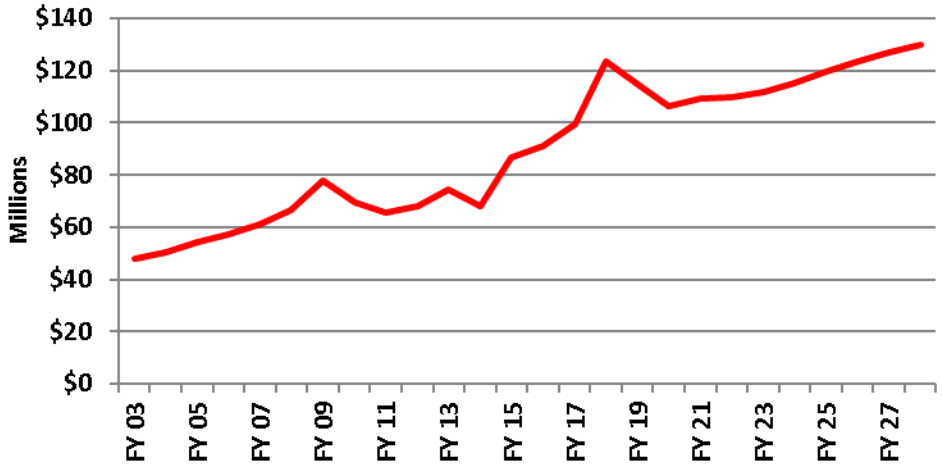


Other Taxes and Revenues

Figure 23 shows the trend for the remaining taxes and other revenues. Transient Occupancy Tax (TOT) is assumed to grow at a pre-recession rate of 3%, Business Operations Tax (BOT) is assumed at 1%, Real Property Transfer Tax (RPTT) assumes growth of 2%, Enterprise Tax revenue growth is assumed to be 2.5%, and other sources are projected to

be in the 0% to 2.5% range. This category is rather volatile due to one-time revenues.

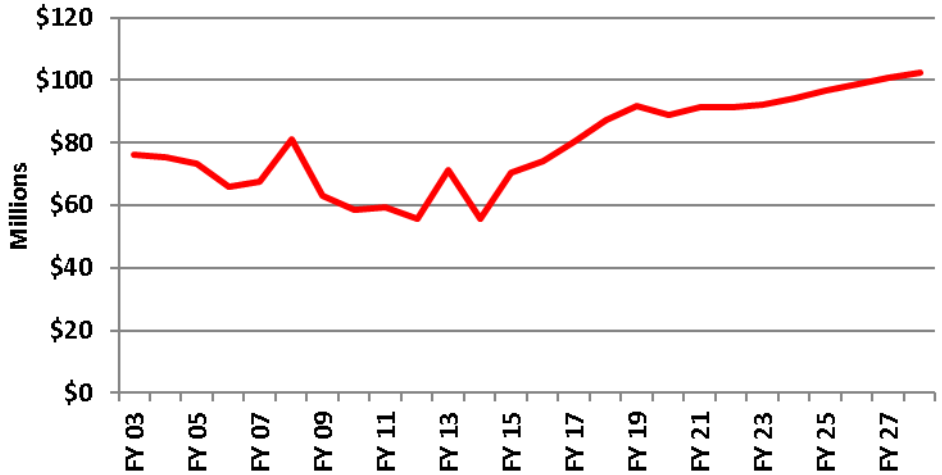
Figure 23. City of Sacramento Other Taxes and Revenue Projections in Millions through FY 2027-28



Department Revenues

Figure 24 shows that these revenues are volatile but were on a generally downward trend through FY 2013-14. Thereafter the economic recovery resulted in higher building-related fees, and the new Cannabis fees, accounted for the gain through FY 2018-19. Pre-recession growth for building permits and fees is 4%, while growth in most other fees is 2%.

Figure 24. City of Sacramento Department Revenue Projections in Millions through FY 2027-28



Alternative Economic and Spending Scenarios

The foregoing assumptions describe the "most likely" outcome. However, to illustrate the potential range of impact for key assumptions used in the

baseline forecast, we have identified a high and low alternative to the major economic and spending assumptions shown in Table 6. These are discussed further below.

Table 6. Key Economic and Spending Assumptions in Fiscal Forecast Model

Economic Assumptions	Spending Assumptions
Recession Magnitude	Salary COLAs
New Construction Level	Staffing Growth
Ownership Transfer Avg. Value Increase	Inflation Rate
Sales Tax Growth Rate	Capital/MYOP
CalPERS Discount Rate	Measure U Set-aside

Recession Magnitude

- **Moderate Economy Assumption**: The forecast projects the next recession will occur during FY 2021-22 and on a seven-year cycle thereafter. This is considered a "moderate" recession: a 7.5% cumulative reduction from normal growth rates over an 18-month period for each of the following revenues -- sales tax, TOT, BLT, RPTT, and building permits -- and a 3% property tax reduction. The property tax loss would lag by one year due to the annual lien date, which causes some delay in reflecting current values. Over a three-year period, 90% of the losses would be recovered.
- **Stronger Economy Alternative**: Results in a weaker recession (lower revenue loss) with a 2% property tax loss and 5% loss for other affected revenues over 12 months (in other words, the weakest of the prior six recessions).
- **Weaker Economy Alternative**: Results in a stronger recession (higher revenue loss), with a 4% property tax loss and 10% loss for other affected revenues over 24 months (more like the 1980's recession, but still not be considered a "severe" recession).

New Construction Level

- **Moderate Economy Assumption:** The forecast assumes the addition of 1,500 new housing units/year (the average over the past 30 years) and $400 million in non-residential new construction/year (reflective of recent years' experience).
- **Stronger Economy Alternative:** 2,000 new units/year and $600 million non-residential new construction/year.
- **Weaker Economy Alternative:** 1,000 new units/year and $200 million non-residential new construction/ year.

Ownership Transfer Average Value Increase

- **Moderate Economy Assumption:** The forecast assumes a 35% average gain for 3% of parcels that are transferred (the low end of the range seen in other cities).
- **Stronger Economy Alternative:** 45% average gain for 3% of parcels that are transferred.
- **Weaker Economy Alternative:** 25% average gain for 3% of parcels that are transferred.

Sales Tax Growth Rate

- **Moderate Economy Assumption**: The forecast envisions a 3.1% pre-recession growth rate for FY 2022-23 and after.
- **Stronger Economy Alternative**: 3.5% growth rate.
- **Weaker Economy Alternative**: 2.5% growth rate.

Pension Discount Rate

- **Moderate Economy Assumption**: The forecast assumes the pension discount rate will decline to 6% over 20 years starting in FY 2023-24.
- **Stronger Economy Alternative**: maintain 7% discount rate.
- **Weaker Economy Alternative**: decline to 6% over 10 years starting FY 2023-24.

Salary COLAs

- **Moderate Spending Assumption**: The forecast assumes a 2% annual COLA.
- **Higher Spending Alternative**: 2.5% annual COLA.
- **Lower Spending Alternative**: 1.5% annual COLA.

Staffing Growth

- **Moderate Spending Assumption**: +13 FTE/year.
- **Higher Spending Alternative**: +31 FTE/year.
- **Lower Spending Alternative**: No FTE growth.

Inflation Rate

- **Moderate Spending Assumption**: 2% CPI.
- **Higher Spending Alternative**: 2.5% CPI.
- **Lower Spending Alternative**: 1.5% CPI.

Capital/MYOP

- **Moderate Spending Assumption**: Capital and Multi-year Operational Programs remain at 100% of FY 2020 budget levels.
- **Higher Spending Alternative**: 125% of FY 2020 budget levels.
- **Lower Spending Alternative**: 75% of FY 2020 budget levels.

Measure U Set-Aside

- **Moderate Spending Assumption**: The forecast reflects a $25 million annual set-aside (which allows continued growth in General Fund reimbursements). Any transfers from the Innovation/Economic Development Fund to the General Fund are in addition to this amount.
- **Higher Spending Alternative**: $40 million annual set-aside (which requires a reduction in General Fund reimbursements).
- **Lower Spending Alternative**: $10 million annual set-aside (which allows increase in General Fund reimbursements).

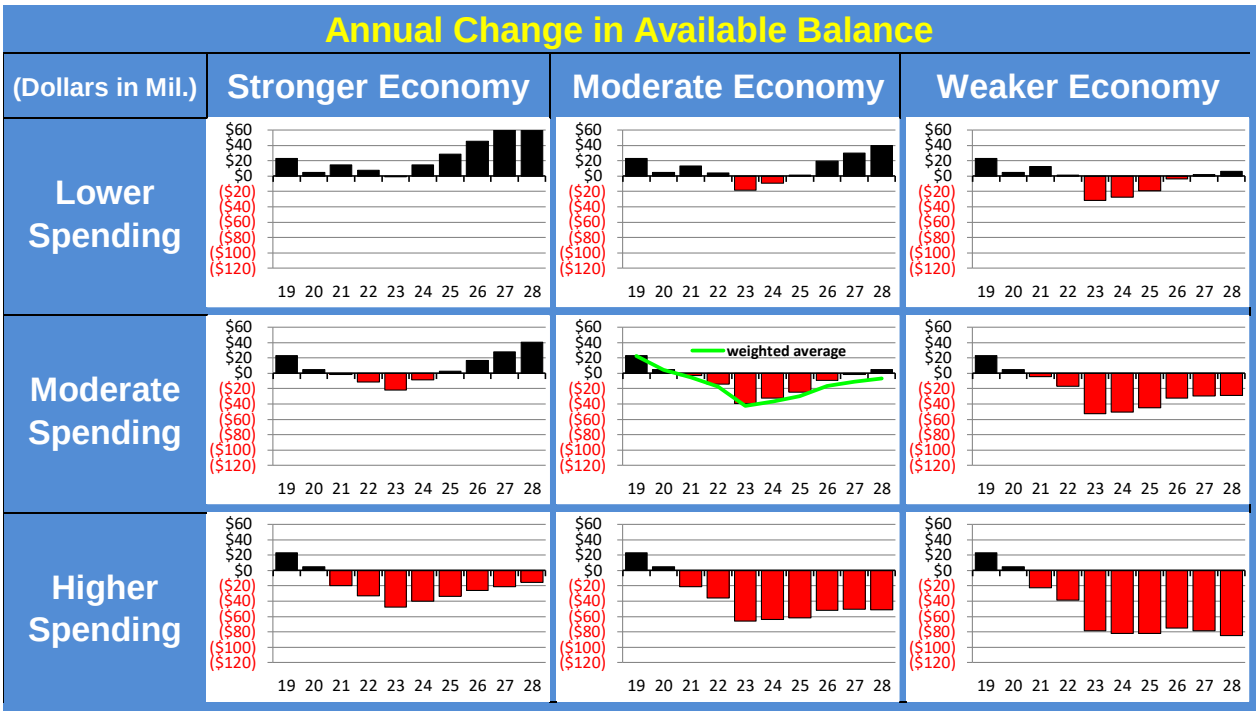
This range of alternatives in key economic and spending assumptions creates a matrix of nine different scenarios, with the "Moderate Economy-Moderate Spending" scenario being the baseline forecast (see Figure 25 below). By assigning a probability outcome to each scenario, a weighted average of all nine scenarios can be compared to the baseline forecast scenario as a check to see how reasonable this outcome is, given the range of potential alternative assumptions. This probability is not statistical in nature, but rather is a common sense, experience-based weighting, keyed to the foregoing sources of information and observable trends in local government budgeting (e.g. the State Controller's Report on local government revenues and expenditures). Because demand virtually always exceeds the supply of municipal services, cities tend to spend more during a stronger economy, when revenues are growing, but are forced to spend less (due to the balanced budget requirement) when the economy is weaker. Thus, we observe ups and downs in rate of growth in municipal spending based on the state of the overall economy. It is unlikely that cities will spend less during economic expansions when revenues are strong because there are always unmet needs local governments desire to address.

Figure 25. Matrix of Fiscal Forecast Scenarios With Assumed Likelihood of Outcome

Matrix of 9 Alternate Forecast Scenarios	Stronger Economy	Moderate Economy	Weaker Economy
Lower Spending	5%	5%	10%
Moderate Spending	5%	35%	10%
Higher Spending	10%	15%	5%

Figure 26 shows how changes in the forecast assumptions affect the annual change in the General Fund "available balance," (which includes unassigned balance, an economic uncertainty reserve, and pension and OPEB reserves), for all nine scenarios. Red bars show the "structural shortfall." Each chart is presented on a common scale that allows a clear comparison. Under the "Stronger Economy-Lower Spending" the City would be in great financial shape, but this is a low probability occurrence. Equally low in probability is the worst-case scenario of the Weaker Economy-Higher Spending.

Figure 26. Matrix of Forecast Scenarios: Annual Change in Available Balance and Ending Available Fund Balance



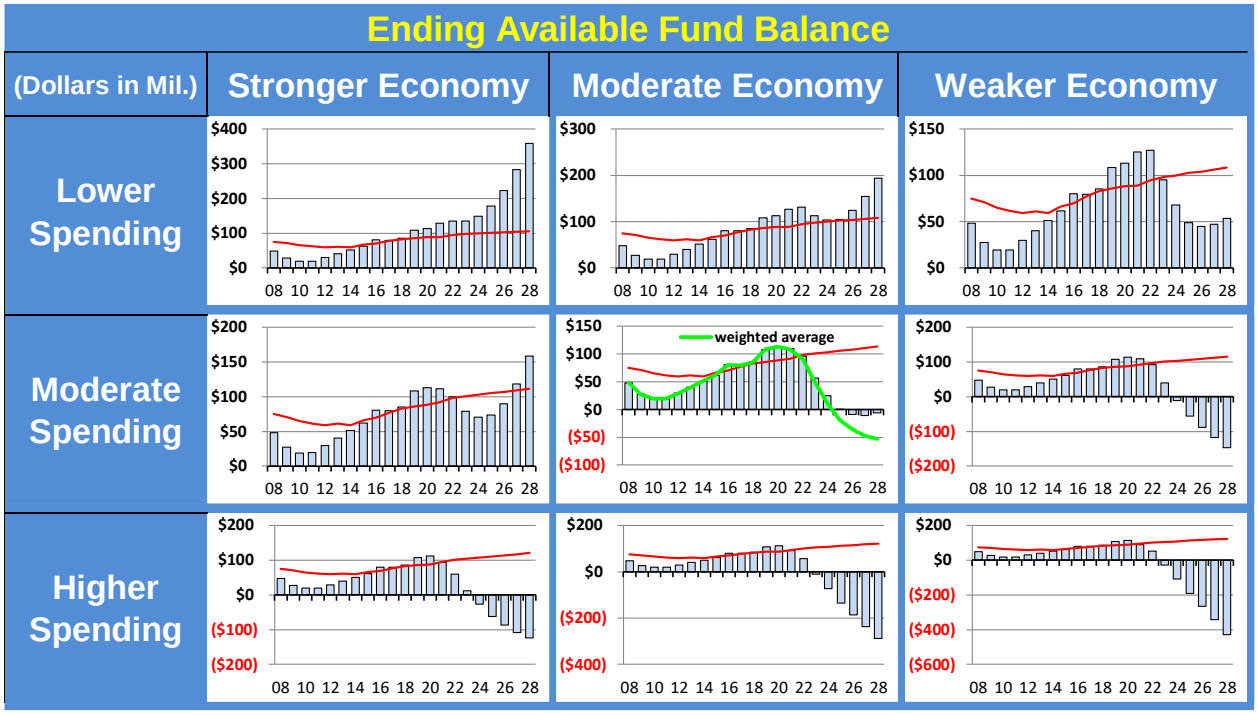


Figure 1, which appeared earlier in the Executive Summary of this report, shows the annual shortfall and resulting fund balance for the baseline forecast, assuming no corrective budget actions. (In reality, the City is not legally allowed to incur a net deficit in the General Fund.) The weighted outcome of the nine scenarios for change in fund balance (represented by the green line in the Net Change figure) matches the baseline forecast relatively closely. Based on this review, the "Moderate Economy-Moderate Spending" scenario was retained as the baseline forecast. However, if annual wage adjustments and staffing growth exceed the forecast assumptions, or new construction does not meet projections, then the annual shortfall will not decline in later years, as under the baseline forecast, and will instead continue to grow. Note that these outcomes also do not reflect the funding of deferred maintenance, the potential loss of the enterprise tax or the potential passage of the Children's Fund Initiative, which are discussed below.

Other Major Uncertainties

There are three remaining items of major uncertainty that must be incorporated into the budget forecast; one that is under the City's control, and two that are not. The three areas are:

- Unfunded deferred maintenance,
- Legal challenge to the Enterprise Tax, and

- Potential passage of the Children's Fund Initiative on a 2020 ballot.

Their potential impact on the baseline forecast is discussed below.

Unfunded Deferred Maintenance

The City has a substantial and increasing backlog of deferred maintenance, as identified by staff. Conservatively, the City is not spending the $30 million a year that it should be on maintenance for streets, facilities, parks and swimming pools (Public Works is working to better identify these needs, and the likelihood is that their analysis will show an even greater actual need). It is assumed that this amount would be borne by the General Fund, but Measure U is also a potential funding source that could be considered, as many of the public facility projects needing attention are in under-served neighborhoods. It is the City's choice whether to fund these amounts or not, but the old adage of "pay me now, or pay me later" is certainly true with respect to maintenance.

If done on a timely basis, when the work is still in the "preventative maintenance" stage, the costs are much lower than when the work is delayed for so long that it becomes a much costlier repair. The classic example is with street resurfacing, where the costs are $4.50 per square yard for a surface seal (if applied every five to seven years) but escalate to $81 per square yard for full reconstruction of the street. Current accounting practices do not require governments to recognize deferred maintenance obligations as balance sheet liabilities, and most cities have not performed the facilities evaluation required to know how bad their deferred maintenance backlog really is.

In Sacramento, staff have identified the following maintenance backlogs.

- **Street Paving**: $27.8 million per year is needed per a 2017 report just to maintain the current Pavement Condition Index (PCI) of 66. (By comparison, the nine-county Bay Area average PCI is 67.) Staff identified an average of $9.4 million that is currently budgeted for street paving, leaving $18.4 million per year as the unmet need. Moreover, we are advised by the City that the PCI in 2019 was 60, which connotes a further deterioration of streets.

- **Facilities**: $44.6 million is the total backlog per a 2017 report. If it is assumed these costs are spread over 10 years, then this equals an annual need of $4.5 million per year (which, of course, excludes cost escalation and further degradation of facilities that can occur over time). Staff have identified $1.8 million as currently budgeted, leaving $2.7 million per year as the unmet need.

- **Parks**: $140.4 million is the total backlog per a 2019 deferred maintenance list. If it is assumed these costs are spread over 20 years, then this equals an annual need of $7 million per year. There is currently nothing budgeted for deferred maintenance in park facilities, leaving $7 million per year as the unmet need.
- **Swimming Pools**: $17.5 million is the total backlog as estimated by staff. If it is assumed these costs are spread over 10 years, then this equals an annual need of $1.75 million per year. There is nothing currently budgeted to maintain the City's swimming pools, leaving $1.75 million per year as the unmet need.

This does not account for all types of City facilities, nor is it an exhaustive review. Nor does it include the additional maintenance needs that will arise in the future. It does include 2% growth over time.

In 2017 the City of San Jose performed a comprehensive review of its deferred maintenance and infrastructure backlog and identified $1.5 billion as the current backlog in deferred needs. The areas and estimated costs identified are presented in Table 7 below.

Table 7. Maintenance Backlog Identified in City of San Jose Comprehensive Review

Infrastructure Area	Deferred Maintenance Cost
Buildings	**$147,100,000**
Convention Center/Cultural Facilities	**$67,570,000**
Fleet	**$8,600,000**
Parks/Open Space	**$156,900,000**
Service Yard	**$2,520,000**
Information Technology	**$2,730,000**
Streets/Traffic	**$789,000,000**
Storm Sewer	**$295,000,000**
Total Deferred Maintenance Costs (excluding airport)	**$1,469,420,000**
San Jose Population	**1,043,058**
San Jose Deferred Maintenance Per Capita	**$1,409**
Sacramento Population	**508,172**
Sacramento Potential Deferred Maintenance	**$715,893,172**

On a strictly pro-rata basis, Table 7 shows that if the $1,409 backlog per capita from San Jose is applied to the 508,172 population of Sacramento, the potential backlog would be approximately $716 million. There may be

differences between the two cities that make this figure too high (or low), but a similar review in Sacramento is warranted. Achieving a sustainable long-term budget requires knowing how big the deferred infrastructure maintenance backlog is and developing a long-term funding solution plan to pay for such maintenance on a timely basis.

Legal Challenges to the City's Enterprise Tax

In 1998, a majority of Sacramento voters approved a general tax of 11% on the City's utility enterprises (water, sewer, storm drainage and solid waste). Each year, this general tax results in a transfer of between $30 million and $35 million from the City's utilities to the City's general fund.

A legal challenge to this enterprise tax was filed in 2018, alleging it violated the California Constitution because such a measure required approval by two-thirds of City voters. After further review, a Sacramento Superior Court judge issued a decision and order agreeing with this legal challenge and ordering the City to cease transferring funds from the utility enterprises to the general fund. However, the City believes this ruling was incorrect and it filed an appeal of the decision with the Third District Court of Appeal. The City Attorney's Office has estimated this appeal process could take two to three years to resolve. The potential loss of this funding as a result of the lawsuit is a financial risk to the City.

Children's Fund Initiative

Measure G on the March 2020 ballot requires that the "Sacramento Children's Fund" receive funds equal to 2.5% of the "City of Sacramento's audited total actual annual unrestricted revenues." Eligible uses of funds include the following:

> (1) Mentoring, counseling and culturally based healing practices, alcohol and drug use prevention and intervention, job training, transitional employment, and case management.
>
> (2) Summer and after-school learning, artistic, cultural, and media expression, career-based internships, and family support services.
>
> (3) Early childhood education, parent/child play groups, and family support services.

The measure further states that: "All monies in the Sacramento Children's Fund shall be used to supplement and not supplant or reduce the amount of unrestricted revenue the City of Sacramento expended for eligible children and youth services in any fiscal year below the amount so expended in the 2019-2020 fiscal year." The City will have to determine what this FY 2019-20 expenditure turns out to be, as it effectively becomes

a maintenance of effort requirement, i.e., the City must continue to spend no less than the amount it spends on the existing programs.

If the initiative is approved, the provisions would take effect starting with FY 2021-22 and continue through FY 2032-33. The base to which the 2.5% would be applied will have to be determined, given the broad reference to "unrestricted revenues." The three most likely outcomes and their rationales are as follows:

- Total of General Fund revenue and Measure U revenue, because Measure U is a general tax whose revenues are unrestricted. This is a base of $636 million in FY 2021-22, which would require $15.9 million in diversion of revenues.
- Total General Fund excluding Measure U, because the Measure U sales tax is accounted for in a special revenue fund. This is a base of $535 million in FY 2021-22, requiring $13.4 million in diversion of revenues.
- Only non-departmental revenue of the General Fund, because departmental revenue is applied against specific departmental programs. This represents a base of $426 million in FY 2021-22, requiring $10.6 million in diversion of revenues.

If voters approve the initiative, whatever revenue level is settled upon will be the amount used to create or expand existing programs for youth, and General Fund revenues used to pay for all other programs (such as police, fire, public works) will have to be cut by the same amount in order to not exacerbate the existing structural shortfall. If those non-youth programs are not reduced by a comparable amount to the revenue diversion, then the net General Fund shortfall increases by that amount.

If the voters defeat the initiative, then there is no loss of General Fund revenue, and no increase in funding for youth programs (except what may be approved in future City budgets).

Summary of Budget Forecast Shortfall

Table 8 shows the full range of potential outcomes depending on how the individual areas of major uncertainty are resolved.

- The baseline forecast shortfall of $13 million is the average annual shortfall from FY 2019-20 through FY 2027-28 under the baseline forecast (moderate spending-moderate economy scenario); see Figure 1.
- The deferred maintenance amount is based on an unmet annual need of $30 million. (Public Works is working to better identify

these needs, and the likelihood is that their analysis will show an even greater annual need.) How to address deferred maintenance is the City's decision to make. The costs are not going away and will only escalate over time, but the timing and amount is an annual budget decision.

- The fate of the $31 million Enterprise Tax is currently in the hands of the courts, and potentially in the hands of the voters.
- The outcome of the Children's Fund Initiative will be decided by the voters. The $16 million projected impact assumes 2.5% of the full General Fund and Measure U revenue base, to be conservative. (The ultimate amount will hinge on the legal determination of what is "unrestricted revenue.")

Table 8. Range of Potential Fiscal Outcomes and Annual Budget Shortfalls in Millions

Outcome	Annual Baseline Shortfall	Deferred Maintenance Funded	Enterprise Tax Lawsuit	Children's Fund Initiative	Total Annual Impact
Base Forecast Only	**$13**	-	-	-	**$13**
Base+Child Initiative Passes	**$13**	-	-	**$16**	**$29**
Base+Deferred Maint funded	**$13**	**$30**	-	-	**$43**
Base+Enterprise Tax Loss	**$13**	-	**$31**	-	**$44**
Base+Maint+Child	**$13**	**$30**	-	**$16**	**$59**
Base+Tax Loss+Child	**$13**	-	**$31**	**$16**	**$60**
Base+Maint+Tax Loss	**$13**	**$30**	**$31**	-	**$74**
Base+Maint+Tax Loss+Child	**$13**	**$30**	**$31**	**$16**	**$90**

Recognizing there is realistic basis for a projected annual General Fund shortfall ranging from a **low of $13 million to a high of $90 million** is critically important as the City Council and staff consider the following strategies and recommendations.

Efficiencies, Innovations and Previous Recommendations

Management Partners has grouped strategies developed during the innovation and efficiency project work into three categories.

The first we identify as efficiencies. These are strategies which can reduce expenditures, raise revenues or both.

The second consists of innovations. These are emerging best practice service options which may provide value to the community and improve the functioning of the City, but they may not generate cost savings or revenues. Indeed, they may have costs to execute.

The final category of strategies consists of ideas previously recommended by Management Partners which may be achievable. While the City has implemented many of the strategies suggested by Management Partners in previous reports (in 2010 and 2012), there are several which have not been implemented but which are doable and have been accomplished in other municipalities.

Each strategy is numbered sequentially. Strategy discussions include an explanation of the type of strategy it is along with an estimated impact (usually in annual estimated savings or revenue generation), an assessment of achievability, a detailed discussion of the background and analysis underpinning the strategy and sequentially numbered implementation recommendations so the City understands the steps necessary to achieve the savings or revenues estimated.

Additional Factors for City Consideration

As we explain in this report, some of the innovation and efficiency strategies have been contemplated by the City in the past, but we believe the strategies continue to have merit today.

Almost all of these strategies will be difficult. They will take time and effort to implement, and some will require engaging with bargaining units or passing legislation. However, the realignment of City services, implementation of best practices and increases in appropriate revenue

categories will help to create a financially sustainable future in Sacramento.

Efficiency Strategies

The strategies in this section focus on ways to reduce costs, raise revenues or both. Of course, finding long-term structural solutions that improve Sacramento's financial outlook is the primary purpose of this engagement.

E1. Modernize Business Operations Tax

Strategy Type

Revenue Enhancement

Impact Estimate

Sacramento currently collects approximately $7.3 million annually in its Business Operations Tax. Based on per capita revenue generation and successful efforts of peer cities, Sacramento could increase these revenues by approximately $9.3 million (total of $16.6 million).

Achievability

Though subject to a public vote, we believe the achievability of increasing the Business Operations Tax is high because it has not been adjusted in nearly 30 years, has not kept pace with inflation and it lags significantly behind the trend for setting the level of such taxes in other large cities.

Background/Analysis

According 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. For general taxes such as Sacramento's Business Operations Tax, a simple majority of 50% plus one is needed to pass a local ballot measure (as opposed to a special tax which requires a two-thirds majority for passage).

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

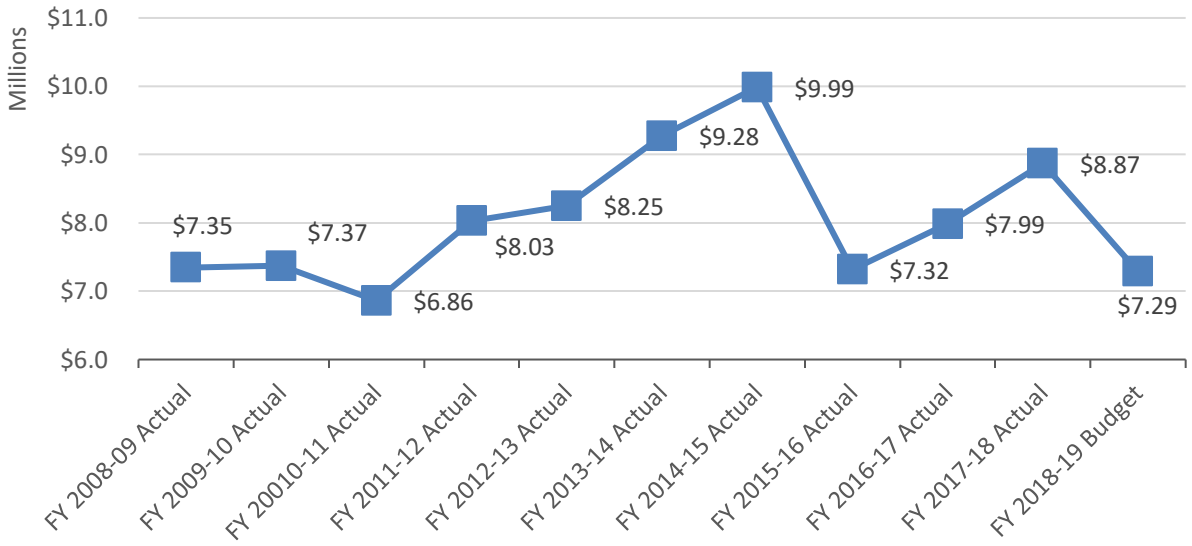
- Professional services (accountants, architects, attorneys, doctors, engineers, etc.)
- Contractors
- Residential and non-residential property rentals

- Businesses without a fixed place of business within city limits
- General business category for businesses not enumerated in the other four categories

It is important to note that even though the Business Operations Tax is based on gross receipts, the tax is capped at $5,000. In 2010, City staff pursued ballot measures to modernize the Business Operations Tax and to establish a Medical Marijuana Dispensary Business Operations Tax. In July 2010, the City Council placed a measure on the ballot for the medical marijuana dispensary tax (which was ultimately successful) but declined to move forward with the Business Operations Tax measure.

Figure 27 provides a summary of the revenue generated from the Business Operations Tax in Sacramento from FY 2008-09 to FY 2018-19. The tax raises approximately $7.3 million annually, which amounts to 1.4% of the City's total General Fund revenue. Aside from the addition of marijuana businesses in 2010 (which is not included in our analysis), the last adjustment of the City's Business Operations Tax was in 1991.

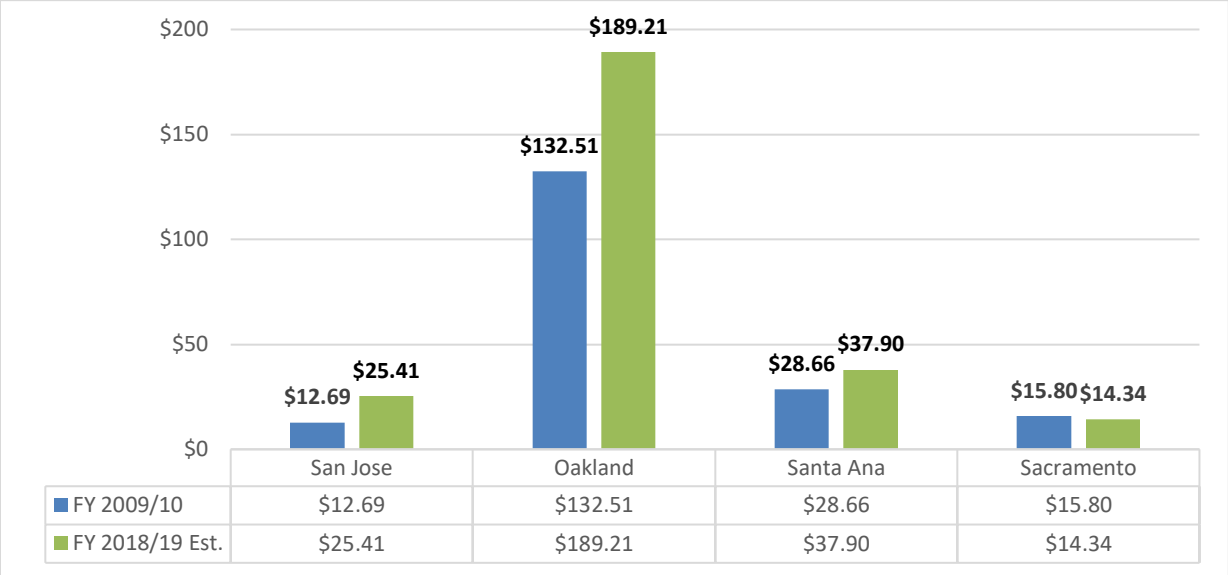
Figure 27. Sacramento Business Operations Tax Revenue, FY 2008-09 to FY 2018-19, in Millions



Source: Revenues based on FY 2008-09 to FY 2017-18 Actuals and FY 2018-19 from City of Sacramento Budget documents.

Our 2010 report included information on per capita business tax comparisons for seven peer cities. Sacramento's per capita revenue was among the lowest. Since 2010, the City's per capita revenue has slightly declined, while three of the peer cities including San Jose, Oakland and Santa Ana have enjoyed significant gains, as shown in Figures 28 and 29.

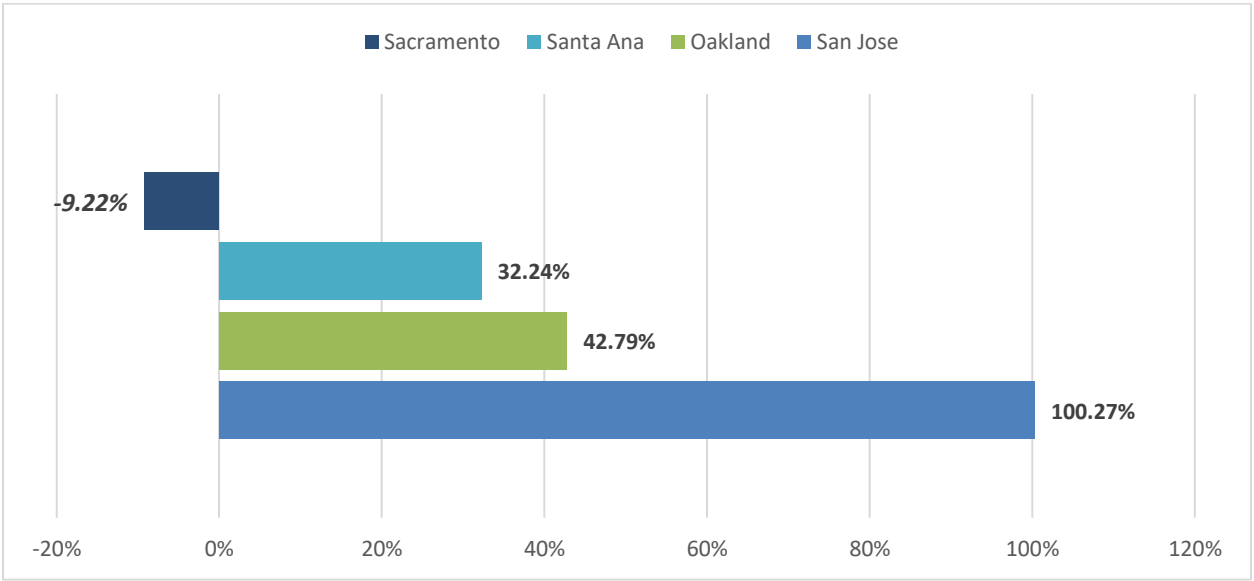
Figure 28. Per Capita Business Tax Comparison FY 2009-10 to FY 2018-19 (Estimated)



	San Jose	Oakland	Santa Ana	Sacramento
FY 2009/10	$12.69	$132.51	$28.66	$15.80
FY 2018/19 Est.	$25.41	$189.21	$37.90	$14.34

Source: Revenues based on FY 2009-10 to FY 2017-18 Actuals and FY 2018-19 estimates from Sacramento and peer budget documents.

Figure 29. Per Capita Business Tax Growth FY 2009-10 to FY 2018-19 (Estimated)



Source: Population data for per-capita based on US Census estimates for July 1, 2018.

Since 2010, Oakland's business tax revenue has increased from $51.8 million to $81.9 million, San Jose's from $12.0 million to $26.5 million (general business tax portion), and Santa Ana from $9.3 million to $12.8 million. While economic growth in this timeframe has generally led to increased revenues, these three peer cities in particular have benefitted from concerted efforts to either modernize their ordinances and/or

increase/improve auditing and monitoring efforts. For example, San Jose implemented a Business Tax Amnesty Program in 2012 (and is now embarking on another program), and ran a successful ballot measure campaign in 2016 to modernize their general business tax. Changes to the general business tax included:

- Increasing the tax base and cap;
- Creating a broader and more progressive structure; and
- Adding an annual inflator.

The City of Oakland conducted comprehensive audits in 2015 and 2017 that resulted in one-time recoveries and an upward adjustment to the base. Improved software and monitoring efforts in all three peer cities has also helped ensure collections.

As noted, the Sacramento business operations tax is capped at $5,000. Modernization efforts such as those approved by San Jose voters can result in significantly higher revenues. It is also interesting to note that the City's tax on marijuana businesses has no cap. A marijuana business generating $20 million in gross receipts would pay $800,000 in tax revenue, while a different type of business with the same amount of revenue would result in a Business Operations Tax calculation of approximately $8,000, with only $5,000 remitted to the City.

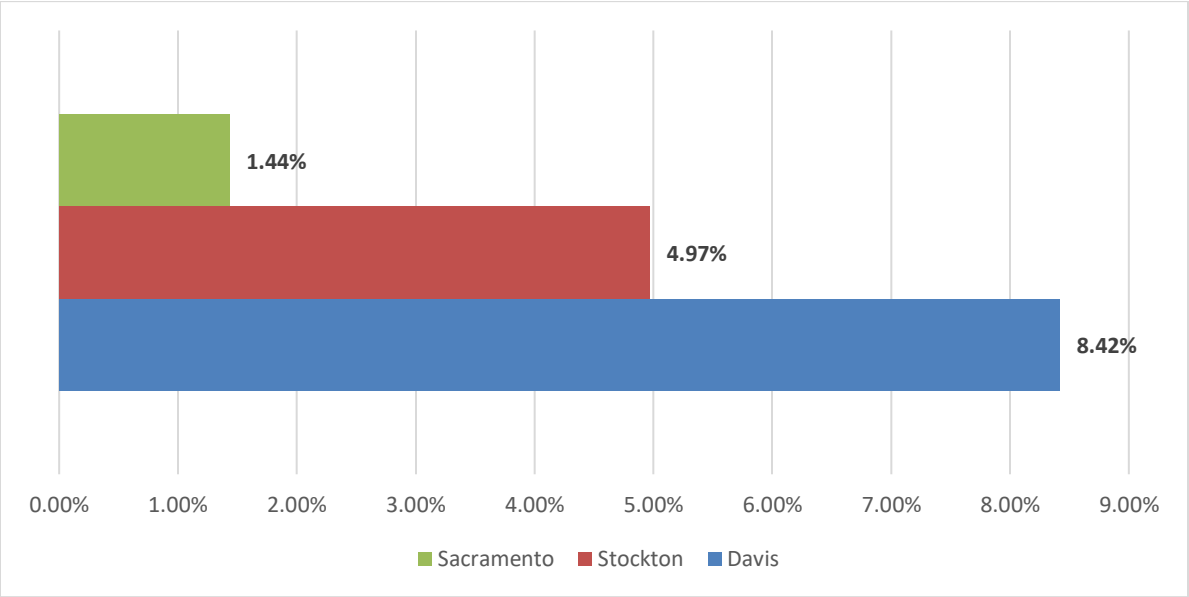
At the request of City staff, Management Partners also reviewed business tax revenue of five jurisdictions proximate to Sacramento: Davis, Elk Grove, Roseville, Stockton and West Sacramento. Elk Grove and West Sacramento staff indicated that their business license revenue is fee-based, so these cities were excluded from the analysis. In California, fees can only recover actual costs for providing services. At best, fees would be revenue neutral and, therefore, would not be helpful in increasing revenue.

In comparing Roseville's business tax revenue growth to Sacramento from FY 2009-10 to FY 2018-19 (estimated), we note that Roseville's per capita growth was 13% as compared to Sacramento's decline of approximately 9% as shown in Figure 29. Additionally, Roseville's total business tax revenue during this timeframe increased by nearly 34% (from $673,578 to $900,675) while Sacramento's revenue declined by approximately 1.1% (from $7.37 million to $7.29 million) as indicated in Figure 27.

With regard to Davis and Stockton, both jurisdictions have passed marijuana business taxes and include this revenue in their budget totals without separating general business tax revenue. In order to draw a direct comparison to Sacramento, Figure 30 shows per capita revenue

growth from FY 2015/16 to FY 2018/19 (estimated) including business taxes associated with marijuana businesses. Per capita revenue growth in both jurisdictions considerably outpaced Sacramento.

Figure 30. Per Capita Business Tax Growth, Proximate Cities, FY 2015-16 to FY 2018-19 (Estimated)[1]



Source: Population data for per-capita based on US Census estimates for July 1, 2018.
[1]Includes business tax revenue associated with marijuana dispensary businesses.

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 will result in equivalent revenue generation. Nevertheless, the City can take positive steps to modernize its ordinance and increase monitoring efforts to improve its business operations tax revenue generation. In 2010, we estimated that if Sacramento doubled per capita revenue, the City could raise an additional $9,300,000 annually. Based on the results of the peer agencies discussed above, we believe the 2010 estimate still holds true.

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 such a tax increase on business retention and recruitment is warranted. This dynamic is less of a concern than sales tax rates as city business taxes generally represent a small percentage of the overall cost of operating a business and are not a significant factor in business location decisions. As previously mentioned, business taxes are classified

in state law as general taxes and can be approved with a simple majority vote.

Recommendation 2. Prepare and submit a local ballot measure to modernize the Business Operations Tax.

E2. Civilianize Administrative Positions in Police and Fire

Strategy Type

Expenditure Control

Impact Estimate

In FY 2018-19, sworn personnel costs added, on average, $74,435 per position in annual expenses as compared to non-sworn personnel. Currently, there are four full-time positions within the Police Department, and three full-time positions in the Fire Department performing duties that do not require sworn status and which could be filled by non-sworn personnel. There may be more such positions in each department, but this analysis was aimed at identifying positions which could be handled with non-sworn or civilian personnel based on position descriptions and successful approaches used in other cities.

The sworn personnel should be reassigned to existing vacant positions within their respective departments commensurate with their training and skills.

In order to estimate potential cost reductions, Management Partners did not rely solely on the difference in costs for sworn and non-sworn personnel referenced above. We also attempted to identify job specifications for non-sworn personnel that closely matched the work being done in the sworn classifications indicated. Then we compared total compensation including salary, benefits and unfunded pension liability. The analysis found that when fully implemented and employees had reached top step, civilianization would save at least $286,000 annually. This analysis does not include any overtime associated with these positions or any costs associated with disability or disability retirement. Additional savings could be realized if additional positions can be converted.

Achievability

Although the City will need to work closely with the Sacramento Police Officers' and the Firefighters' Associations to complete the process, the achievability is considered high.

Background/Analysis

Civilianization is a process involving the replacement of fully attested, sworn police and fire officers with "civilian" staff who have either no police powers or limited police powers and who provide either administrative or specialist support. Over the last 30 years, it has become

more common to fill roles that do not require sworn credentials with non-sworn or civilian employees to more efficiently utilize personnel.

This approach reduces personnel costs in the long run and ensures that sworn officers provide critical public safety services, especially during times when hiring is not keeping up with demand and funds are limited. It is important to note that the actual salary of civilian positions may initially appear higher than that of a sworn employee; however, the difference in retirement costs will result in savings. The approach further allows sworn personnel to focus their tasks on core functions of protecting people and property and shifts a portion of their workload away from administrative and non-core functions. The specific positions identified below are recommended for conversion based upon an analysis of whether police and/or fire duties are required for completion of the workload tasks.

During interviews, the Police Department staff shared examples of recent civilianization successes. For instance, the Department relies on civilian Community Service Officers who provide basic evidence collection related to burglaries and other property crimes, and employs a civilian Public Safety Communications Manager, which was previously staffed by a sworn Police Captain. Hiring the Communications Manager allowed the Police Captain to be reassigned to a position that involves sworn responsibilities. Finally, in FY 2019-20 the Police Department converted a sworn position to a civilian Media and Communications Specialist position that is in the Public Information Unit.

During our interviews with Police and Fire personnel, staff identified several other positions potentially suitable for civilianization, and expressed a desire to continue this trend. The Police and Fire departments are large enough that movement of these positions is likely to be achievable without creating any negative employment actions against existing employees. The salary and benefits savings for the positions identified by City staff are shown in Table 9 and are described in greater detail below.

This should be considered a threshold analysis in that the consultant team did not evaluate every sworn position, instead relying upon the perspective of department leadership. It is quite possible that other positions might be candidates for civilianization over time. A more detailed position by position analysis could discover these opportunities. The threshold analysis shows however some of the potential of this strategy.

Table 9. Potential Savings from Positions Suitable for Civilianization[1]

Classification	FTEs	Top Salary Step Savings
Police: Digital Forensic Investigator	3	$118,913
Police: Volunteer Coordinator	1	$27,213
Total Police	**4**	**$146,126**
Fire: Media and Communications Specialist	1	$66,929
Fire: IT Support Specialist	2	$73,506
Total Fire	**3**	**$140,435**
Civilianization Total Savings	**7**	**$286,561**

[1]Estimated savings based on FY 2018-19 budgeted salary and benefit rates at the top step of each classification as contained in the City's position budget report.

Police

Digital Forensic Investigator

Three sworn employees currently work in the Police Digital Forensics Unit. The forensic work conducted by these officers does not require police powers. All three positions should be considered for conversion to trained civilian personnel. Based on the City's current technology specialist classifications, conversion to non-sworn Digital Forensics Investigators could save $39,638 per position at the top step of the salary range, $118,913 for the three members of the unit.

Recommendation 3. Convert three positions within the Police Department Digital Forensic Unit from sworn to non-sworn positions.

Volunteer Coordinator

The Police Volunteer Coordinator is currently a sworn officer position. This position oversees civilian volunteers and is also a good candidate for civilianization. Based on the City's current coordinator classifications, conversion to a non-sworn Volunteer Coordinator could save $27,213 per position.

Recommendation 4. Convert the Police Volunteer Coordinator position to a non-sworn position.

Police Training Unit

Lastly, the Police Training Unit is staffed by sworn personnel. The staffing in this unit should be reviewed for positions appropriate to convert to civilian employees. A detailed review of this unit was not

conducted and, therefore, estimates for potential savings were not included in Table 9. However, it appears there is an opportunity for additional savings.

Recommendation 5. Conduct an audit of current Police department administrative duties to determine the non-sworn duties that can be consolidated and civilianized.

Fire

During our review, we identified 18 Fire Department positions currently filled by sworn fire personnel that are conducting primarily civilian duties. Of these, the Public Information Officer and two Information Technology (IT) positions should be considered for civilianization. The remaining 15 positions should be studied further by the Department to identify duties that can be shifted and consolidated into non-sworn positions in the future.

Converting the three positions to non-sworn personnel will generate savings of $140,435. Additional savings may be achieved by redistributing the duties of the remaining 15 positions that are involved in outreach, diversity, and peer support duties.

Recommendation 6. Convert the Fire Public Information Officer and two IT positions to non-sworn positions.

Recommendation 7. Conduct an internal audit of current Fire administrative duties to identify non-sworn duties that can be consolidated and civilianized in the future.

E3. Reduce Overtime

Strategy Type

Process Improvement

Impact Estimate

As the City Auditor's Office also found in its 2017 audit report concerning overtime in the Fire Department, improving processes related to the appropriation and use of overtime by departments is necessary to improve internal controls and eliminate unnecessary costs to the General Fund.

The consulting team's analysis shows that 92% of unplanned overtime expenses are attributable to the Police and Fire departments; therefore, changing the way overtime is budgeted and expended in public safety is especially critical.

Some departments view overtime through the lens of salary savings: that overtime is justified if there are commensurate salary savings to cover the added cost. This appears to be the case in Sacramento's Police and Fire departments, where the majority of overtime expense is incurred. We acknowledge that paying overtime to existing employees can sometimes be less costly than hiring additional employees. However, an over reliance on overtime can also be inefficient, impact the workforce and add unnecessary costs, as discussed in the City Auditor's report.

Our experience is that offsetting overtime costs with vacancy savings is a common and appropriate practice when proper internal controls to manage overtime exist and when the overtime is focused on balancing staffing with fluctuations in workload. However, as the City Auditor's report indicated, the City appears to lack sufficient internal controls and proper data to effectively manage overtime; and it is clear that overtime is being used for more than just managing fluctuations in workload.

Additionally, it is noteworthy that use of overtime in Sacramento has been growing substantially. For instance, overtime increased about 264% in the six years between FY 2011-12 and FY 2017-18, an unsustainable 44% per year.

Our experience is that using best practices for data gathering, measuring and reporting can alone help to control unnecessary overtime spending, even without instituting other internal controls or policies that restrict overtime. For instance, we estimate the departments could reduce overtime costs by 2% to 3% annually by simply improving the data and

information technology (IT) systems, which would give department leaders better tools to manage overtime expenditures.

We also believe targets should be set for an additional 10% reduction in overtime expenditures. In the Police and Fire departments alone, these reductions would save between $3.1 and $3.3 million a year.

Achievability

The data needed for Police and Fire Department managers to improve overtime management likely exist within the City's legacy information technology (IT) systems. However, it is clear additional IT resources and assistance will be necessary. The Police Department's finance unit currently develops useful reports from these data figures to assist department management in the early detection of overtime anomalies. However, similar overtime-focused reports are not being created for the Fire Department.

Effective management of overtime through improved business systems (i.e., software) better data and more proactive management is highly achievable.

Background/Analysis

The use of overtime in public sector organizations is common, particularly within functional areas where there is great fluctuation in the regular workload or in the turnover rate, which results in vacant positions. These fluctuations make it more difficult to right-size the number and level of positions required for the workload. Accordingly, most public sector agencies budget for overtime, yet try to manage it carefully.

The fluctuations in the workforce, and thus overtime expenses, have been exacerabated by recruitment challenges and the substantial number of vacancies in the public safety departments. For instance, we understand the City's prior hiring freeze resulted in 100 vacancies in the Fire Department. Further, our experience is that filling vacancies in police agencies has become especially challenging due to an industry-wide shrinkage of the candidate pool for people interested in law enforcement careers. This is in addition to the complex and exacting process for recruiting, testing, conducting backgrounds, and training of police officers. This process, though necessary, adds significant time and costs for police agencies.

Managing overtime costs can be challenging in every department, and especially so in public safety due to the various complexities that are

involved. However, overtime in police and fire departments can be managed effectively despite these complexities.

The City Auditor's Office examined the use of overtime in the Fire Department in a report from February 2017. Among its findings were that a lack of internal controls, including inadequate practices related to FLSA premium pay and overtime, increased the department's costs substantially.

Public safety functions already represent more than half of the City's General Fund expenditures (projected at 55% in FY 2019-20). The growing overtime costs in these departments pose an even larger burden on the budget and limit the resources available to fund other vital programs. However, the Police and Fire departments are not the only overtime-intensive departments funded by the General Fund. Management Partners analyzed the City's FY 2017-18 budget to identify departments whose overtime expenditures exceeded their overtime appropriation by more than $50,000. Table 10 highlights the six departments where overtime expenses are much higher than their overtime allocations.

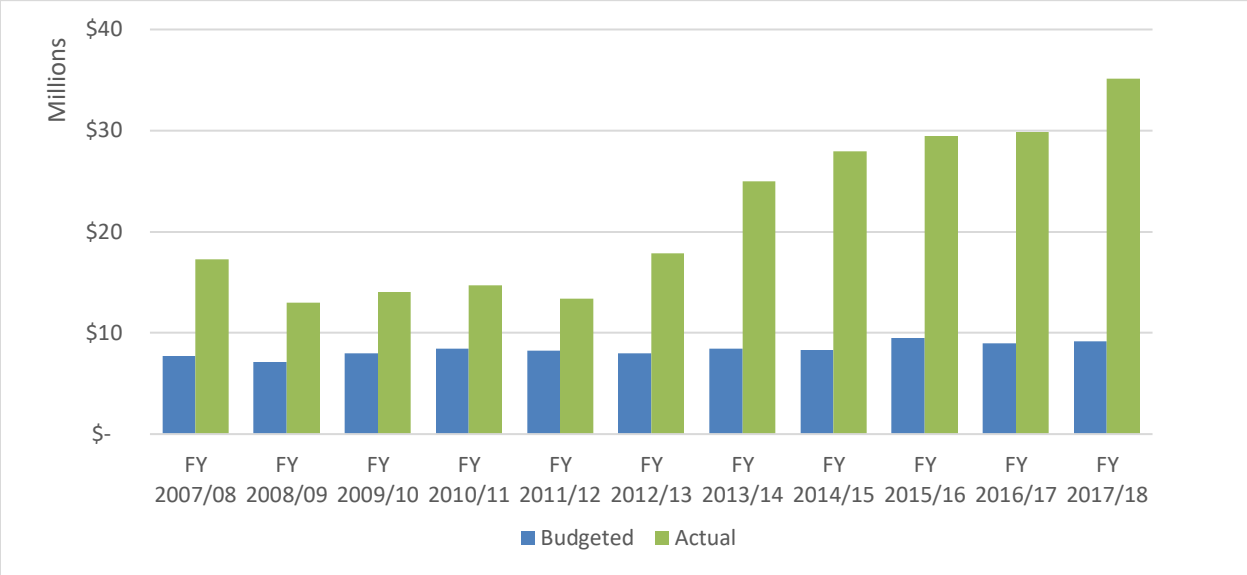
Table 10. Departments with Overtime Expenditures >$50,000 Over Budget in FY 2017-18

General Fund Departments	Budgeted Overtime	Actual Overtime Cost	Over-Expenditure of Overtime
Community Development	$360,223	$628,090	($267,867)
Fire	$3,322,314	$16,059,880[1]	($12,737,566)
Parks and Recreation	$146,157	$643,215	($497,058)
Police	$2,759,717	$9,609,718	($6,850,001)
Public Works	$244,478	$954,838	($710,360)
Information Technology	$.00	$234,803	($234,803)
Overtime Total - General Fund	**$6,832,889**	**$28,130,544**	**($21,297,655)**

[1] Includes overtime related to urban search and rescue, which is reimbursable.

These unplanned overtime costs exceed $21 million, 92% of which are attributable to the public safety departments (32% in the Police Department and 60% in the Fire Department). This problem of unplanned overtime costs has persisted for at least the last 10 years based on our review of City budget data. In fact, as shown in Figure 31, this problem has become more significant over time.

Figure 31. Growth in General Fund Overtime Expenditures, All Departments – FY 2007-08 to FY 2017-18



Source: Sacramento budget data

This chart makes a couple of important points. First, the time period between 2007 and 2012 shows fairly stable overtime costs which proves that overtime can be controlled. Second, while the City has grown since 2012 it is hard to find any reason overtime costs have grown so rapidly, other than lack of control. Indeed, if these costs had grown at half the rate actually observed (or 22% per year) in the last 6 years the savings would amount to many millions of dollars.

Uncontrolled overtime expenditures can devastate an organization's efforts to balance spending with revenues. Moreover, our experience is that excessive overtime has a particularly negative impact on the public safety workforce resulting in fatigue, on-duty injuries, and increased incidents of sick leave.

The City's budgeting practices for overtime should also be reevaluated. For instance, the annual appropriation for overtime changed very little in the 11 year period illustrated in Figure 31. The departments point to this practice and note that it underestimates the actual need for overtime. While these concerns about the budgeting practice are valid, the low budget estimates did not cause the dramatic increase in overtime costs in the Police and Fire Departments during the last 11 years.

Another challenge in better managing overtime in police and fire relates to the lack of data available to department staff who are responsible. We interviewed multiple Police and Fire leaders and found divergent assessments of this data problem. Police leaders generally felt comfortable that they receive the information necessary to understand

and track overtime. For example, they receive visual graphs and data from their Department's finance staff regarding individual employees' use of overtime. Police leaders say this allows them to drill down and truly understand what they spend. While the Police Department appears to be more effective at controlling overtime costs, expenditures in FY 2017-18 were still 348% above the overtime budget.

The Fire Department reports a very different experience. One manager rated the quality of the overtime-related information received as a "C-." Specifically, Fire leaders indicate they do not have ready access to the data necessary to analyze and better manage overtime. The result is that the Fire Department's overtime expenditures during the same period were 483% above the overtime budget. Our understanding is that the Fire Department is working to update the existing Telestaff software with the expectation it will improve overtime tracking.

Providing department leaders with real-time and easy-to-consume data regarding overtime issues, helps them collaborate to implement proven overtime reduction strategies and reduce costs. Although the Police Department is generally satisfied with the data it receives, both departments would benefit from a visual overtime dashboard to allow management personnel to better understand expenditures as they are happening and to develop strategies to optimize overtime. Some report types currently used by the Police Department may be helpful to Fire. These reports could help Fire managers take immediate steps to better control overtime, while additional IT resources and reports are developed to further optimize overtime.

For example, the departments should use payroll, time and attendance, emergency run, work orders and other data points to develop dashboards that organize and analyze the data to answer essential questions. Some of these questions are listed below.

- What are the major trends in overtime over the past few years (by code, by individual, by time, by function, by station)?
- What are the major outliers in overtime over the past few years (by code, by individual, by time, by function, by station)?
- What are the main drivers of the overtime outliers?
- Are there specific overtime codes that no longer represent the work requirements associated with the tasks such codes were originally designed to cover?
- Are there instances of apparent misuse of certain overtime codes?
- To what extent can sick leave be predicted?
- How is overtime correlated with the number and complexity of emergency calls?

- How is overtime correlated with overall staffing levels?
- How is overtime changing as a percentage of all public safety compensation?

Recommendation 8. Establish a cross-functional team including Public Safety, Information Technology and Finance staff to create a dashboard, monitor and provide guidance to all departments regarding methods to manage overtime.

E4. Change Staffing on Ambulances to One Firefighter/ Paramedic and One Firefighter

Strategy Type

Service Delivery Change

Impact Estimate

Salary and benefit savings by changing from a two firefighter/paramedic ambulance staffing model to one firefighter/paramedic and one firefighter model would be approximately $500,000 annually (once all 15 ambulances convert to this staffing model). The savings estimate is calculated based on the salary and benefit cost differential between firefighter/paramedic positions and firefighter positions. However, this issue was previously examined by the City Auditor's Office and there is an open recommendation for addressing it.

Achievability

Based on the recently adopted City budget for FY 2019-20, six new firefighter positions were approved and could therefore facilitate ambulance staffing instead of paramedics because emergency medical technician (EMT) certification is a minimum qualification for hiring. Once they successfully graduate from the recruit academy, these new firefighters, could be placed on six department ambulances. As new recruits are hired, the remaining nine department ambulances could ultimately be converted to the new staffing model. We believe this strategy is highly achievable, though we also note that the change would need to be considered in a labor negotiation context.

Background/Analysis

As a general practice, all Sacramento fire engines are staffed with at least one paramedic. Because an engine always responds to any emergency medical services (EMS) call, the current practice of staffing all ambulances with two paramedic/firefighters ends up providing at least three paramedics on every EMS incident. This response model requires a trained paramedic to drive the ambulance to the nearest medical facility (i.e., they are not treating the patient). A firefighter/EMT could perform the driving task with no impact on the level of medical care currently being provided to the patient being transported. (Some cities use a civilian EMT for the ambulance driver role.)

The proposed model is consistent with the approach used in other California cities.

Like many departments that have made a practice of hiring paramedics exclusively for many years, Sacramento Fire now has a challenge to maintain EMS skills sets with the hundreds of medics that are currently working for the agency. Skills degradation is a common concern of fire department EMS quality assurance staff, and it is generally understood that many fire-based EMS systems need to re-think their staffing practices to achieve an optimal balance of public safety, cost effectiveness and quality assurance.

E5. Conduct a Utility Billing Audit

Strategy Type

Service Delivery Change

Impact Estimate

Savings from utility billing audits vary widely based upon the types of utility bills analyzed, the size and complexity of the audit client, and geography. Documented savings of 2% are not uncommon. However, since Sacramento conducted a utility billing audit in 2012, we assume the savings from a follow-up audit would be 1%.

According to the City's FY 2019-20 Proposed Budget, the Storm Drainage Fund is expected to receive $37,754,000 in charges, fees, and services. The Wastewater Fund is expected to receive $43,019,000, and the Water Fund is expected to receive $139,191,000. The combined total expected revenue from these three funds is $219,964,000. If the City were to realize a 1% increase in revenues as a result of the audit, the increase in revenues would be approximately $2.2 million.

Auditing invoices the City receives for its utilities is another method of ensuring accurate billing and guarding against overpayment. Our experience is that such audits are also conducted by third-party firms and they often result in savings that more than cover the cost of the audit itself. While we believe this would be financially worthwhile given the City's efforts to reduce costs, it is not possible to estimate the potential savings.

Achievability

Utility bill auditing is a relatively mature and competitive industry. There are several national and regional experts from which clients can choose and the use of competitive RFPs is common. In addition, clients can often structure transactions so that the audit costs are paid out of any future savings. This practice helps to mitigate the risk that the City would have up-front costs it would not be able to recoup. We believe this strategy is highly achievable.

Background/Analysis

Audits are common tools for monitoring water, wastewater, and electricity use and costs. Sacramento has a unified billing system that includes water, wastewater, and solid waste utilities. The City is in the process of installing water meters for all customers. When this program is complete, enhanced billing policies can be considered, such as tiered

water rates (where high water users pay more for excess water use) and metered sewer charges (based on winter water use).

About two-thirds of the wastewater collection system in Sacramento is managed by the City. (The other third is managed by the Sacramento Area Sewer District [SASD].) Wastewater is transmitted to the Sacramento Regional Wastewater Treatment Plant, operated by Sacramento Regional County Sanitation District (Regional San). In 2010, Regional San engaged KPMG to conduct a review of the City of Sacramento sewer use charges and sewer impact fees. (Regional San conducts these "reviews" from time to time for their contributing agencies.) The review concluded there was a need for process improvement. KPMG noted a significant number of times where the sewer impact fees were not being assessed correctly and where sewer user charges were being billed incorrectly. They made seven recommendations to improve policies and procedures, internal controls, documentation and recordkeeping, and coordination with SASD.

The outcome of this report illustrated the usefulness of billing system audits as well the specific need related to the City of Sacramento. Regional San issued an RFP for a new audit of the City of Sacramento in 2015. The results of this audit are unavailable at this time.

A related strategy Management Partners considered is to combine the existing utility bills with a non-City utility such as PG&E or SASD. We have concluded this does not merit further consideration because the geographic areas for both PG&E and SASD are vastly different from the City boundaries, and the billing systems are specifically designed for each service.

We understand that the Department of Utilities has conducted past utility billing audits – most recently in 2012. An update to the last audit would provide an opportunity to ensure its recommendations were implemented. Further, we believe an updated audit would allow the City to examine a broader sample of residential accounts, since the prior audit of 100,000 customers was based on a review of only about 25 accounts. Further, periodic audits (every five to ten years) are a best practice and help to ensure accurate billing and revenue capture. This is especially important given Sacramento's complex billing system.

Recommendation 9. Develop a process to continually review utility billing to reduce errors, maximize

collections, and improve data quality and accuracy of utility billing.

Another utility auditing approach relates to analyzing the invoices received by the City of Sacramento for the various utility services it receives, e.g., electricity, telecommunications, gas. This is a best practice because these utility invoices often contain errors. For instance, Engie Impact, one consultant that provides such audits, estimates that 17% of all utility invoices contain errors.

The consulting team's experience is that such utility invoice audits typically pay for themselves and can sometimes be structured in ways that the third-party audit company's fees are paid directly from the savings.

Recommendation 10. Conduct a third-party audit of utility invoices received by the City.

E6. Implement an Energy Savings Performance Contract

Strategy Type

Service Delivery Change

Impact Estimate

Our research and experience indicate that energy savings performance contracts (ESPCs) typically save cities about 10% in energy costs. Based upon budgeted figures provided by the City of Sacramento, an ESPC could save approximately $1.8 million in the current fiscal year, or about $10.4 million over the next five years. Total utility costs for all City departments are budgeted at $18.2 million for FY 2019-20 and have grown about 2.4% per year since FY 2015-16. Utility costs include electric, gas, and water utilities, all of which could be addressed by an ESPC.

Achievability

Although staff reported having a poor experience with an energy service company (ESCO) concept in the past and expressed concerns about the lack of capital to make the necessary infrastructure investments, we believe implementing an ESPC is highly achievable.

Background/Analysis

An ESPC is a partnership between an agency and an ESCO. Typically, the ESCO conducts a comprehensive energy audit for the agency's facilities and identifies operating and capital improvements to save energy. In consultation with the agency, the ESCO designs and constructs a proposed project that meets the agency's energy conservation needs and arranges the necessary financing. The ESCO guarantees that the proposed improvements will generate sufficient cost savings to pay for the project over the term of the contract. After the contract ends, all additional energy cost savings accrue to the agency. The savings are typically guaranteed, and agencies often enter into multiyear contracts. Also, we understand that the City Auditor's Office is currently conducting an audit of the City's various "green" efforts.

Case Studies

Many public agencies deploy ESPCs and experience financial as well as sustainability gains. About 10 years ago, in response to a spike in annual utility costs, the City of Charlottesville, Virginia used an ESPC to reduce energy consumption and costs. The City evaluated 1,478,499 square feet of its municipal buildings and schools. Through the ESPC, the City developed a plan to upgrade lighting, transition to a solar water heating

system and implement water conservation measures. As a result, Charlottesville invested about $1.8 million in the plan improvements and reduced its greenhouse gas emissions by 1,996 tons. These upgrades generated an annual energy savings of 10%.

The United States Government Services Administration conducted an analysis in 2014 of 10 energy savings projects to determine if the agency achieved its goal to reduce energy use intensity by 30%. The study found that the ESPC projects (with contract terms from 12 to 23 years) reduced...

"… energy consumption by 365 billion Btu per year, resulting in a first-year guaranteed cost savings of $10.8 million, which will be used to pay back the investment over time. A key result from the project was the average 38.2% proposed energy savings…[2]

Energy Efficiency Efforts in Sacramento

The City developed a Climate Action Plan (CAP) for Internal Operations in 2016 and has incorporated the comprehensive CAP into the 2035 General Plan. The CAP targets an energy reduction goal of 25% by 2035 (with the baseline of 2005). So far, Sacramento has implemented a number of energy efficiency retrofits including:

- Convention Center lighting project;
- Hart Senior Center and Panatoni heating/ventilation/air conditioning system (HVAC) replacements;
- Kinney Police Station light-emitting diode (LED) retrofits,
- Citywide LED traffic signal retrofit;
- Streetlight LED retrofitting (currently underway and planned for completion in 2020); and
- Swimming pool variable frequency drives.

To complete this work, the City is also partnering with the Sacramento Municipal Utility District (SMUD).

The City also has adopted a Green Building Policy for construction of new municipal buildings. As part of the Green Building Policy, Sacramento implemented an Energy Services Contract with Solar City.

[2] "Energy Savings from GSA's National Deep Energy Retrofit Program" by John Shonder. Oak Ridge National Laboratory, page 2. September 2014.

The contract was a power purchase agreement to provide photovoltaics (PV) solar systems at four City facilities.

While we understand the City's previous poor experience with one contractor, we encourage the City to continue efforts to implement energy efficiency projects, especially when they can be completely funded from energy savings. In addition, approaching the effort comprehensively will connect all of the City's existing policies (i.e., Green Building Policy, General Plan, Climate Action Plan, etc.) and ensure that all potential energy efficiency opportunities are identified. After a Citywide ESPC energy audit has been completed, Sacramento can evaluate the costs and benefits of the various energy efficiency projects identified across the organization and make informed strategic decisions about prioritization.

E7. Implement a Business Operations Tax Amnesty Program and Explore Additional Compliance Opportunities

Strategy Type

Service Delivery Change

Impact Estimate

Subject to state and local laws, well-marketed tax amnesty programs can be an effective tool to capture delinquent payments and increase ongoing revenue collections. An amnesty program associated with the business operations tax represents a significant opportunity that can be replicated for other revenue sources based on initial results. Additional collections enhancements include conducting targeted revenue audits or implementing third-party collections strategies.

The City of San Jose has conducted successful business tax amnesty programs, most recently in 2006 and 2012, and has just established a new program in 2019. Their efforts generated $1.3 million in 2006 and approximately $2 million in 2012. Although San Jose's tax structure is different (Sacramento's tax is based on gross receipts, while San Jose's business tax is largely based on the number of employees a business has), the revenue generation estimates can be scaled because all jurisdictions have substantial numbers of non-compliant businesses or businesses that under-report payments owed.

Based on Sacramento's current business tax revenue level of $7.3 million, and applying San Jose's 2012 collection rate, a successful business operations amnesty tax program could potentially generate a range of $650,000 to $1.3 million in one-time revenue.

Achievability

The City will need to navigate its internal rules and practices with respect to adopting tax amnesty programs. Implementing this strategy is highly achievable.

Background/Analysis

A comprehensive revenue maximization strategy is not only a best financial practice, it is a necessary component in addressing structural budget imbalances. Comprehensive strategies most often consist of targeted and ongoing revenue audits, continuous billing/collection improvements, full cost recovery of fees and periodic amnesty programs.

Currently, the City contracts with a provider to conduct Business Operations Tax compliance reviews that include an outreach component. This effort can be augmented by the recommendations in this strategy to ensure that revenue generation is maximized. An amnesty program will be especially important if efforts are successful to modernize the tax.

Tax amnesty programs generally provide an opportunity for a specific group of taxpayers (those who have not paid the taxes required) to pay back a certain amount owed, usually in a lump sum. Amnesty programs typically include a waiver of interest and penalty payments if the violators come forward during the program period. (For California the statutory limit for collection of back taxes is three years, plus the current year).

The opportunity exists for Sacramento to implement an amnesty program for the Business Operations Tax. A successful model to consider is the program adopted by the City of San Jose. The main components of the San Jose program include:

- A reciprocal agreement with the Franchise Tax Board (FTB) to share taxpayer data for developing contacts (also used for ongoing tax auditing purposes);
- Direct outreach to the business community;
- Waiver of all interest and penalties during the amnesty period; and
- A reduced payment amount for sole proprietors (estimated to comprise 50% of general business in the City).

The 2006 San Jose amnesty program generated $1.3 million in one-time revenue, while the 2012 program generated approximately $2 million in one-time revenue. (San Jose's general business tax was up $2.6 million in FY 2012-13, but some of the increase can be attributable to an improving economy.) It is important to note that amnesty programs, as well as targeted tax audits, also generate ongoing revenue as newly compliant businesses continue to pay the annual tax.

A tax amnesty program similar in nature to that of San Jose could potentially generate more than $1 million in one-time revenue and result in a modestly higher level of ongoing revenue.

Another option for capturing past due payments is to increase the use of an outsourced, third-party collections strategy for taxes and/or fees. Collections work is typically utilized for high-volume and highly repetitive collections. Economies of scale are important both to keep costs

low and to capture a high level of collections. We recommend that the City explore using a comprehensive, third-party collections agency for all its outstanding fines and fees. The collections industry is generally highly efficient, and a well-managed procurement process could yield meaningful results.

In our experience, most firms providing this service work on a contingency basis where the third-party partner pays itself out of incremental collections. For targeted tax revenue auditing (which typically occurs on a one-time basis), however, it is recommended that fixed fee arrangements be pursued rather than contingent fees. A targeted procurement process could be utilized to solicit proposals for revenue audit work.

Recommendation 11. Implement a business operations tax amnesty program and explore additional tax/fee compliance opportunities based on results.

E8. Update Pavement Cut Fees

Strategy Type

Service Delivery Change

Impact Estimate

Sacramento has the authority to adjust the pavement cut fee based on an analysis of all costs occasioned by such excavations. Our analysis shows that implementing a fee adjustment similar to one recently taken in Los Angeles could generate from $1.7 to $2.4 million in additional annual revenue which could be used for certain capital facilities and maintenance.

Achievability

One of a city's most valuable assets is its streets and the associated rights-of-way. Utilities use these rights-of-way and often need to make pavement cuts to install or maintain their assets. Many cities have not discovered that the full cost of the damage incurred from a pavement cut is larger than calculated. Consequently, they do not charge as much as necessary to fully recover the costs for such cuts. The result is a deterioration in pavement condition which becomes a responsibility of the City. Shifting this (or any) burden to the City, when it should be funded by private entities, magnifies the challenges of finding sufficient funding for other capital improvements and infrastructure maintenance. Los Angeles recently adopted a fee revision that will increase revenues from pavement cut fees by nearly ten-fold (up to $70 million annually). Adjusting the pavement cut fee is highly achievable.

Background/Analysis

Sacramento requires the execution of an encroachment permit to make a pavement cut. The fee for this encroachment is established by the Sacramento City Code as "not to exceed an amount reasonably necessary to recover the estimated costs of all future maintenance, repair, or resurfacing that would be necessary to fully mitigate the damage and degradation caused by the excavation." The fee decreases with the age of the street surface and is established by resolution of the City Council. Sacramento's current per-linear-foot pavement cutting fees are shown in Table 11.

Table 11. Sacramento Excavation Cost Recovery Fees Per Linear Foot, by Age of Street Surface

Surface Age	Transverse Cut	Linear Cut
Less than Five Years	$7.00 per foot	$3.50 per foot
5 to 10 Years	$6.00 per foot	$3.00 per foot
10 to 15 Years	$4.00 per foot	$2.00 per foot
Over 15 Years	$2.00 per foot	$1.00 per foot

Source: City of Sacramento Fees and Charges Database

In 2017, the City of Los Angeles conducted a Street Damage Restoration Fees Study to establish the impacts of pavement cuts on City roadways and determine appropriate cost recovery fees for street maintenance and repair. Los Angeles' Street Damage Restoration Fees were established in 1996. As a result of the study, Los Angeles revised its Street Damage Restoration Fees (SDRF) for the first time in 2018. Prior to the fee revision, Los Angeles's charges were based on the square footage of the trench, street classification, and age of surface. The new structure simplifies fees into two categories: Local Streets at $8.24 per square foot and Select Streets at $19.44. Select Streets are those that carry greater traffic loads. These changes increased revenues from street cut recovery fees from $8.3 million in FY 2017-18 to an estimated $70.7 million for FY 2018-19. A summary of Los Angeles' pre-and-post-revision Street Damage Restoration Fees is provided in Table 12 below.

Table 12. City of Los Angeles Street Damage Recovery Fees, Original and Revised

SDRF Version	Local Streets per Square Foot (SF)	Select Streets (per SF)
Original	$5.18 to $7.78	$14.18 to $21.26
Revised	$8.24	$19.44

Source: City of Los Angeles Municipal Code, Section 62.06

Based on the range of potential fees received by Sacramento, as detailed in Table 13, we estimate that the City issues permits for approximately 86,000 linear feet of excavations per year.

Table 13. Estimate of Linear Feet of Excavations, per FY 2019-20 Budgeted Revenue

Range	Fee	FY 2019-20 Budgeted Revenue	Revenue/Fee = Linear Feet
Lowest Excavation Fee per Linear Foot	$1.00	$150,000	150,000
Highest Excavation Fee per Linear Foot	$7.00	$150,000	21,429
Midpoint of High and Low Linear Feet Range (Average Linear Feet)			85,715

The City currently charges for excavations based on linear feet, without considering the width of the excavation. For example, the fee for a 12-foot long transverse cut would be $84.00 plus base encroachment fees,

regardless of whether the trench is six inches wide or five feet wide. However, a six square foot trench (12' x 0.5') causes less damage to the road surface than a 60 square-foot trench (12' x 5'). A revision to the Excavation Cost Recovery Fee should therefore be based on square feet, which would more accurately reflect the impact on road surfaces.

The average linear feet for excavations calculated in Table 13 above represents our best estimate for linear feet of cuts to City road surfaces performed in one year. To approximate the number of square feet represented by the same level of annual excavations, we assumed a typical trench width of three feet, or approximately 254,144 square feet of excavations per year. This forms a basis for comparing possible fee revision scenarios, using the same assumptions regarding fee calculation and the area of road surface being excavated. We believe that cost recovery fees should be more aligned with the lifecycle needs of the asset than the depreciated value of the asset. Therefore, it may not make cost recovery sense for fees associated with trenching in older streets to be at lower rates.

Our estimates for potential revenues under a revised fee system are shown in Table 14, below. The first fee scenario charges all pavement cuts at the current rate for surfaces that are less than five years old. The second scenario increases the current top rate by 5.9%, the same approximate adjustment applied to the top Local Streets fee by the City of Los Angeles. The third scenario is a $10 per square foot flat fee, accounting for differences in repair costs for low-capacity and high-capacity street surfaces. These scenarios provide a range of between $1.7 and $2.4 million in potential new revenues.

Table 14. Potential Revenue from Revised Pavement Cut Fees

Fee Scenario	Excavation fee per SF	Annual SF	Estimated Total Revenue	Potential New Revenue
Scenario 1: Based on current top rate	$7.00	257,144	$1,800,005	$1,650,005
Scenario 2: Based on Los Angeles increase of 5.9%	$7.41	257,144	$1,906,432	$1,756,432
Scenario 3: Cost recovery for low and high capacity streets	$10.00	257,144	$2,571,435	$2,421,435

Sacramento may benefit from a street damage restoration and recovery study like the one performed in Los Angeles to determine if the current pavement cut fee is adequate to recover the full costs related to the pavement damage. Developing an estimate of potential new revenues from a revised Excavation Cost Recovery Fee would require an in-depth study of the fees charged at each existing age bracket for both

longitudinal and transverse cuts, as well as an audit of the impact of excavations on the City's street surfaces. If warranted by the study findings, the City should consider proposing a fee revision to the City Council.

Recommendation 12. Conduct a street damage restoration and recovery study to ensure that the excavation cost recovery fee captures all related pavement life cycle costs.

Furthermore, the City may also consider establishing a moratorium on street cuts for a specified period following a pavement resurfacing project. Five years is the most common moratorium period among jurisdictions that have enacted this policy. The impacts of cutting an asphalt street are highly variable based on circumstances but, as part of its 2017 Street Damage Restoration Study, the City of Los Angeles estimated up to a 66% decrease in functional life.[3] This reduction in useful life and asset value is especially harmful in the case of new streets, which have otherwise not experienced significant depreciation. The study also found that street surfaces that had experienced trench cutting had PCIs that were, on average, 11 to 15 points lower than non-cut surfaces.

Recommendation 13. Establish a moratorium of five years on pavement cuts following new street construction or major resurfacing projects.

The City has an internal coordination team, the Advanced Planning and Asset Management Group, that meets to help coordinate on construction and maintenance. The plan is for the Group to expand its collaboration to include non-City utilities, such as PG&E, SMUD, Verizon, and various 5G partners. The Group currently relies primarily on meetings, phone calls and emails to coordinate activities. Unfortunately, meetings, phone calls, e-mails, and trading spreadsheets are time consuming and are not as efficient as web and map-based right-of-way management tools.

Time-management research estimates that use of email for coordinating professional work may contribute to a productivity loss of 63 minutes per day checking for updates, addressing notifications, or locating and sorting project-critical emails.[4] We used this research as a proxy for daily

[3] "Street Damage Restoration Fee Study" Shahin and Associates. City of Los Angeles Bureau of Street Services. June 2017.

[4] "How to Spend Way Less Time on Email Every Day" by Matt Plummer. Harvard Business Review. January 22, 2019.

time coordinating project management activities with inefficient tools. Assuming improved tools could reduce coordination time by half, we estimate potential savings of up to 7%, or $530,113 for FY 2019-20, based on payroll costs for the Advanced Planning and Asset Management Group; and the Pavement, Concrete, and Streets Maintenance Groups.

E9. Reduce the Number of Take-Home Vehicles

Strategy Type

Process Improvement and Service Delivery Change

Impact Estimate

The City has an inordinately high percentage of take-home vehicles as compared to the size of its fleet. A spreadsheet provided by the Fleet Management Division showed a total of 432 vehicles have been authorized as take-home vehicles on a full-time or seasonal basis[5]. This issue was also addressed in two reports prepared by the City Auditor's Office in December 2011 and June 2019, which also concluded that the number of take-home vehicles resulted in substantial costs.

We estimate that the City may be able to reduce the number by as many as 300 vehicles, while still being able to maintain necessary after hours and emergency response coverage. For the purpose of estimating the impact of such a reduction, the following conservative assumptions have been made: the average round trip for a take-home vehicle is 20 miles; the current IRS standard mileage rate is $.58/mile; the reduction in vehicles is estimated at 300; and there are 260 work days per vehicle per year. Over the course of one year, the impact estimate for mileage alone is $904,800. These savings will accrue to the various funds that support the respective department or program.

Management Partners understands that, in some instances, the City has factored the value of take-home vehicles into the total compensation for certain employees. In these instances, the reduction of take-home vehicles is likely to result in negotiations that could offset savings, though it is not possible to estimate the amount of such an offset. However, as noted above, the estimated savings are for vehicle mileage alone and do not include the additional liability or long-term fleet costs such as vehicle replacement.

A side benefit that cannot be calculated or estimated without additional data is related to proper use of City vehicles for City business. San Joaquin County, California; Indianapolis, Indiana and Evansville, Indiana found an excessive amount of staff using vehicles for personal use, which

[5] According to the Fleet Management Division, seasonal take-home vehicles are those which are assigned in six-month increments.

shortens the life of the vehicle and drives up fuel costs, in addition to potential increases in accident and damage repair costs.

Achievability

Re-assessing the need and number of take-home vehicles is a common problem in many public agencies because, without clear policies and uniform implementation, the use of city vehicles tends to grow over time. Our experience is that this is a problem in many organizations. Addressing it saves money in a variety of ways and reduces unnecessary liability. Further, the almost one-in-five ratio of take-home vehicles in Sacramento alone is cause for a reevaluation of existing policies and practices. As noted previously, changes to take-home vehicles may require negotiations with affected bargaining units. Given the potential that certain take-home vehicle assignments could require negotiation with the bargaining unit, we rate the achievability of this strategy as moderate.

Background/Analysis

It appears the number of take-home vehicles citywide has increased over time. For instance, the City Auditor's previous analyses showed a total of 358[6] take-home vehicles. However, as noted above, recent data provided to the consulting team by the Fleet Management Division reflect a total of 432 take-home vehicles. Table 15 summarizes these take-home vehicles by department or functional area.

Table 15. Distribution of Take-Home Vehicles by Department or Functional Area

Department/Functional Area	Number of Take-Home Vehicles Authorized	Percent of Total
Fire Department	21	4.86%
Fleet Management	4	.93%
Information Technology	2	.46%
Miscellaneous	41	9.49%
Police Department	197	45.60%
Water, Wastewater, Drainage	167	38.66%
TOTAL	432	100.0%

Source: Fleet Management Division

One interesting point of comparison is that the number of take-home vehicles authorized by the Police Department declined almost 10%, from

[6] A 2011 report by the City Auditor's Office concerning light-duty vehicles identified 243 take-home vehicles, and its 2019 report about the Department of Utilities fleet estimated an additional 115 take-home vehicles.

218 in 2011 to 197 in 2019. This is important because the Police Department has the largest share of take-home vehicles and it generally has the strongest rationale for authorizing them. However, the overall number of take-home vehicles is still large. It represents almost 20% of the City's 2,179-unit on-road fleet inventory, and this does not include City vehicles that are taken home on an on-call, standby basis.

The City's policy regarding take-home vehicles is addressed in the Administrative Policy Instructions (API #21). The policy was last revised in 2001 and another revision is currently being drafted. There are four variations of take-home vehicles referred to in the Transportation Policy as described below.

- "Duty Hour Retention" means vehicle assignment on a continuous basis during duty hours.
- "Overnight Retention" means that an individual may be assigned overnight retention of a City vehicle when it is deemed in the public interest and the task(s) to be performed require(s) immediate response during off-duty hours.
- "Seasonal Overnight Retention" means that an individual may be assigned overnight retention of a City vehicle for a defined period of time.
- "Intermittent Overnight Retention" means that an individual may be assigned overnight retention of a City vehicle when task(s) performed require employee's presence at times other than their normal work schedule.

The assignment of city-owned vehicles is covered in Section 7 of the policy and states that

> *"All individual vehicle assignments must be justified in writing to the City Manager prior to the assignment and are subject to periodic review. City vehicles may be assigned to individuals when essential to the City for public safety, on-call assignments, and other special or emergency assignments."*

The City of Sacramento does not have a formal vehicle assignment policy containing criteria to justify the need for a vehicle.

However, all vehicles, including take-home units, are reviewed annually by the Fleet Management Division but the focus is on identifying underutilized units. This review uses a 5-year, 6,000-mile average as a minimum standard. Departments are required to fill out an "Underutilized Vehicle Retention Justification Form" if their vehicles do not meet the 6,000-mile minimum criteria. This form is used to justify

why the vehicle should not be turned in and how returning the vehicle will impact the department's operations.

To our knowledge, the 6,000-mile minimum standard used by the Fleet Management Division is applied to all light- and heavy-duty vehicles. Furthermore, it does not consider construction-type, hour-metered units. This "one size fits all" approach is common among government organizations. However, it fails to consider that vehicles and equipment perform different functions with various mileage characteristics. For example, a police patrol vehicle will travel as much as five times the annual mileage that a pick-up truck belonging to the Street's division will travel. Vehicles used within a water treatment plant setting will never accumulate the mileage that a Parks and Recreation vehicle would use.

The study and new policy should further establish a minimum number of callouts to justify assigning a take-home vehicle. Together, they can form the basis for determining if a city vehicle qualifies to be taken home or whether an alternative means of transportation should be considered such as reimbursing an employee for using their own vehicle or drawing a vehicle from a pool. Justifying the use of an assigned vehicle or piece of equipment, computing minimum utilization standards and identifying alternative means of transportation would normally be addressed as part of a fleet utilization or "right-sizing" study.

Assigning a certain number of take-home vehicles, based upon specific and definable criteria, is a best practice. The most common examples are vehicles for Public Works staff who work on emergency repairs, and police detectives who may need to go directly to a scene at any time during the day. As part of the analysis for determining need for take-home vehicles, the following questions should be asked on a case-by-case basis:

- Who has the vehicle and what is their job title?
- Why do they need the vehicle?
- Do any supervisors need a take-home vehicle, or will the calls be handled by lower-level staff?
- Does the need fall in line with business needs for after-hours service and emergencies, or is it simply a convenience for the employee to have the vehicle?

The City Auditor reports from 2011 and 2019 also addressed these issues and we understand there are open recommendations which have not yet been implemented. Moreover, we understand that certain take-home vehicle assignments have been made to augment the City's compensation

and benefits package. In other words, changes to these policies could raise issues in a collective bargaining context.

E10. Automate Human Resources (HR) Processes

Strategy Type

Process Improvement and Service Delivery Changes

Impact Estimate

This strategy is a broad approach to automating HR systems such as making appointments to exempt positions, compiling employee data, and processing Personnel Action Requests (PARs). There are many other examples of HR workflows that could also be automated. Therefore, our recommendation is to automate HR processes to the maximum extent possible. This will save many hours of human labor and improve productivity.

Our financial analysis focused on processing PARs to illustrate how much money potentially could be saved by automating just one workflow or process. To do this, we first estimated the minutes spent processing a single PAR; then estimated the number of times per year a PAR is processed for each full-time employee, and each temporary or seasonal employee. Then we multiplied the result of these estimates by the expected fully loaded cost of manually entering the data into the system a second time by HR staff.

The City's PAR form is currently a PDF-fillable document that must be completed by the requesting department, and then re-entered into the HR system by HR staff. The duplication of effort by not having an automated system adds unnecessary costs to the City.

The Human Resources Department estimates the City processed 5,000 PARs in FY 2018-19. They explained this estimate was based on processing one PAR for each full-time employee per year; and, approximately two PAR's per temporary and seasonal employees. The department also estimated it takes 10 minutes each for both the requesting department and HR staff to process a simple PAR, with more comprehensive ones requiring 20 minutes each. However, the HR staff will still need to verify data entered by the departments. Therefore, the This represents a range of 15 to 35 minutes to process a PAR.

As noted above, the problem with the current system is that each PAR has to be filled out twice. When a PAR is submitted to HR, a personnel technician manually enters the form's data into a PeopleSoft database. The fully loaded hourly cost for data entry in HR is estimated at $42.88/hour.

Therefore, eliminating the extra data entry task in HR would save 5 to 15 minutes for each PAR. This represents 417 to 1,250 hours, or an equivalent cost of $17,900 to $53,600.

Automating just the PAR form can save at least $17,900 per year in labor. However, this is just one example of an automation opportunity. An article by McKinsey and Company[7] found that four out of five HR processes are at least partially automatable, with the potential to reduce costs by at least 30%. We estimate there are at least 10 such manual processes in the Human Resources Department. Using the modest savings illustrated in the PAR example as a proxy, this could represent a savings of over $179,000 annually if these positions were repurposed to fill other vacancies in HR or other departments. In other words, the cost savings would necessitate lowering the overall FTE count.

A common criticism of automating paper processes is that the time saved represents a small fraction of the overall work effort of any single position and therefore the savings are not worth the effort or investment. However, labor gets more expensive every year and using it as productively as possible is important in large and small ways. In addition, as shown in the studies cited in this analysis many corporations have aggressively used this strategy to increase productivity.

Achievability

During interviews, HR department staff expressed an interest in shifting away from their current paper-based processes to a more automated approach. The achievability of this strategy is moderate. Automated HR processes are standard practice in other organizations of Sacramento's size and complexity. Transitioning to such technology will require Information Technology (IT) department support (either in-house or from outside consultants) to develop tools that meet the specific needs of the HR department, training for staff, coordinated implementation, and regular updating and system maintenance.

Background/Analysis

Management Partners understands that the Human Resources and Information Technology departments have already begun efforts to improve automation and that there are already several areas where e-tools and processes are used regularly, but opportunity exists to expand

[7] Andersen, Jens Riis, et.al., *"How governments can harness the power of automation at scale."* Public Sector Practice, pages 1-6. February 2019.

and improve on these efforts. Some of Sacramento's human resources processes are still handled manually with a paper system. Given the repetitive nature of many of these functions, there is a significant opportunity to automate these tasks. Doing so would reduce bureaucracy, save time, lower costs, improve the user experience, enhance data collection and reporting, and reduce errors.

A prime example of the problem is the City's PAR, which is available electronically, but requires employees to complete the form, print it out and route the physical document to various recipients for approval. Once it reaches HR, staff must transfer the data from the paper form to the City's human resources management system (PeopleSoft). The City reports that the IT department is working on a project to fully automate the PAR, albeit with very limited capability. PARs are currently used to document and approve a wide range of personnel actions. The IT department project is underway and will create an electronic version that can be used for only two actions: new hires and rehires. However, expanding this effort to fully automate all routine personnel actions, including an online routing and electronic approval process, would create considerable efficiencies Citywide by saving time, improving accuracy and contributing to enhanced recordkeeping and data collection.

An online publication by Ascentis Software, "Cost Savings in Automating HR & Benefits" notes that the Society for Human Resources Management says that *"60% to 80% of an HR staffs' time is tied to repetitive administrative tasks. Much of this time is spent answering employee and manager questions and gathering information for reports."* The amount of paperwork generated in traditional HR management is significant but can be controlled by automating processes and creating a self-service portal for employees. This frees up HR staffs' time to focus on core processes, like training and coaching employees.

Another benefit of an automated system would be a reduction in staffs' time needed to complete HR audits. A single electronic portal would simplify data queries for HR staff and the organization's employees. In addition, modern electronic systems have layers of security consistent with the needs of large cities like Sacramento which would help reduce errors related to the release of confidential information. Finally, an automated system could allow the City to create a dashboard to track key HR metrics and other information.

The HR Department reports that several years ago the City solicited proposals from qualified firms to begin the process of digitizing forms and other documents. The City received a cost estimate of $250,000 to automate just processing new hires through an automated PAR system.

The department determined the cost of an external vendor to implement only one type of transacation did not make sense when there are more than a dozen types of transactions that need to be automated. As a result, the City's Information Technology Department was asked to assist. The limited project described above is the result.

Many other opportunities exist for this Department and others to eliminate paper. For example, the City's process of appointing employees to exempt positions requires a printed appointment letter, routed to and signed by multiple executive staff, all the way up to the City Manager. An electronic process would reduce the time involved for this routine transaction.

Compiling employee data is a third area identified for improvement. Much of this information is submitted on paper forms such as the annual Supplemental Employment questionnaire and the Alternative Work Schedule declaration. An online process would be more efficient for employees and would create a database for improved tracking and recordkeeping.

Training and certification courses are currently offered online through a public safety focused Learning Management System (LMS) called Target Solutions, and in-person from a variety of sources. The HR Department reports an upcoming transition from Target Solutions to SumTotal, a comprehensive LMS that empowers employees across departments to search the training they need to enhance their performance and grow their careers.

As Sacramento continues to streamline services and programs through enhanced use of technology, it may find collaborating with human resources consultants helpful in automating tasks such as background screening, drug testing, compliance and benefit administration.

Recommendation 14. Automate human resource and other support service processes and workflows to streamline tasks and eliminate manual systems.

E11. Explore Opportunities to Implement Managed Competition

Strategy Type

Service Delivery Change

Impact Estimate

Based on available case studies from comparable cities, we estimate implementation across all departments could save between 3% and 8% of costs on a number of programs identified below. Summaries of two relevant case studies are included in Appendix 2. The net result from implementing all managed competition opportunities is approximately $3.0 to $8.2 million per year. The wide variance in potential savings is dependent upon the number of available and interested private service providers in the Sacramento area that may wish to bid on such potential contracts.

Achievability

The City will need to navigate its internal rules and practices with respect to contracting and outsourcing. It is also likely that this recommendation could require collaboration with one or more of the City's labor unions. Within the State of California, other major cities like San Diego have implemented managed competition programs. We believe this strategy is moderately achievable.

Background/Analysis

Managed competition is a structured program in which public employees compete for the right to continue to deliver public services. The objective is to secure the best value for taxpayers, whether the service is outsourced or provided by the jurisdiction. The City already uses contract providers for certain services, and managed competition is simply an extension of that practice that engages public employees as competitors.

The concept of managed competition allows the private sector to compete with governments to bid to provide services currently provided by the organization's departments. The government agency designs the criteria and bid components for its departments, and then invites private firms to compete to deliver. The benefits to the community include reduced customer costs and increased public confidence that the services provided are cost competitive. Moreover, managed competition offers other benefits such as the potential to increase revenue without increasing costs. The process can improve customer service through the inclusion of

competitive qualitative performance criteria. Also, managed competition allows governments to focus more on core services where staff may lack the capacity and expertise within the organization.

The City of Phoenix has relied on the process of managed competition since 1979. Staff in the Phoenix Solid Waste Division reported in a 2011 interview that managed competition saved the taxpayers $38 million[8]. The City of San Diego has a long history of using the alternate service delivery model. It conducted four phases of managed competition from 2010 through 2015. The process over that four-year period resulted in an estimated savings of $9 million. The City of Chicago also instituted managed competition for its Blue Cart recycling program in 2011. According to the City's projections, it saved $4.7 million in recycling costs in the year following implementation or about 3% of the $144 million budget for recycling and sanitation.

In 2017, the City of Sacramento began a process that resulted in managed competition. In July of that year, the City Council authorized the City Manager to explore negotiations with the Sacramento Kings, SMG and Live Nation to operate one or all of the City's various convention center venues. After approximately one year of negotiations, the City determined, based on several operational and process improvement changes made by staff in the Convention and Cultural Services Department, that it was in the public's interest to allow the City to continue operating the Convention Center complex venues.

Based on the savings ranges observed through managed competition in San Diego and Chicago, we have provided estimated ranges of potential savings for various services provided by Sacramento in Table 16. The total cost of these services is taken from line-item budgeted personnel expenses (salary and benefits) from the FY 2019-20 budget. Given that savings under managed competition can be highly variable, we have calculated amounts based on 3% and 8% of personnel costs. These proportions represent the savings seen in Chicago's Bureau of Sanitation and San Diego's Fleet Maintenance Operations Division and constitute what we believe are reasonable ranges given the results experienced in other cities. Potential savings at each level are estimated in thousands.

[8] "Governments Save Money Using Managed Competition" by Hilton Collings. Government Technology. January 17, 2011.

Table 16. Potential Managed Competition Savings of 3% and 8% for Select City Services, in Thousands

Type of Service	Total Expenditures (Thousands)	3% of Expenditures (Thousands)	8% of Expenditures (Thousands)
Solid Waste	$59,178.3	$1,775.3	$4,734.3
Parking Operations Maintenance and Enforcement	$36,064.9	$1,081.9	$2,885.2
Pavement Maintenance	$6,434.3	$193.0	$514.7
Concrete Maintenance	$470.9	$14.1	$37.7
Traffic Signal Maintenance	$1,247.0	$37.4	$99.8
Street Light Maintenance	$3,995.0	$119.9	$319.6
Street Marking	$2,193.2	$65.8	$175.5
Streetscape Maintenance	$3,940.6	$118.2	$315.2
Urban Forest Maintenance	$5,096.4	$152.9	$407.7
Park Operations and Maintenance	$13,708.3	$411.2	$1,096.7
Aquatics Operations and Maintenance	$1,691.3	$50.7	$135.3
Facility Maintenance	$4,847.2	$145.4	$387.8
Fleet Maintenance	$14,953.4	$448.6	$1,196.3
Marina Operation and Maintenance	$789.5	$23.7	$63.2
Convention Center Operation and Maintenance	$4,709.1	$141.3	$376.7
Historical Site Operation and Maintenance	$2,395.8	$71.9	$191.7
Golf Administration	$67.9	$2.0	$5.4
TOTAL	**$161,873.1**	**$4,853.3**	**$12,942.8**

Source: Line-item data for Proposed FY 2019-20 Budget for the City of Sacramento

The City would benefit from identifying services within each department to include in a managed competition request for proposals. As noted above, taxpayers benefit from the results of managed competition through either streamlined public services or outsourcing the service to a third-party provider, and service cost reductions (i.e., revenue enhancements and/or expenditure reductions). The process also provides for greater public transparency about the true costs to deliver public services.

Since an in-depth and concurrent analysis of each of these program areas would be infeasible, the next step would be for the City to prioritize the program areas and select two to three programs to analyze each year.

Recommendation 15. Prioritize the program areas and select at least two to analyze in-depth annually for the next several years.

E12. Continue to Innovate Parking Services

Strategy Type

Service Delivery Changes

Impact Estimate

Maximizing the revenue potential through simple efficiencies will increase parking revenues. This can be achieved through a combination of introducing Sunday metering and daily demand-response parking rates. A conservative estimate of $1.4 million in gross revenue is expected by simply introducing Sunday meter rates and enforcement. However, this change would also result in increases for both one-time equipment costs and ongoing labor costs. Consequently, the additional net revenue is estimated at $875,000 to $1.0 million annually, however, this revenue may not accrue to the General Fund.

Achievability

We believe this strategy is moderately achievable.

Background/Analysis

Management Partners was impressed with the work done within the Parking Services Division. The Division has been creative about making the City the "front door" for parking services and setting Citywide parking policies and technology strategies while simultaneously incorporating private property into the available inventory. We were especially impressed with the Division's willingness to "fail fast" using pilot programs, its desire to partner when possible, a tolerance for business and political risk, and for its policy analysis of curb space management and overall transit interoperability. Nevertheless, there are additional opportunities to generate revenues based on our review of the City's parking practices.

City regulations have established parking meter fees for Monday through Saturday, but parking at meters is free on Sundays. Among the peer cities, Long beach, Minneapolis and Phoenix charge for Sunday parking for all or most metered spaces (Long Beach excludes some downtown parking from Sunday fees but not in the downtown core). The City of San Jose charges for metered parking on Sundays in the vicinity of HP Pavilion when events are occurring. The cities of Denver and San Diego do not apply metered parking charges on Sunday.

Given Sacramento's vibrancy, the Division should evaluate expanding the parking meter fees by including Sundays. Sacramento's FY 2019-20

budget estimates parking meter revenues at $11.6 million. Based on meter usage, pricing structure, and revenue data provided by the City, and adjusting downward for expected reduced traffic on Sundays, introducing parking meter fees on Sunday could generate between $1.1 and $1.3 million in gross revenue. There would also be an estimated $300,000 in additional citation revenue. It is understood that labor expenses, transaction fees, and State remittances will offset revenues. However, accounting for these expenses, the net revenues are still estimated to range from $875,000 to $1.0 million annually.

The consulting team considered the potential impacts of these changes on businesses and, therefore, on the City's sales tax. A complete analysis of this issue would be difficult because it would rely on highly speculative assumptions.

However, if parking meter rates were set at an absurdly high level, and no other reasonable parking alternative existed, there could in theory be some impact to businesses and the City's sales tax. However, our expectation is that meter rates would be set at market levels and this would ensure little or no impacts to businesses.

Recommendation 16. Expand market-based parking meter fees and enforcement to Sundays.

Disabled parking is widely abused across the nation, including in California[9]. The problems associated with this abuse include a loss of revenue, adverse effects on parking availability for disabled individuals and the inability to regulate parking through the current pricing model. The latter two of these problems have also been addressed in a City Auditor's report from February 2019.

Given its role as a statewide leader on parking issues, the City should continue to explore whether it could build a coalition of cities to address the fraudulent use of disabled placards in the state. Because disabled parking is regulated by State law, it would take State action to modernize and improve the system. There are, however, proven technology solutions available to dramatically reduce fraud, which helps ensure parking is available for those truly in need.

The City Auditor's Office has previously examined this issue and provided recommendations for addressing it.

[9] "High Cost of Disabled Parking Abuse" NBC Los Angeles. August 21, 2014.

E13. Use Design-Build to Expedite the Completion of Capital Improvement Projects

Strategy Type

Process Improvement

Impact Estimate

The precise impact of using a Design-Build approach varies from project to project, but studies indicate a range of potential savings over traditional Design-Bid-Build project costs, and faster project completion times [10]. These factors are important considerations for long-term capital improvement planning and ongoing operational support costs.

Adoption of a Design-Build approach by Sacramento could result in substantial cost and time savings associated with capital project construction. Based on information referenced in a 2005 Design-Build Effectiveness Study (see also the footnote below), we believe the City could see a cost savings of approximately $6.8 million a year in the CIP, plus an additional $741,000 in the General Fund, if the magnitude of capital projects remains fairly consistent.

Achievability

Design-Build projects have recently been specifically authorized for California communities. We rate the achievability as moderate.

Background/Analysis

Design-Build projects, and related methods such as "Design-Build-Finance-Operate-Maintain," combine professional design services and construction into a single contract. Design-Build has been successfully and widely utilized for decades in the private sector and by larger cities across the country, but has been slow to develop in California, in part due to the State's historical opposition toward the practice in favor of the tradition Design-Bid-Build method.

[10] A 2005 study prepared for the U.S. Department of Transportation – Federal Highway Administration, Design-Build Effectiveness Study - Final Report, builds on prior studies and provides comparative information on the relative merits of using design – build methods and important factors to consider to maximize effectiveness. A seminal Design-Build study conducted in 1998 found dollar savings of 6% and time savings of 33%. The 2005 study provides a range of savings values with averages/medians similar to the 1998 study.

Advocates of Design-Build cite significant benefits versus the traditional approach of awarding separate contracts to design and construction firms. Such benefits can include:

- Greater flexibility in awarding contracts,
- Single point of accountability for design and construction,
- Higher quality construction,
- Fewer contract change orders and delay claims,
- Faster project completion,
- Lower overall project cost, and
- More opportunity for innovation[11].

Examples of city/state government Design-Build projects planned or in process include:

- Caltrans: High Occupancy Vehicle (HOV) Lanes on U.S. Route 50 ($300 million),
- Caltrans: Route 210 Americans with Disabilities Act (ADA) Improvements ($7 million),
- City of Los Angeles: Los Angeles Street Civic Building Project ($400 million)[12], and
- City of San Jose: San Jose International Airport Economy Lot 1 Parking Garage ($43 million).

In recognition of the benefits of Design-Build, the California Legislature has steadily, albeit slowly, made it easier for local governments to employ the practice. The most recent substantive change occurred in 2015 with the adoption of Senate Bill (SB) 785, which repealed most of the existing statues that applied to different types of jurisdictions and replaced them with one statute for "local agencies." While it is encouraging that the state is making it easier for localities to utilize Design-Build methods, it is important to note that it must be thoughtfully considered and that this method will not be appropriate for all projects.

Table 17 applies the cost savings estimates noted above to projects in key programmatic areas including transportation, utility infrastructure and City facilities recommended in the FY 2018-19 to FY 2023-24 Capital Improvement Program (CIP) Budget. While Design-Build may not be appropriate for all projects, if the City utilized the methods for half of the

[11] "Design-Build for Public Works Projects" League of California Cities presentation, David S. Gehrig, Hanson Bridgett, May 6, 2015.

[12]The Los Angeles project is a public-private partnership utilizing the Design-Build-Finance-Operate-Maintain method discussed later in this strategy section.

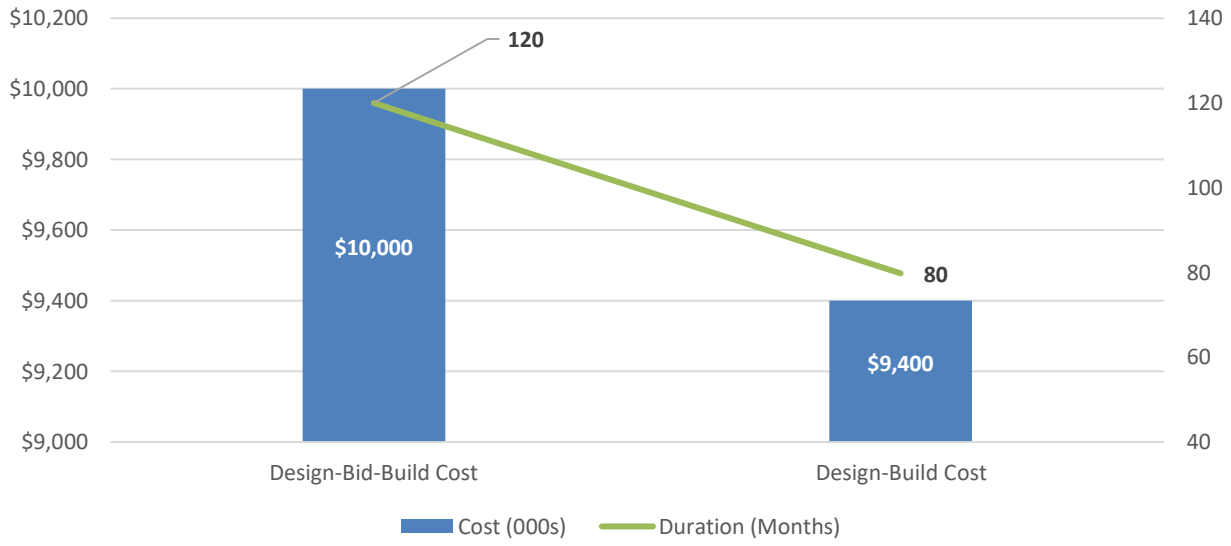
projects shown in Table 17, an approximate savings of $7.6 million could be achieved.

Table 17. Potential Cost Savings for Capital Projects Using Design-Build Methods

Program/Project Area	Number of Projects	5-Year CIP Total (Thousands)	6% Estimated Savings (Thousands)	6% Estimated Savings Applied to 50% of Projects (Thousands)
Transportation	49	$135,200	$8,247	$4,124
Utilities	31	$72,500	$4,423	$2,211
General Government (City Facilities)	14	$24,300	$1,482	$741
Convention, Culture and Leisure	8	$6,800	$415	$207
Parks and Recreation	12	$5,300	$323	$162
Public Safety (Fire Station Replacement)	1	$3,500	$214	$107
TOTALS	**115**	**$247,600**	**$15,104**	**$7,552**

In addition to the potential cost savings, use of Design-Build contracts can result in substantially faster timeframes[13] to design and construct multi-year projects. Figure 32 provides a comparison of Design-Build and Design-Bid-Build methods using a hypothetical 10-year infrastructure project valued at $10 million.

Figure 32. Comparison of Capital Project Cost and Duration Using Design-Bid-Build and Design-Build Methods



[13] We estimate the Design-Build process would be 33.5% faster, which in a 5-year project schedule would reduce the timing by 1.7 years. The average time savings associated with projects identified in the 2005 study is 27%, but delivery methods have improved over the past 15 years.

Use of Design-Build and other forms of alternative contracting methods can facilitate collaboration and innovation for public-private partnerships[14] and quickly deliver sustainable infrastructure projects (see also the Innovations section, strategy I3 for expanding the use of green infrastructure). These issues were also referenced in the presentation cited in Footnote 11 above. From these perspectives, utilizing Design-Build processes aligns with other established City initiatives such as the Green Building Policy, the Demonstration Partnerships program and the Sacramento Urban Technology Lab (SUTL) that seek to leverage strategic partnerships to foster economic development, livability and sustainability.

Beyond the standard Design-Build approach, the Design-Build-Finance-Operate-Maintain (DBFOM) model (and variants like DBFO and DBFM), and similar long-term leases offer an integrated delivery method that combines the design and construction responsibilities of Design-Build contracts with performance-based operations and maintenance (O&M) contracting and private financing for system development over a fixed period of time (usually anywhere from 25 to 99 years). In exchange for taking responsibility for the asset during the lease period, the private partner has the right to collect the revenue from the project and/or is compensated through payment for services based on performance specifications for the duration of the contract. The responsibility for performance of O&M activities in the long term is transferred to the private partner, creating incentives to optimize life-cycle costs.

There is a great deal of variety in long-term lease arrangements and especially in the degree to which financial risks are transferred to the private partner. Contracting and financing for a project delivered under a long-term lease generally require the incorporation of a new concession company created for the sole purpose of the project called a special-purpose vehicle (SPV). The SPV is the recipient of revenues, which are leveraged to issue bonds or other debt on a non-recourse basis to pay for project development costs. Depending on the revenue sources and the risk allocation, private partners may or may not be exposed to revenue risks.

In nearly all cases, the public agency sponsoring the project retains full ownership over the project assets throughout the concession period, although tax ownership can be (and often is) transferred via lease-

[14] Public-Private Partnerships: A Design-Build Primer Done Right. Design-Build Institute of America, October 2016.

leaseback or similar approaches to allow for tax depreciation. Debt and equity providers in long-term concessions impose strict discipline on the Design-Build and O and M contractors working for the SPV through contractual structures that include enforceable liquidated damages, security packages, and warranty provisions forcing the concessionaire to proactively manage both financial and operational risk.

Regardless of whether the SPV held taxable or tax-exempt status, a DBFOM in the form of a long-term lease would allow for arms'-length financing of the capital improvement program, while simultaneously offering the promise of accelerated infrastructure delivery, life cycle asset cost savings of 25%-30%, and improved commercialization opportunities.

Recommendation 17. Develop guidelines to determine when it is most advantageous to use Design-Build and similar public contracting methods to streamline capital project planning/ construction, align with existing strategic partnership initiatives and reduce overall infrastructure costs.

E14. Evaluate the Feasibility of Public Employee Gainsharing

Strategy Type

Service Delivery Change

Impact Estimate

The process of estimating cost savings that may be possible requires identifying the functional areas in the organization that may be good candidates for gainsharing and then engaging with appropriate City and labor representatives to explore the concepts.

Based on gainsharing results in other large cities, we roughly estimate that a sustained effort in this area could save Sacramento up to $5 million annually after an implementation period of one to two years.

Achievability

The City will need to review its internal rules and practices with respect to contracting and procurement. Collaboration with one or more of the City's labor associations will be essential. The City Attorney's Office will need to advise the City Council as to State and local laws related to gainsharing; however, Sacramento Charter Section 105 provides as follows:

> *105 Rewards.*
>
> *The city council may, on notice from the city manager, reward any city employee for conduct which is heroic or meritorious. The form or amount of such reward shall be discretionary with the city council, but shall not exceed in any one instance one month's salary.*

Based on the experience of a similar policy developed in a comparable California city, we assess the achievability as moderate.

Background/Analysis

Gainsharing is a system or approach to managing that incentivizes a higher level of performance through the structured involvement and participation of employees. As performance improves, employees share in the financial gain created by cost savings. Enhanced performance yields greater compensation, in turn promoting continuous improvement through a reinforcing cycle.

Modern gainsharing dates to the 1930s when a labor union leader, Joe Scanlon, developed an arrangement that would ultimately be called the Scanlon Plan. The premise of the Scanlon Plan was for labor and

management to collaborate on how to reduce costs, boost productivity, and eliminate waste. The resulting savings were shared by the company and the workforce. For the plan to work, management had to share responsibility and information with workers, and employees had to become more productive, more resourceful and more flexible. Perhaps most important, workers and managers had to sit down together and talk to each other. And because labor and management were working together toward a common goal, they inevitably began to see themselves as colleagues, not opponents.

The consulting team generally discourages clients from starting a gainsharing initiative by picking departments or functional areas from a pre-established list. Our experience is that the list changes from city to city based on local circumstances. Of course, practically speaking, an organization can deploy gainsharing in just about any business unit. However, it works best when the agency or department has the following attributes:

- **Solid historical financial and operational performance data:** It is important to establish both financial and operational baselines and key performance metrics, and a focus on outcome-based metrics (i.e., units of work produced), not input-based metrics (i.e., number of assigned staff).
- **Measurability of Work:** Certain types of services, such as the number of oil changes performed, and acres of grass mowed are easy to measure, while other service areas may be less measurable.
- **Focused Work Scope:** Gainsharing can be more difficult if an agency performs a wider variety of functions. For example, solid waste is easier to gainshare than planning and zoning.
- **Functional areas with high numbers of staff:** Greater success is possible in larger work units than in those with under 10 people (but gainsharing can still work in small units).
- **Management Style and Commitment:** The management team must believe in shared decision making.
- **Culture of Teamwork:** The values of the department or function should support teamwork and performance improvement.
- **Stable Workforce Climate:** Employee relations should be relatively stable.
- **Buy-In:** Both management and employees should be enthusiastic about gainsharing.
- **Effective Communications:** There should be a strong communications and feedback loop between management and employees.

- **Alignment with Organizational Strategy:** Gainsharing must be an integral part of the department or function's goals and objectives.

Local government organizations possessing these qualities have successfully implemented gainsharing initiatives in several functional areas as shown in Table 18.

Table 18. Functional Areas of Successful Gainsharing in Other Communities

Functional Area of Successful Gainsharing Programs	
Solid Waste	Fleet services
Facilities maintenance and building management	Call center operations and management
Parks maintenance, including mowing and landscaping	Right-of-way maintenance and management
Specialty facilities management (e.g., park venues and recreational facilities)	Street maintenance, including pothole repair, strip patching, crack sealing, and guardrail construction and maintenance
Inventory management courier services, and supplies delivery	Parking meter maintenance and management, parking meter coin collection and counting

Implementation

The typical approach to implement gainsharing starts with the City providing direction on the functional areas it would like to explore, including any parameters that should be considered. Then discussions are held with labor groups and other stakeholders to discuss options for gainsharing, estimate potential savings, identify potential benefits for employees, and formulate recommendations for further consideration.

Recommendation 18. Identify one or two functional areas to begin gainsharing implementation.

Once the City has determined the appropriate functional area to begin gainsharing, there are five implementation tasks as discussed below.

Task 1 – Develop goals and performance measures. After selecting the operation where gainsharing will be deployed, work with city officials to develop specific goals and performance measures for the gainsharing program. Describe at a high level the current state of the selected operation's finances and performance and create a definition of a Most Efficient Organization. The following sub-tasks would each be a collaboration with City staff.

- Convene a meeting with City staff to discuss high-level goals and objectives for the gainsharing program;

- Summarize the selected operation's current financial status using City-provided data;
- Summarize the current operational status, i.e., key performance metrics using City-provided data; and
- Define the specific financial goals and key performance metrics for the to-be-created Most Efficient Organization (MEO).

***Task 2 – Develop strategies*.** Facilitate the development of preliminary strategies for achieving the gainsharing goals.

- Collaborate with City staff to identify preliminary but specific steps required to transition from the status quo to the MEO (generic examples include increasing billable hours, reducing shrinkage, more effectively managing work, consolidating selected operations, improving staffing models, and refining scheduling and tasks);
- Prioritize the specific steps based upon speed of implementation, overall financial value, and degree of difficulty/risk; and
- Collaborate with City staff to consider the following administrative topics: gainsharing participation (e.g., union only, some managers, all managers), levels of gainsharing (i.e., percentages or dollar amounts), timing/frequency of payments, inclusion/exclusion from retirement calculations, potential impact on routine labor negotiations, and other logistical and administrative issues.

Task 3 – Present gainsharing. Present the gainsharing program to union leadership.

- Collaborate with City staff to prepare a draft presentation for union leadership to describe the gainsharing program;
- Include summaries in the presentation of other successful gainsharing projects, the "rules of engagement" for labor-management collaboration on gainsharing, the proposed goals and objectives, and potential action steps that might be taken to move the selected operation to the MEO;
- Gather feedback from union leadership on the proposed model and focus on potential barriers to implementation and their recommendations for further improvement; and
- Gather feedback from the union on selected logistical and administrative issues (listed above).

***Task 4 – Conduct planning meetings to identify how to manage and monitor the process*.** Facilitate planning meetings with labor and

management to agree on gainsharing goals, the strategies to achieve the goals, and how gainsharing will be structured. Develop a plan for managing and monitoring the gainsharing program, and collaborate with City staff to meet with union leadership to:

- Agree on gainsharing goals;
- Develop strategies and specific steps to achieve the gainsharing goals (including a process to add and refine strategies going forward);
- Create a draft structure for the gainsharing model (e.g., participants, percentage of savings shared, payment timing, other); and
- Establish an initial draft scorecard for measuring the implementation of gainsharing in the selected operation.

***Task 5 – Implement the process*.**

- Implement agreed-upon cost savings strategies to achieve goals;
- Measure financial and operational progress;
- Schedule monthly management meetings to review the Monthly Labor-Management Report; and
- Pay gainsharing as earned (typically every 6 or 12 months).

Gainsharing Examples

To illustrate some of these concepts further, the City of Indianapolis[15] implemented gainsharing in its fleet services division many years ago. The union-proposed approach allowed employees to receive 30% of operational savings that the employees generated beyond an agreed-upon baseline. The results over seven years included the following:

- Cumulative savings of $8.6 million or about an 18% expense reduction;
- Headcount was reduced via natural attrition (with no layoffs) even as the fleet grew;
- Billable hours per mechanic increased from 1,190 to 1,442;
- Vehicle turnaround time dropped from 47 hours to 18 hours;
- Injury time off dropped from 909 hours to 22 hours a year;
- Grievances taken to arbitration dropped from 41 to 1 a year;
- Written customer complaints dropped from 149 to 5 a year;

[15] Indiana is a "right to work" state.

- First three years of cumulative staff bonuses were $75,659, $64,016, and $154,000.

As noted by the then president of the fleet services AFSCME Local 3131, "It's not like it used to be . . . we run this whole thing together."

More recently, in 2018, the City of Baltimore[16] implemented a successful gainsharing program in its Fleet Services Division. The City, in collaboration with the three local unions that represent employees, completed a successful pilot program in June of 2018 and made its first gainsharing payments to employees in August of 2018. The City and its three local union labor partners recently completed the second phase of the gainsharing program, with gainsharing checks paid to employees in February of 2019.

Recommendation 19. Determine departments or functional areas suitable for gainsharing.

Recommendation 20. Initiate discussions with labor associations affiliated with the identified departments or functional areas.

[16] Maryland is not a "right to work" state.

E15. Restructure Solid Waste Service Delivery Through Contracting, Managed Competition or Gainsharing

Strategy Type

Service Delivery Changes

Impact Estimate

The Recycling and Solid Waste Division of the Public Works Department provides refuse collection services to residential customers. (Commercial, industrial and institutional collection is performed by private companies.) The current monthly rate for residential collection (assuming a 64-gallon container) is $36.89. Some customers may use larger or smaller containers, which have higher or lower monthly costs. Solid waste revenues estimated in the proposed FY 2019-20 budget are approximately $64.4 million.

There are three options for restructuring solid waste services including contracting the services, using a managed competition approach to improve efficiencies and lower costs, or using gainsharing to promote improvements and lower costs through employee suggestions and initiatives.

We understand that the City Auditor's Office previously examined the concept of contracting out the solid waste function, but the idea was dropped due to concerns about displacing public employees.

However, the consulting team presents this concept for reconsideration because of the opportunity to lower costs or increase revenue. As an example, contracting residential collection would enable the City to negotiate a franchise fee from the company selected for the contract. For instance, the City of San Bernardino recently negotiated a 20% franchise fee when it contracted its solid waste operations. However, San Bernardino's contract involved both residential and commercial collection, and commercial collection is generally thought to be more lucrative. Consequently, the percentage Sacramento could negotiate is likely to be lower because it would only involve residential collection. We estimate Sacramento could negotiate a franchise fee of approximately 15%, which would generate additional net revenue in the range of 4%, because the Solid Waste Fund already contributes an 11% franchise fee to the General Fund. This is estimated to generate an additional $2.6 million of ongoing revenue to the General Fund. As has been discussed previously, the franchise fee is being challenged legally under Proposition 218. A franchise on a private contract is not subject to

Proposition 218 restrictions. If the City's existing fee is successfully challenged, this strategy would increase exponentially in value.

We also believe Sacramento could negotiate other substantial revenues from a prospective contractor, including both one-time and ongoing revenues. Some examples of these additional revenues are outlined below.

Purchase of Equipment and Other Personal Property. This involves the contractor purchasing most or all of the City's personal property (excluding real estate) used to provide residential collection services. San Bernardino (a city 56% smaller than Sacramento) negotiated a one-time payment of $12.2 million for this personal property. However, this included property related to both residential and commercial collection. Scaled to Sacramento, we estimate this could result in one-time revenue in the range of $13 to $15 million.

Procurement and Transition Reimbursement. This involves reimbursing the City for its costs to undertake the procurement and transition to the contractor. Based on the San Bernardino example, where the City received a $250,000 reimbursement, we estimate that Sacramento could warrant a reimbursement of $600,000.

One-Time Franchise Payment. This involves negotiating for a one-time payment to the City for the right to provide solid waste services, which in San Bernardino amounted to $5 million. Scaled to Sacramento, we estimate this could generate a one-time payment of $6 million in addition to the annual franchise fees discussed previously.

Infrastructure Repair Fee. This requires the contractor to pay an annual fee to assist the City with maintaining its streets and roads, given the wear and tear caused by the contractor's refuse vehicles. San Bernardino received $250,000 annually which, scaled to Sacramento, would amount to an annual payment of approximately $600,000.

Based on the foregoing, Management Partners estimates the City could generate from $1.9 to $3.2 million in on-going revenue and from $19.6 to $21.6 million in one-time revenue as shown in Table 19.

Table 19. General Fund Revenue Estimate for Solid Waste Contract

Revenue Type	Ongoing Revenue (in millions)	One-Time Revenue (in millions)
Annual franchise fee*	$1.3 to $2.6	
Purchase of equipment		$13.0 to $15.0
Procurement and transition reimbursement		$0.6
One-time franchise payment		$6.0
Infrastructure repair fee	$0.6	
TOTAL	**$1.9 to $3.2**	**$19.6 to $21.6**

* *Net revenue in addition to the existing 11% franchise fee paid by the Solid Waste Fund.*

Achievability

The City will need to navigate its internal rules and practices with respect to contracting and outsourcing. It is also possible that this recommendation could require collaboration with one or more of the City's labor associations. The achievability of this strategy is considered to be low to moderate due to the magnitude of the changes and the number of unknowns it involves.

Background/Analysis

While our scope did not include a detailed analysis of solid waste operations, our interviews with Recycling and Solid Waste Division staff and our experience with other cities suggests that there are several opportunities to reduce costs and improve service associated with the City's solid waste operation.

Modern solid waste operations are designed to meet two primary objectives: cost-efficient operations and high levels of waste diversion from landfills; i.e. efficiency and effectiveness.

Alternative – Contract Out Residential Collection

The City currently uses in-house crews for residential collection while, as noted previously, commercial, industrial, and institutional collection are performed by private companies.

The trend in California in recent decades has been away from using city crews for refuse collection due to the costs of government employees and benefits. Most large cities in California use contractors for solid waste collection. Examples include San Jose, San Diego, San Francisco, and Oakland. A primary opportunity for improvement would be contracting out or franchising a portion of or all of the residential solid waste collection function.

Recent examples of cities that transitioned from city crews to contractors include the City of Hemet, which in 2011 contracted its solid waste service to CR&R Incorporated. Newport Beach is another example, contracting its residential solid waste services (commercial service had already been contracted) in 2013 (also to CR&R). San Bernardino contracted its solid waste, street sweeping, and right-of-way cleanup in 2016 as a single package of services to Burrtec Waste Industries, as a requirement for reducing costs and exiting bankruptcy.

Private haulers that serve multiple jurisdictions bring economies of scale in several areas including capital acquisition, fleet maintenance, workers'

compensation, employee recruitment, safety and training programs, customer service/billing, technology, and management.

With state recycling requirements that have been in place for over 25 years, refuse haulers have gradually expanded their businesses to include materials sorting, recycling, public education, and in some cases, street sweeping and other related services, working in partnership with individual cities and counties. In addition, the more sophisticated companies use specialized routing systems to reduce travel times. They track and closely monitor performance measures based on their experience.

Given the expertise developed in many jurisdictions and by these waste companies, and the economies of scale that large operations can provide, it is likely that contracting these services to a private company will result in lower or similar costs to provide the service, and new franchise and a variety of one-time fees for an exclusive agreement with the City.

Another advantage of contracting refuse collection service is that it reduces the operational complexity and scale of services that the City must manage. By contracting for these services, the City would reduce its day-to-day responsibilities. This allows city staff to focus on the strategic elements of waste management.

Cost Effectiveness of Contracting

Considering the challenges related to the City's budget, the likelihood of continued rapidly increasing personnel costs driven largely by CalPERS increases, and the significant savings that can be realized by contracting with private companies, City leaders should investigate options for contracting solid waste services to private providers. Contracting would insulate the City from the pension increases that it will face in the coming years. Most cities have found that the fully burdened costs of labor (including long-term pension costs) and the full cost of maintaining an up-to-date fleet exceed the cost of contracted operations.

Sacramento has a robust commercial market for solid waste services, with the commercial market served by Waste Management, Republic, and Atlas. The City could solicit proposals from private partners to at least benchmark the market price for all or, potentially, some subset of solid waste services. This could be done using a managed competition model that engages public employees as a potential vendor, either with or without a gainsharing component.

The decision to contract a service as critical as solid waste collection requires policy discussions, a preliminary cost analysis and careful

planning. Further, in deciding to contract, City managers are able to determine the terms of the relationship with its contractor, requirements for employing City staff, the cost for use of City streets, and diversion standards and requirements. The best way to evaluate the potential cost savings of contracting and cost impacts to customers is to prepare a request for proposals and seek competitive proposals from private companies.

Potential Revenue

In addition to better controlling City costs, including pension costs, outsourcing the solid waste function has the potential to increase on-going revenues through franchise fees, street repair fees, and one-time revenue related to an upfront franchise payment, selling equipment, and offsetting the City's transition costs.

Recommendation 21. Issue a request for proposals (RFP) to obtain competitive proposals for solid waste collection and recycling services.

Alternative – Use Managed Competition Approach in Solid Waste

Managed competition is a process designed to allow private sector vendors to compete with public sector organizations to provide services in the most cost-effective way possible. The goal is also to encourage vendors and the public sector organization to identify ways to improve efficiency and service to the public at the lowest cost.

A number of cities across the country have used a managed competition approach for solid waste services, including the cities of Phoenix, Arizona and Chesapeake, Virginia.

The financial benefits of a managed competition approach are difficult if not impossible to estimate properly because they depend on many unknown variables including the amount of the cost proposals that would be submitted from prospective vendors and the public sector organization.

Alternative – Use Gainsharing Approach in Solid Waste

As discussed earlier in this report, gainsharing is an approach that creates incentives for improved performance through the structured involvement and participation of employees. As performance improves, and costs are lowered, employees are able to share in a portion of the savings.

Gainsharing presents another alternative for improving services and lowering costs in the solid waste function. In fact, solid waste is one of the

key areas where gainsharing has been successful in other communities. However, estimating the financial benefits of gainsharing is not possible at this point. Developing such an estimate would require working with employee stakeholders to identify productivity improvements that lead to cost savings.

Other Solid Waste Changes to Improve Operational Effectiveness

Though Management Partners recommends the City consider contracting out its solid waste function, we acknowledge this would be a major change and would be challenging in terms of transitioning the services and addressing concerns about displacing City employees. Consequently, if the City decides to continue directly providing solid waste collection services, there are many operational improvements that should be implemented.

One efficiency relates to the work schedule. For example, the Division is exploring whether to move from a 4 x 10 workday to a 5 x 8 workday. Given the strenuous nature of solid waste work, a 5 x 8 workday makes more sense because worker productivity typically falls late in the day due to the difficult work. We note that one advantage of the current 4 x 10 schedule is that it reduces the number of weekly mobilization/ demobilization cycles from 5 to 4, and this has a positive effect on productivity. Nevertheless, though employees probably prefer the current four-day work week, the current model results in workers picking up refuse from as many as 1,200 houses per day and this exacerbates the productivity challenge.

During our interviews, staff noted that the existing routes are now out of balance due to changes in development patterns. Therefore, an updated re-routing analysis is also necessary to consider transit times to landfills, transfer stations, and other disposal sites.

Recommendation 22. Conduct a re-routing exercise to balance routes, workload, and tonnage on a periodic basis.

Further, modern solid waste systems allow all trucks to be monitored in real-time including their location and documenting each location where the loading mechanism is activated. These additional data figures can provide day-to-day assistance for managers overseeing the program.

Recommendation 23. Utilize Global Positioning System (GPS) to monitor efficiency of refuse collection trucks.

Innovation Strategies

The efficiency strategies in the preceding section focus on ways to reduce costs, raise revenue or both. Finding long-term structural solutions to improve Sacramento's financial outlook is the primary purpose of Management Partners' work on this engagement.

However, the City Auditor's Office also requested we include analyses of other improvements or innovations that would enhance organizational effectiveness. In some cases, these innovations are likely to have positive financial implications. However, estimating the financial benefits is often less straightforward or not possible given the available data. In some cases, more in-depth analysis would be required to develop a reasonable estimate than was possible under the current scope of work.

I1. Improve Fleet Procurement

Strategy Type

Process Improvement and Service Delivery Change

Impact Estimate

Analysis of fleet operations indicated that several innovations are possible. Much of the fleet is composed of older vehicles and the City may be able to reduce maintenance costs by having a more current fleet, which may require rethinking the current "pay as you go" funding approach. Other improved management techniques might also be adopted as noted in this discussion.

Achievability

The City and Fleet Management take justifiable pride in using pay-as-you-go funding to replace the fleet. Sacramento, in its efforts to be a good financial steward, seeks to avoid debt and leverage to the extent it can. As a result, we anticipate there will be potential pushback from those who want to avoid adding debt to the City balance sheet. In anticipation of that concern, we have suggested that this strategy be used only on a limited and case-by-case basis. Implementing this strategy is highly achievable.

Background/Analysis

As discussed previously, the City Auditor's Office conducted two audits pertaining to the City's fleet: an assessment of the use of light-duty vehicles in 2011, and a review of the fleet in the Utilities Department in 2019.

During our interviews, Management Partners learned that Sacramento's capital fleet needs are managed on a pay-as-you-go (i.e., cash) basis, a process that eliminates interest expense. We also learned, however, that Fleet Management's user departments have a number of vehicles that have reached the end of their useful lives and need to be replaced. Due to a lack of capital funding, those vehicles are being retained in the fleet. This practice results in higher maintenance costs.

During our interviews with the departments, we were also told that the shortage of replacement vehicles sometimes results in the need to rent equipment rather than buy it, even when buying would be more cost effective. Public Works staff specifically mentioned a need for additional light-duty vehicles and expressed concern about the life cycle costs for some older vehicles. This issue may be partially solved by better

management of take-home vehicles, as discussed previously in this report.

Fleet Replacement Planning, Funding and Optimal Surplus Point

An effective fleet replacement program has three components:

- A replacement planning process that projects when each vehicle and equipment should be replaced and its projected cost,
- A financing and funding process that ensures there are sufficient funds available to purchase vehicles and equipment when the replacement date is reached, and
- Procedures and criteria to identify which vehicles and equipment should actually be replaced given the available resources.

Each of these components is described below.

Fleet Replacement Planning

The City's fleet of 2,433 units is comprised of 2,179 on-road vehicles and 254 off-road units. A total of 1,632 units (roughly 67% of the fleet) are less than 10 years old, while the remainder of the fleet, numbering 801 units (15% of the fleet) is more than 15 years old. Table 20 shows the age and number of fleet units that range between 5 and 20 or more years.

Table 20. City of Sacramento Fleet Age

Fleet Age	Number of Units	Percent
5 Years or Less	1,023	42%
6 to 10 Years	609	25%
11 to 15 Years	428	18%
16 to 20 Years	219	9%
Over 20 Years	154	6%
TOTALS	**2,433**	**100%**

Typically, public agencies establish replacement criteria that take into consideration years in service, as well as miles or hours driven. Sacramento appears to use both miles and hours, except for construction equipment for which usage data are not available.

For the most part the City's life expectancy mileage intervals are comparable with other government agency intervals for sedans and light-duty trucks. However, some medium-duty trucks appear to have replacement intervals that exceed those typically practiced by most government agencies. In addition, some heavy-duty and construction-

type equipment appear to be replaced prematurely when compared to other government organizations. For example, rollers have a planned replacement interval of seven years. These are typically replaced at between 12- and 15-year intervals in most government agencies. As a result, Sacramento may be replacing certain fleet units prior to or past their optimal life cycle.

Table 21 compares current and recommended replacement intervals based on life cycle, where applicable, for each class of vehicle and equipment (groups of vehicles that share a common use). Recommended replacement life cycle intervals were developed using best practice data applied to the City's current fleet.

Table 21. Current and Recommended Vehicle and Equipment Replacement Intervals

Vehicle Type	Current Life Expectancy (years)	Current Replacement Interval (miles)	Recommended Life Expectancy (years)	Recommended Replacement Interval
Sedans	5-10	100,000-120,000	10	100,000 miles
Light-Duty Trucks	10	100,000	10	100,000 miles
Medium-Duty Trucks	10-15	100,000-150,000	10	100,000 miles
Police Patrol Units	5	100,000	4-5	100,000 miles
Heavy-Duty Trucks	10-15	100,000-120,000	12-15	100,000-150,000 miles
Construction Equipment	5-15	n/a	12-15	5,000 to 6,000 hours

Recommendation 24. Adjust life cycle intervals to align with more common government fleet cycles.

The City has developed a 30-year replacement plan that identifies future fleet replacement costs. This is a best practice. However, surplus values, auction fees and make-ready fees are not included as part of the future replacement costs. These costs should be included in order to determine a more realistic net cost of acquisition.

Recommendation 25. Incorporate salvage value, auction fees, and make-ready costs into future fleet replacement costs.

Replacement Funding

Sacramento does not have an internal service fund dedicated to replacing vehicles and equipment. Instead, departments must budget each year for acquiring fleet units.

Agencies that elect to budget annually for fleet replacement rather than use a replacement fund find that utilizing cash from ad-hoc budget appropriations can be risky. Often vehicles and equipment must compete with other requests for equipment and/or capital projects during the budget process. Consequently, organizations using this method to finance fleet replacement programs may find themselves with older and less reliable fleets if the money is not appropriated as planned.

Sacramento is attempting to catch up on replacing fleet units that were ignored during and after the recession of 2008. We identified 1,060 units whose maintenance costs (labor, parts and commercial work) exceeded their original purchase price. These may be among the reasons the department is transitioning away from the current point system to a software-based approach.

We identified a total of 163 fleet units that, according to Fleet Management's point system, are due or are overdue for replacement in FY 2020. A review of these vehicles should be undertaken to determine whether their replacement is justified. However, replacing all 163 units is estimated to cost about $16.5 million. It seems unlikely that the City will be capable of using pay-as-you-go funding to replace all 163 units in one year. Consequently, it might be advantageous to explore some other means of financing such as leasing or acquiring a municipal loan.

City leaders should consider establishing a dedicated internal service fund that accumulates funds for future replacements. Fleet customers should be responsible for contributing to the future replacement cost over time. In this way, city departments are made aware of the ownership costs associated with their respective vehicles and equipment in addition to their operational costs.

Recommendation 26. Develop a dedicated internal service fund that supports future fleet replacements.

Recommendation 27. Develop a comprehensive and accountable chargeback system that supports the fleet replacement fund.

Optimum Surplus Point

Keeping units in the fleet beyond their optimum economic life puts a burden on the customers who must endure greater equipment downtime due to more extensive repairs, thereby impacting the ability to accomplish their goals. It also creates a drain on Fleet Management, forcing them to expend more labor hours and parts to keep the units on the road. "Surplusing" units prematurely leads to higher total life cycle costs associated with the purchase of replacement units.

As mentioned previously, Fleet Management is using an abbreviated "point" system to identify when vehicles and equipment should be replaced. Fleet units are assigned points on a scale of 1-10 for various factors relating to age, miles/hours and maintenance and repair costs. There are plans to add other factors in the near future such as downtime, energy and reliability to the point system using the "CAM" system provided by Asset Works. Many public agencies use this point system today, which is typically referred to as the "Optimal Economic Life Point." It is considered a best practice for fleet management.

In 2017 Automotive Fleet Magazine published an article related to increases in maintenance costs. As would be expected, their findings demonstrated increased maintenance costs by both odometer and months in service. Figures 33 and 34 present these findings.

Figure 33. Correlation between Odometer Mileage and Repair Costs

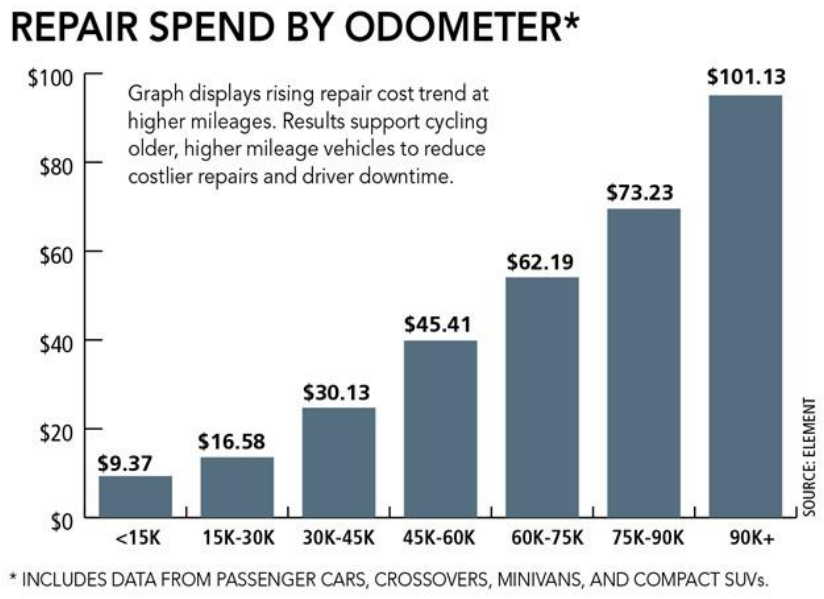
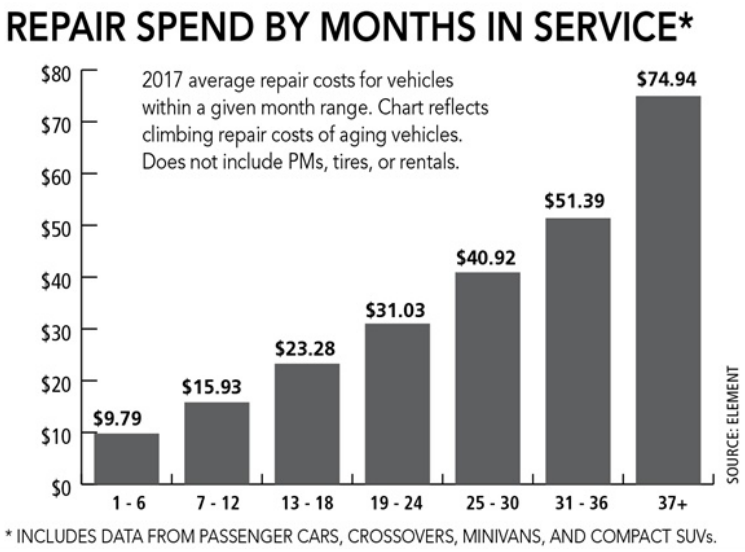


Figure 34. Correlation Between Months in Service and Repair Costs



The study notes that the average cost of a preventative maintenance service is expected to rise by about 2% annually, and as vehicles get older there is a need for more enhanced preventative maintenance schedules to extend useful vehicle life. Taking this into account, the City can use individual vehicle data to create predictable outcomes for needed replacement by analyzing a number of factors, which can then be used to assist in building the chargeback system for departments. These factors include, for example, the likelihood of increased costs upon the vehicle reaching its recommended replacement criteria, avoidable costs vs. unavoidable costs, and the nature of the use of the vehicle. For many vehicles, it may make sense to keep the vehicle well past the expected useful life due to the way it is being utilized.

I2. Establish a Capital Asset Management System

Strategy Type

Process Improvement

Impact Estimate

Establishing a comprehensive system for assessing capital assets to plan and budget for maintenance and replacement needs is a best management practice. Inadequate planning for the timely replacement of capital assets can negatively impact service delivery, service levels, and public health and safety and increase the risk of failure. Additionally, deferring infrastructure maintenance and replacement can increase long-term capital and operational costs.

City staff have developed a partial inventory of the City's capital assets (an important component of a capital asset management system) and has identified through separate, siloed efforts approximately $484 million in deferred maintenance and replacement. These efforts should be coordinated as part of a broader effort to establish an asset management plan for the City's entire infrastructure portfolio.

Achievability

While a partial inventory of capital assets has been completed, establishing a comprehensive asset management system is necessary. This is likely to require consultant support and/or limited term staff, which could implicate procurement, outsourcing and labor issues. We rate the achievability as high, especially since there are risks associated with not having adequately planned for infrastructure replacements.

Background/Analysis

The Government Finance Officers Association (GFOA) has developed best practice information for establishing a capital asset management system.[17] Key system components include:

- Underlying policies to guide financial, operational and engineering capital asset management practices (inventorying, funding replacements, monitoring physical conditions, etc.);

[17] "Capital Asset Management, Best Practice." Government Finance Officers Association. March 2010.

- Performance standards and measures for assessing conditions and prioritizing infrastructure replacement based on risk and consequence of failure; and
- Monitoring and reporting results.[18]

Infrastructure Inventory

Staff uniformly expressed a desire to accelerate the inventory development process, but also consistently noted a lack of funding as the primary barrier. The departments have, so far, completed inventories for parks, pools and about 150 City-owned properties. To cost-effectively manage and maintain the City's assets, it is imperative that managers have a current and complete asset list. Managers need to understand the life expectancy, current condition, maintenance needs and preventative maintenance requirements of each asset to develop a long-term management strategy and to minimize costs and potential asset failures.

Recommendation 28. Complete a comprehensive inventory of Citywide infrastructure assets that includes condition assessments and priority levels for maintaining/replacing.

Capital Improvements and Preventative Maintenance Backlog

Sacramento cannot effectively maintain its existing facilities footprint consistent with best-in-class industry standards using historical operating methods, staffing patterns and resources. The City will need to determine how to move forward – and the status quo will likely not suffice.

Although currently incomplete, the City has developed separate estimates of unmet or deferred maintenance needs for three infrastructure areas: facilities, parks, and pavement surfaces. Deferred maintenance needs in these areas total an estimated $484 million, as shown in Table 22, below.

[18] "Capital Asset Management, Best Practice." Government Finance Officers Association. March 2010.

Table 22. Summary of Deferred Maintenance Needs for Facilities, Parks, and Pavement (in Millions)

Area	Maintenance Needs[1]	Yearly Need[2]	FY 2019-20 Maintenance Budget	FY 2019-20 Unmet Need[3]
Pavement	$278.0	$27.8	$9.4	$18.4
Facilities Evaluation	$44.6	$4.5	$1.8	$2.7
Parks	$143.7	$7.2	$0.0	$7.2
Swimming Pools	$17.5	$1.8	$0.0	$1.8
TOTAL	**$483.8**	**$41.2**	**$11.2**	**$30.0**

[1]Deferred maintenance needs currently identified by the City, based on documentation provided to Management Partners
[2]Current maintenance needs spread over 10 years for pavement, facilities, and pools, and spread over 20 years for parks.
[3]Remainder of calculated yearly need less amounts approved for maintenance in the FY 2019-20 budget

However, this estimate may not represent the full extent of deferred maintenance needs in the City or represent an apples-to-apples comparison, given the siloed data sources. For example, deferred maintenance needs for facilities is based on the 2017 Facility Assessment; needs in parks are taken from the 2019 Parks Department Deferred Maintenance List; and the estimate for pavement maintenance was first reported in the 2017 Pavement Condition Index Report and quoted again in the FY 2019-20 Proposed Budget. Deferred maintenance needs for swimming pools were provided informally by City staff, i.e., they are not reflected in a particular report. The other factor that should not be ignored is that these cost numbers are rising as assets age and, therefore, the City's total unmet need is literally growing daily.

Recommendation 29. Develop a comprehensive asset management system based on best practices to plan and budget for the maintenance and replacement of City infrastructure assets.

I3. Expand the Use of Green Infrastructure

Strategy Type

Service Delivery Change

Impact Estimate

The rationale for expanding the use of green infrastructure is based primarily on goals for improving environmental quality, mitigating impacts and complying with State and Federal requirements. However, green infrastructure can present cost savings[19]. Often these savings will accrue to private property owners or developers through their development plans. However, the City could also expect savings as a part of its CIP or construction of facilities. It is not possible to estimate the cost savings because they will vary based on the type, size and other factors associated with the specific infrastructure.

Achievability

Given the City's existing work on green infrastructure as noted elsewhere in this report, it seems expanding and accelerating those strategies at the margin could be moderately achievable.

Background/Analysis

The implementation of green infrastructure projects is gaining popularity in the United States and around the world. The concepts originally focused on achieving compliance with stormwater regulations by decreasing impervious areas and reducing pollutants in runoff. It is now being recognized as a strategy with broad environmental, social, and economic benefits.

Green infrastructure can be especially beneficial for cities in areas with combined sewer systems and the resulting overflows. It can also bring added benefits for flood control, compliance with Clean Water Act requirements, and asset management. In fact, the Environmental Protection Agency (EPA) has highlighted effective green infrastructure policies and practices in Chicago, Philadelphia, Olympia, Portland, Santa Monica, and Seattle.

[19] The EPA website features an analysis of a green infrastructure subdivision in Frederick County, Maryland which resulted in cost savings estimated at more than $500,000, in addition to savings in wetlands mitigation and a 17% reduction in paving costs.

The EPA has also recognized the nearby cities of San Jose and Emeryville as cities with green infrastructure best practices.

For example, San Jose integrates stormwater planning into the development process, uses quantitative performance standards, and promotes the use of vegetation and infiltration-based stormwater controls. It also integrates stormwater with its smart growth objectives. One best practice resulting from San Jose's policy is a 10,000 square-foot threshold for new development and redevelopment. This threshold gives developers an incentive to find creative ways – such as narrow streets, shared driveways, vegetated swales, and pervious pavement – to reduce impervious surfaces below this limit.

Emeryville was faced with a particularly difficult situation of contaminated soils, dense development, and a high-water table. As a result, the City now requires all new development projects to manage stormwater with green infrastructure and to comply with the City's green infrastructure guidelines. These guidelines offer a range of alternatives including innovative parking strategies and methods to infiltrate, evaporate, harvest and use stormwater such as green roofs and permeable pavements.

A study by the American Society of Landscape Architects (ASLA) found that green infrastructure practices can be cost effective, reduce energy costs, reduce the impacts associated with flood events, and protect public health. ASLA reviewed 479 case studies and found that green infrastructure solutions often reduced costs related to capital and land acquisition, operations, repair and maintenance, and infrastructure replacement. Examples of green infrastructure successes in other cities include the following:

- Chicago used green infrastructure to divert stormwater from the CSO system.
- Portland, Oregon reported cost reductions resulting from porous pavement, green streets, and green roofs.
- Seattle saw a 49% reduction in pavement costs related to the implementation of green infrastructure policies.

Green infrastructure techniques are especially valuable in areas with combined sewers. The City of Sacramento maintains the sanitary sewers in 65% of the City. The SASD maintains the sanitary sewers in the remaining 35% of the City. About 20% of the area maintained by Sacramento (the older central city) has a combined sewer system, i.e., sewage and storm drainage are collected in the same system. In fact, the Sacramento 2035 General Plan establishes a goal to "rehabilitate the

Combined Sewer System (CSS) to decrease flooding, CSS outflows, and combined system overflows" for this reason.

Green infrastructure has value beyond the combined sewer areas. As part of its compliance with the NPDES stormwater permit, the City must reduce stormwater pollution to the maximum extent possible. Also, the new stormwater permits give credit to green infrastructure projects.

The 2035 General Plan prescribes that Sacramento shall "encourage green infrastructure design and low impact development techniques for stormwater facilities (i.e., using vegetation and soil to manage stormwater) to achieve multiple benefits." In addition, it requires "proponents of new development to submit drainage studies that … incorporate … green infrastructure and low impact development techniques."

Sacramento already has excellent examples of green infrastructure project implementation. For instance, the City required the Railyards Development to incorporate Low Impact Development (LID) measures into the project to reduce the increase in runoff volume and reduce the pollutants in the runoff. Multiple bio-retention planters were installed along the roadway to treat all the runoff from the road right-of-way. A bio-retention planter is designed to receive runoff from the adjoining paved areas. A shallow surcharge zone above the vegetated surface temporarily stores runoff. The runoff gradually infiltrates through the root zone of the vegetation and into the underlying sand/peat bed. A variety of natural mechanisms remove pollutants from the runoff as it infiltrates through the root zone and is detained in the sand/peat bed before reaching a base layer of gravel.

As of July 1, 2019, new development and redevelopment projects larger than one acre (including roadways) and stand-alone roadways equivalent to more than five acres are required to incorporate LID controls to reduce the increase in runoff volume by 50% and reduce pollutants in the runoff. These LID controls include green infrastructure such as bio-retention/stormwater planters and green streets.

The new development/redevelopment requirements are located in Sacramento's Stormwater Quality Design Manual. The City keeps a database of all LID controls that are installed in the City to demonstrate compliance with its Stormwater NPDES permit and to ensure the controls are maintained. These LID controls are installed on private and public property. Some LID controls or green street locations in the City include: 16th Street public right-of-way between Capitol Avenue and S Street and Railyards Boulevard. The LID controls are utilized to minimize pollutants

in runoff before discharging to local waterways protecting aquatic life, recreational use of the waterways and the municipal water supply.

The implementation of green infrastructure projects - such as permeable pavement, rain gardens, and planter boxes - may be a cost-effective way for Sacramento to lower costs associated with both its drainage challenges as well as its wastewater treatment obligations. While the City is already working on several green infrastructure issues, we recommend that strategies be explored to expand its green infrastructure work as part of a long-term cost-management strategy with meaningful environmental benefits. Such strategies include improving integration with other planned capital projects, developing greater economies of scale, leveraging partners using incentives (potentially including public-private partnerships or Pay for Success strategies), and rethinking long-term maintenance strategies with a focus on cost reduction.

Recommendation 30. Expand and accelerate strategies to implement green infrastructure.

I4. Analyze the Cost/Benefit of the Community Workforce Training Program (CWTP)

Strategy Type

Service Delivery Change

Impact Estimate

The focus of the Community Workforce Training Program (CWTP) is to prioritize the use of local employees on larger City capital construction projects with local employees. However, the City's staff report for establishing the program and other background materials provided little or no analysis of the financial impacts to the City arising from the CWTP. This was likely because it was assumed that designating employees for these capital projects from the local area would have the same cost as hiring employees without regard to where they live.

However, these types of programs have the potential of increasing costs for related projects. Now that the CWTP is in place, the costs should be examined as a part of a regular program evaluation. For example, increasing project costs for capital projects should be of particular concern in Sacramento given the significant backlog of capital investment in facilities and infrastructure. More analysis is required to assess the full costs of the CWTP, whether the program is accomplishing its intended goals, whether benefits outweigh costs, and whether the program may be resulting in unintended consequences.

Achievability

The achievability of this strategy is moderate. Considerable effort will be required to track and analyze project costs and local labor/employment data and evaluate whether the program is having its intended result.

Background/Analysis

In August of 2018, the Sacramento City Council adopted the Local Hire and Community Workforce Training Program (CWTP), which prioritizes contractor use of local labor for City capital projects over $1 million. The objective of the program is to direct the City's capital spending to the benefit of local and disadvantaged residents.

The CWTP requires such projects to use local, primarily union labor and meet all other requirements of the Community Workforce Training Agreement (CWTA). Since adoption, the program has been applied to two large projects: the McKinley Vault and the Third Street Sewer, and to

a portion of the Convention Center and Memorial Auditorium projects with no evidence of adverse impacts. For smaller projects undertaken in 2019 (primarily in Parks), where the bidding environment was already challenging, the requirements of the CWTA may have contributed to higher than expected project cost or resulted in unacceptable bid results.

Considering the City's substantial capital funding needs and the limited capital resources that have been discussed previously, it is appropriate for the City to evaluate the impact of this program on each capital project. Estimating the additional cost associated with compliance with the CWTA – on a project by project basis – can help the public better understand the trade-offs between the specific policy goals of the program and the City's need for efficient capital project completion.

However, the current labor market and constrained bidding environment make it difficult to ascertain how, or if, the CWTA impacts the cost of capital projects. If bids come in over budget, particularly for smaller projects in a tight labor market, the underlying reason is not necessarily due to CWTA requirements, but the availability of qualified contractors and sub-contractors.

When the program was first adopted, engineers' estimates for City projects included a "CWTA factor" to account for increased labor costs associated with the program. However, that practice was discontinued during the bidding phase of the Convention Center project, when it became clear bidders were including any cost they associated with the CWTP in the project estimate for labor and materials.

As one might expect, non-union bidders, usually subcontractors, are more likely to incur additional costs to comply with the union requirement. Contractors on CWTA-compliant projects may use up to four non-union workers, matched with four union workers, but any additional workers must all come from the union ranks. Electrical contractors are likely being impacted more than other trades, as the current makeup of electrical companies in the Sacramento area is 80% non-union, 20% union.

Anecdotal evidence from contractors indicates that sub-contractors' availability is the most critical factor in meeting bid requirements, not the impacts associated with the program.

The goal of the CWTA is to:

> *"promote efficiency of construction operations in the construction of major projects set forth in the City of Sacramento's Capital Improvement Plan and other public works projects,… thereby*

> *promoting the public interest in assuring the timely and cost-effective completion of such projects, and supporting the efforts of the City to increase employment opportunities for workers who are local area residents, and to provide construction career training and employment opportunities for the City's at-risk youth, military veterans, women and other disadvantaged residents through local apprenticeship and pre- apprentice programs."*

The first goal of timely and cost-effective completion of the project was addressed in the agreement by precluding any strikes or work stoppages. Evaluating whether the second and third goals of increasing employment opportunities for residents and providing training opportunities for disadvantaged residents are being met requires data tracking and analysis. We are advised that the City has partnered with the Sacramento Employment Training Agency (SETA) to provide this type of analysis.

Given the difficulty in estimating any fiscal impact of the CWTP on a specific project, it may be more useful for the City Council to understand whether the hiring and training goals are being met, or at least what impact the program has had on job seekers and trainees in the Sacramento area. The City should be responsible to conduct periodic audits of the SETA-provided information concerning hiring and training outcomes, and to report that information to the City Council.

> **Recommendation 31. Conduct periodic audits of hiring and training outcomes for the Community Workforce Training Program and report the findings to the City Council.**

With that information in hand, an economic impact analysis can be completed to quantify the CWTP's impact on changes in the employment rate and economic health for the segment of the community the program is intended to benefit.

I5. Monetize Sewer and Stormwater Assets for Fiber Optic Deployment

Strategy Type

Revenue Enhancement

Impact Estimate

To be determined based on demand and project scale.

Achievability

While the practice of monetizing sewer and stormwater assets for fiber optic development is relatively new in North America, we suggest Sacramento evaluate whether this might be viable via a pilot program. In an ideal situation, the City would explore the feasibility of partnering with other local jurisdictions that own sewer and stormwater pipes as part of this process. This is an emerging concept for deploying fiber optic infrastructure, but without consultation with other agencies and a review of governing laws, the achievability of this strategy is low.

Background/Analysis

Because of the increasing demand for internet capacity, the demand for fiber optic cable capacity continues to increase. In many jurisdictions, however, the cost of deploying additional cable is very high. In response to this challenge, boutique service providers have begun to use existing sewer and stormwater pipes to deploy fiber optic cable. In addition to being less expensive, this process can reduce street/curb/sidewalk cuts (along with their resulting infrastructure damage) and congestion, lower weather-related outages, and de-clutter aerial/above-ground installations.

Sacramento has not implemented this concept. The City did support the Verizon Public-Private Partnership for 5G and intelligent transportation systems. The City is familiar with the general concept and has also "monetized" utility assets by renting out antenna space on its elevated water reservoirs.

CableRunner International has installed fiber optic cables in sewers in Vienna, Moscow, Copenhagen, Calgary, St. Petersburg (Russia), and Cleveland. San Francisco installed two miles of fiber optic cable in a joint pilot project with CableRunner in 2003. CityNet Telecommunications Inc. has installed fiber optics in Albuquerque, Indianapolis, and Omaha.

The City of Anacortes (Washington) is in the process of connecting its major facilities with fiber optic cable and plans on using this as a

backbone to serve businesses and residents throughout the entire City. Portions of the network are being constructed by feeding the fiber optic cables through existing water pipes. They expect this technique to save a significant amount of time and money. The process also has been successfully implemented in the United Kingdom, Spain, New Zealand, and South Africa.

Water UK (United Kingdom), however, took the position that water companies should not allow the introduction of fiber optic cabling into potable water systems, citing risks of contamination hampering of repairs, introduction of restrictions in the pipes, and concerns over public acceptability.

Recommendation 32. Explore opportunities to monetize sewer and stormwater assets with telecommunications utilities.

Previous Recommendations

In April 2010, Management Partners completed an analysis to help Sacramento with its efforts to develop a plan for long-term financial and service sustainability. The Citywide Financial and Operational Review incorporated 52 recommendations spanning the City's various departments and program areas, and which we, at the time, estimated would have a positive financial impact on Sacramento ranging from $101 million to $154 million.

About two years later, in May 2012, Management Partners also assisted the City of Sacramento with an analysis of operational efficiencies in the Fire Department. The Fire Innovation and Efficiency Study provided an additional 13 recommendations for improvements in the Department. At the time we estimated these improvements would have a positive financial impact on the City in the range of $8.6 million to $9.6 million.

Sacramento implemented many of the recommendations contained in these two reports. Indeed the 2010 report identified a local sales tax increase as a possible strategy for fiscal sustainability and the City successfully implemented a 0.50% sales tax increase in 2012. This tax was replaced with a full 1% sales tax measure approved in November 2018.

In the spirit of financial sustainability, the consulting team has reviewed these previous recommendations and proposes reconsideration of six strategies, that were presented in one (or both) of the prior reports, but which have not been implemented. We have reexamined each of these strategies and, wherever possible, updated the analysis and financial impact

PR1. Closely Monitor and Manage City Hiring, Eliminate Vacant Positions and Give Departments Greater Flexibility on Staffing

Strategy Type

Service Delivery Change

Impact Estimate

The City added approximately 145 full-time positions in the adopted FY 2019-20 budget, but these positions have largely yet to be filled. Over the last 11 years Sacramento has gone from 3,954 employees in FY 2007-08, down to 2,749 employees following the Great Recession and now to 3,599[20] positions in FY 2019-20. These employee counts represent only the General Fund positions. However, the point is that the City has added a substantial number of employees in each of the last seven fiscal years.

Per capita staffing provides another way of looking at this issue. Staffing now stands at 7.0 positions per 1,000 population, which is up from the 5.7 per 1,000 observed in 2013, but below the 8.5 per 1,000 level that existed in 2008.

Unfortunately, the fiscal realities dictate that the continuation of this growth cannot be maintained, and the City will have to look at other ways of delivering services.

In addition to the 145 positions added in this year's budget the City has hundreds of additional vacant positions that could be considered for elimination. The City currently has some 831 vacant positions but not all of these are truly vacant, many are temporary positions, and not all are in the General Fund. Reducing the number of vacancies for so-called "non-budgeted positions" and looking at the General Fund only, we estimate the City has approximately 521 vacant positions in the General Fund. Eliminating the temporary positions leaves approximately 376 vacant career positions.

If we use an average total cost of $110,600 (conservative) and assume half the vacant career positions are eliminated it equates to an annual savings of $20.8 million. Management Partners recommends that this strategy of eliminating vacant positions be considered in the near term for two

[20] This is the total number of FTEs authorized under the General Fund. The grand total number of City employees (including all funds) is 4,774.

reasons. First, it provides immediate budget relief which will allow the City some time to pursue other more complicated strategies set forth in this report. Second, the City has to find alternative means of delivering services that do not rely on traditional full-time employees. The trends facing the City, and reflected in the fiscal model work, are inescapable. Employee costs are rising much faster than City revenues. The fact is that the City cannot afford its traditional full-time employee-based service delivery approach and the sooner it considers alternatives such as those discussed in this strategy the better for long run sustainability.

Achievability

Although difficult, given the population growth in the City and accompanying increased demands for service, the achievability (indeed the necessity) of reducing the rate of authorized position growth is high. Sacramento will also need to navigate its internal rules and practices with respect to contracting and outsourcing. It is also likely that this recommendation could require collaboration with one or more of the City's labor associations.

Background/Analysis

In the 2010 Citywide Operational and Financial Review we prepared for Sacramento, we recommended the City continue its practice of not filling vacant positions without regard to the City's long-term strategic need for the position. While the observation is now nine years old, the recommendation remains valid as the City's current hiring pace is unsustainable and will outpace the growth in revenues if continued.

For the FY 2018-19 budget year, employee services made up 52.5% of the City's $1.1 billion total budget. In the General Fund, expenditures on employee services account for over 90% of the revenues available. The number of full-time equivalent (FTE) positions added for FY 2019-20 to the General Fund operating divisions was projected at 145 FTEs. Over the last seven years the General Fund has added 850 FTE, an average of 121.4 FTE per year.

This cumulative growth in positions, however, is not sustainable given current and projected revenues. The FY 2019-20 budget document states of the General Fund organizations, "The City's multi-year labor agreements, coupled with growing benefit and pension costs, are driving expenditure growth well in excess of revenue growth." The rate of increase in employee costs, therefore, makes the current level of position growth unsustainable.

Furthermore, during several of our interviews, staff from the departments indicated that they believed they could improve service and reduce costs if they were given more flexibility to customize their staffing models (including the use of part-time staff, contingent staff, and contractors).

For example, the Convention and Cultural Services Department has been migrating towards a dynamic staffing model that more closely resembles the peaks and valleys of its facilities-related workload. That transition was driven, in part, by the need to control costs at money-losing venues. It was facilitated, however, by the attrition in workforce resulting from the multiple facility renovations currently underway and the recent competitive bid process for the operation and management of key facilities. Similarly, Public Works (Maintenance Services) uses a mix of full-time staff (focused on policy and quality assurance/quality control) and contractor personnel (handling some of the frontline tasks) to manage the peaks and valleys of its workload related to resurfacing, streetscape management, and forestry. Examples of other positions that could be managed this way include construction inspectors, consultant engineers, and leaf season employees. We expect that other departments would similarly benefit from greater workforce flexibility. Similarly, IT and the Utilities departments would benefit from the ability to use specialty sub-contractors and niche partners more extensively.

During our interviews, turnover of parks and recreation maintenance entry-level staff was identified as a challenge for the Parks Maintenance Division. In order to make the best use of a workforce constrained by vacancies and a tight labor market, the Department may wish to consider adopting a dynamic staffing model that recognizes differences in facility usage, customer expectations and project priorities and staffs sufficiently to meet operational demand. Dynamic staffing provides management with greater flexibility to deploy limited resources to meet customer service and operational goals, without assuming "one size fits all" for maintenance of city parks, trails, open space and recreation facilities. The model can lead to high impact results in targeted areas, without needing to upstaff beyond the Department's capabilities.

Additionally, to the extent there are unfilled positions in high turnover areas, analyses can be conducted to determine whether dynamic staffing models consisting of part-time staff, contingent staff or contractors make operational sense.

Internal and External Constraints

The implementation of dynamic staffing models requires consideration of internal and external challenges and constraints, including negotiations

with applicable bargaining units and evaluating independent contractor status for potential CalPERS/employment impacts.[21]

Recommendation 33. Prepare an analysis of unfilled positions to identify opportunities to eliminate budgeted positions and implement dynamic staffing models.

Recommendation 34. Allow departments to use part-time and contract staffing models to provide greater flexibility in meeting service demands and maximizing cost effectiveness. Implementation of staffing models must incorporate analyses of internal/external constraints and unfilled positions/turnover rates and may require negotiations with applicable bargaining units.

[21] When considering the hiring of part-time staff or awarding contracts for services, local agencies must apply common law factors to determine whether to classify an individual as an employee or independent contractor, with employees requiring payroll tax deductions and enrollment in CalPERS if working more than 960 hours in a fiscal year. Agencies must also consider CalPERS annuitant status. The 2018 California Supreme Court Dynamex decision places a substantial burden on *private sector* employers to justify independent contractor status and its immediate impact is not material on public sector employers. However, future impacts could result from changes to State law, whether adopted by the Legislature, established by wage order determinations or adjudicated through the courts.

PR2. Calculate Fair Labor Standards Act Overtime in a Manner Consistent with Federal Laws

Strategy Type

Expenditure Control

Impact Estimate

The City of Sacramento generally calculates overtime based on the total number of hours worked during a pay period. However, "time worked" can still include some amount of paid leave. As such, based on our estimates, if overtime was calculated in accordance with FLSA rules, the City would realize savings of about 5%, or an average of $1.1 million per year.

Achievability

Though this strategy may be subject to collective bargaining, we rate its achievability as moderate to high.

Background/Analysis

The City Auditor's Office completed an audit focused on the use of overtime in the Fire Department in February 2017. Further, as Management Partners identified in our 2010 Citywide Financial and Operational Review and again in our 2012 review of the Fire Department, employees continue to receive overtime pay if they exceed a designated number of hours in a pay period. Federal law provides for overtime payment only when an employee's actual hours worked in the pay period exceed the maximum amount (generally 40 hours per week).

It should be noted that the beginning in 2015/16 The City addressed the sick leave dimension of this problem for most labor groups and this has reduced costs.

However, under the City of Sacramento's current practice, paid time off such as vacation and other paid leave is treated as hours worked. For example, an employee on a 5/40 schedule, who worked an hour of overtime on Monday, Tuesday, Wednesday and Thursday but took a vacation day on Friday, would be compensated for four hours of overtime for that week despite having worked just 36 hours. In other words, employees are counting leave time so that they can qualify for overtime. It is difficult to precisely estimate savings from this change because overtime use may be impacted by other paid leave time use. However, overtime expenditures for 2008 through 2018 ranged from

$12.9 to $35.1 million per year, with an annual average of $21.6 million. Assuming just 5% of overtime expenses are derived from the use of paid leave rather than time worked, the average savings to the City from FLSA-compliant overtime calculations would have been $1.1 million over that period.

Recommendation 35. Change overtime calculation practices to be fully consistent with Federal law.

PR3. Eliminate General Fund Subsidies for Non-Essential Services

Strategy Type

Process Improvement

Impact Estimate

Eliminating General Fund subsidies for non-essential services will free up funds for core services associated with the public health, safety and welfare. Based upon our prior assessment, we estimate this may save $2.6 million.

Achievability

Given the importance of maintaining essential services, with political will, the achievability of this strategy is moderate.

Background/Analysis

In our 2010 report, Management Partners identified approximately $2.6 million in savings associated with the elimination of General Fund subsidies for fee-charging non-profit entities including:

- Crocker Art Gallery ($1,428,000),
- Sacramento Zoo ($518,000),
- Discovery Museum ($144,000),
- Center for Sacramento History ($339,000), and the
- Sacramento History Museum ($144,000).

Additionally, the City provides General Fund subsidies for its own fee-based services and programs such as operating the marina and pools, as well as making improvements to golf courses (although golf course maintenance is now outsourced). The question posed in this strategy is twofold: First, are these businesses the City needs to support given core public service delivery responsibilities? Second, if continuation is merited can the General Fund subsidy be reduced or eliminated?

As Sacramento continues to experience significant fiscal pressures associated with personnel-related costs, it is critical that the funding of non-essential services, whether provided by the City or non-profit entities, be carefully evaluated to determine what can and/or should be self-supporting.

Recommendation 36. Conduct a program-by-program review to determine which non-essential services should

be continued and how the level of General Fund support can be reduced or eliminated.

PR4. Establish a Paramedic/Ambulance Subscription Program

Strategy Type

Revenue Enhancement and Service Delivery Change

Impact Estimate

Based on results in other agencies which were documented in our 2012 Fire Innovation and Efficiency Study, Sacramento could increase its revenues in the range of $1 to $1.5 million per year.

Achievability

The achievability of implementing this recommendation is moderate.

Background/Analysis

The Sacramento Fire Department does not have a paramedic/ambulance subscription program. Subscription programs implemented by other cities have provided additional revenues as well as a safety net for residents who do not have insurance coverage. Our 2012 report for the Fire Department recommended that a subscription program be established. Revenue data from the seven California cities (mainly in Orange County, with the exception of Burbank in Los Angeles County and Corona in Riverside County) we studied in 2012 have been updated and are shown below in Table 23.

Table 23. Ambulance Subscription Program Revenue for FY 2017-18

Jurisdiction	Population	Annual Membership Revenue (FY 2017-18 Actual)	Revenue Per Capita
Corona	163,585	$902,803	$5.52
Anaheim	349,007	$1,417,210	$4.06
Fullerton	139,976	$1,452,308	$10.38
Huntington Beach	200,415	$893,180	$4.46
Orange	140,289	$411,577	$2.93
Burbank	104,765	$273,953	$2.61
Santa Ana	334,493	$163,429	$0.49
Average	**204,647**	**$787,780**	**$4.35**
Median	**163,585**	**$893,180**	**$4.06**

Sources: 2017 American Community Survey 5-Year Estimates; FY 2019-20 Approved Budget documents; Burbank OpenGov site

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 million to $1.5 million annually.

We understand that the Fire Department has concerns about how the payer mix, i.e., the percentage of patients being transported for which ambulance costs are covered by Medicare, Medi-CAL, commercial insurance or private pay, may impact the amount of revenue generated from a Sacramento subscription program (and the overall subscriber rate).

A detailed analysis of the patient transport payer mix of each jurisdiction cited in Table 23 as compared to Sacramento is beyond the scope of this engagement. However, based on publicly available data from the UCLA Center for Public Health Policy Research, the relative mix of insurance coverage types by region is not significantly different, suggesting that the patient transport payer mixes are likely similar.

Given the similarities in insurance coverage and the actual average per capita revenue of $4.35 generated by the cities in Table 23 (all of whom have established subscription programs), we believe the revenue range of $1 million to $1.5 million (or $2.00 to $3.00 per capita) for Sacramento is attainable. However, as suggested below in the recommendation, the subscription program could be established as a limited-term pilot project that will give the Fire Department actual data for further evaluation.

As Sacramento ambulance services are 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. The City may wish to explore collaborating with other fire agencies in the Sacramento area to ensure that the benefits of a paramedic/ambulance subscription program are offered on a regional basis.

> **Recommendation 37. Establish a paramedic/ambulance subscription program.** Include a cost/benefit analysis of operating the billing and collection program with City staff or by contractor. The program can be established and marketed on a pilot basis (a two-year minimum is suggested) to evaluate results and determine continuation.

PR5. Pursue Legislation to Collect Franchise Fees from the Sacramento Municipal Utility District

Strategy Type

Revenue Enhancement

Impact Estimate

Based on results in other agencies, Sacramento could increase its revenues in the range of $5 to $7 million per year.

Achievability

Given the unpredictability of legislation we rate the achievability as low.

Background/Analysis

Sacramento is in a unique position relative to the local electric utility, Sacramento Municipal Utilities District (SMUD). SMUD is an independent, publicly owned utility chartered by the State that does not pay the City a franchise fee like those paid by investor-owned utilities such as Pacific Gas and Electric Company (PG&E). As SMUD is not a City-owned utility it is not subject to franchise fees accruing to the General Fund, such as those paid by Pacific Gas and Electric (PG&E). This situation deprives the City of a significant revenue source.

Additionally, Article XIII of the City Charter grants authority to the City Council to issue franchises for the use of public rights-of-way, further enumerated in Chapter 3.74 of the Municipal Code.

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 38. Pursue legislation that allows the City to collect payments to the General Fund from SMUD, similar to what private organizations pay.

PR6. Amend Charter to Remove Binding Arbitration for Police and Fire

Strategy Type

Expenditure Control

Impact Estimate

The amount of savings cannot be estimated currently because it would be based on potential future increases in Police and Fire compensation.

Achievability

This would require voter approval and, given the unpredictability of such a vote, we rate the achievability as low.

Background/Analysis

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 third party without direct 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 prerogative to establish priorities for core services and service levels and for the expenditure of public funds that reflect a balance of services to the community.

Sacramento 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 that the result of arbitration would be worse. 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.

Binding arbitration is used by a relatively small number of Charter cities in California and is no longer used by General Law cities pursuant to a 2003 state Supreme Court decision. Additionally, the peer cities of San Jose and Stockton referenced in our 2010 report presented Charter amendments to repeal binding arbitration, both of which have been

approved by local voters. Other cities including Palo Alto, San Luis Obispo and Vallejo have also successfully repealed their Charter provisions for binding arbitration.

Recommendation 39. Evaluate the feasibility of placing a Charter Amendment on the ballot to remove the requirement for binding arbitration for sworn police and fire personnel.

Conclusion

Sacramento provides a rich array of municipal services and community enhancing programs that set it apart from many other cities. It is evident that decision makers are committed to the concept of a "full-service" city.

At the same time, these services and programs have grown more and more expensive and this leaves Sacramento at a crossroads. As our fiscal model shows, the trend of expenditures outpacing revenues will continue into the 2030s. Moreover, the projections show the current level of expenditures will deplete the City's reserves relatively soon.

Fortunately, as this report shows, Sacramento has many options to improve operations, increase revenues and reduce costs. However, there will be certain obstacles and opposition in doing so.

Attachment A – List of Recommendations

Recommendation 1. **Create an innovation strategy to guide internal and external initiatives, drawing from the more developed similar programs in Denver and Phoenix.**

Recommendation 2. **Prepare and submit a local ballot measure to modernize the Business Operations Tax.**

Recommendation 3. **Convert three positions within the Police Department Digital Forensic Unit from sworn to non-sworn positions.**

Recommendation 4. **Convert the Police Volunteer Coordinator position to a non-sworn position.**

Recommendation 5. **Conduct an audit of current Police department administrative duties to determine the non-sworn duties that can be consolidated and civilianized.**

Recommendation 6. **Convert the Fire Public Information Officer and two IT positions to non-sworn positions.**

Recommendation 7. **Conduct an internal audit of current Fire administrative duties to identify non-sworn duties that can be consolidated and civilianized in the future.**

Recommendation 8. **Establish a cross-functional team including Public Safety, Information Technology and Finance staff to create a dashboard, monitor and provide guidance to all departments regarding methods to manage overtime.**

Recommendation 9. **Develop a process to continually review utility billing to reduce errors, maximize collections, and improve data quality and accuracy of utility billing.**

Recommendation 10. **Conduct a third-party audit of utility invoices received by the City.**

Recommendation 11. **Implement a business operations tax amnesty program and explore additional tax/fee compliance opportunities based on results.**

Recommendation 12. **Conduct a street damage restoration and recovery study to ensure that the excavation cost recovery fee captures all related pavement life cycle costs.**

Recommendation 13. Establish a moratorium of five years on pavement cuts following new street construction or major resurfacing projects.

Recommendation 14. Automate human resource and other support service processes and workflows to streamline tasks and eliminate manual systems.

Recommendation 15. Prioritize the program areas and select at least two to analyze in-depth annually for the next several years.

Recommendation 16. Expand market-based parking meter fees and enforcement to Sundays.

Recommendation 17. Develop guidelines to determine when it is most advantageous to use Design-Build and similar public contracting methods to streamline capital project planning/ construction, align with existing strategic partnership initiatives and reduce overall infrastructure costs.

Recommendation 18. Identify one or two functional areas to begin gainsharing implementation.

Recommendation 19. Determine departments or functional areas suitable for gainsharing.

Recommendation 20. Initiate discussions with labor associations affiliated with the identified departments or functional areas.

Recommendation 21. Issue a request for proposals (RFP) to obtain competitive proposals for solid waste collection and recycling services.

Recommendation 22. Conduct a re-routing exercise to balance routes, workload, and tonnage on a periodic basis.

Recommendation 23. Utilize Global Positioning System (GPS) to monitor efficiency of refuse collection trucks.

Recommendation 24. Adjust life cycle intervals to align with more common government fleet cycles.

Recommendation 25. Incorporate salvage value, auction fees, and make-ready costs into future fleet replacement costs.

Recommendation 26. Develop a dedicated internal service fund that supports future fleet replacements.

Recommendation 27. Develop a comprehensive and accountable chargeback system that supports the fleet replacement fund.

Recommendation 28. Complete a comprehensive inventory of Citywide infrastructure assets that includes condition assessments and priority levels for maintaining/replacing.

Recommendation 29. Develop a comprehensive asset management system based on best practices to plan and budget for the maintenance and replacement of City infrastructure assets.

Recommendation 30. Expand and accelerate strategies to implement green infrastructure.

Recommendation 31. Conduct periodic audits of hiring and training outcomes for the Community Workforce Training Program and report the findings to the City Council.

Recommendation 32. Explore opportunities to monetize sewer and stormwater assets with telecommunications utilities.

Recommendation 33. Prepare an analysis of unfilled positions to identify opportunities to eliminate budgeted positions and implement dynamic staffing models.

Recommendation 34. Allow departments to use part-time and contract staffing models to provide greater flexibility in meeting service demands and maximizing cost effectiveness.

Recommendation 35. Change overtime calculation practices to be fully consistent with Federal law.

Recommendation 36. Conduct a program-by-program review to determine which non-essential services should be continued and how the level of General Fund support can be reduced or eliminated.

Recommendation 37. Establish a paramedic/ambulance subscription program.

Recommendation 38. Pursue legislation that allows the City to collect payments to the General Fund from SMUD, similar to what private organizations pay.

Recommendation 39. Evaluate the feasibility of placing a Charter Amendment on the ballot to remove the requirement for binding arbitration for sworn police and fire personnel.

Appendix 1 – Summary Baseline Forecast of General Fund and Measure U

GENERAL FUND	Actuals	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Revenues:	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY27-28
Property Tax	$160.3	$171.3	$180.7	$189.9	$195.6	$203.5	$215.4	$227.8	$241.3	$253.3
Sales Tax	87.7	90.4	93.9	92.7	93.7	99.2	104.9	111.0	115.0	119.1
Utility Users Tax	60.8	61.2	61.7	62.2	62.8	63.4	64.0	64.6	65.2	65.9
Other Taxes	48.9	48.1	48.9	48.3	48.4	49.7	51.2	52.7	53.5	54.4
Other General Revenue	13.9	9.6	10.3	10.3	10.2	10.1	10.0	10.0	10.0	10.1
Enterprise Tax-Utilities	29.0	31.2	32.0	32.8	33.7	34.5	35.4	36.2	37.1	38.1
Dept Revenues	114.6	106.5	109.2	109.8	111.6	115.4	119.4	123.6	126.8	130.1
Total Revenues	515.2	518.4	536.8	546.1	555.9	575.8	600.2	625.9	649.0	671.0
Expenditures:										
Salary/Incentive/Benefits	304.1	380.5	394.2	405.1	416.0	426.9	438.0	449.4	461.0	473.0
Pension	81.6	102.1	114.4	123.9	133.6	141.2	149.2	152.0	157.9	163.7
Medical	31.5	32.4	33.5	34.8	36.3	37.9	39.8	42.0	44.4	47.0
Overtime/Other	44.7	44.7	45.5	46.4	47.3	48.2	49.1	50.0	51.0	52.0
Vacancy Savings	-	(61.0)	(12.7)	(13.0)	(13.4)	(13.8)	(14.2)	(14.6)	(15.0)	(15.4)
Total Personnel	461.8	498.7	574.9	597.2	619.7	640.5	662.0	678.8	699.3	720.3
Services/Supplies/MYOP	130.9	138.6	141.0	143.4	145.9	148.5	151.1	153.7	156.5	159.2
Equip/Capital Outlay	2.3	8.2	8.3	8.5	8.7	8.9	9.0	9.2	9.4	9.6
Reimbursements	(130.0)	(168.0)	(211.4)	(198.7)	(204.7)	(214.7)	(222.7)	(232.3)	(240.4)	(248.8)
Debt Service	20.9	20.3	19.2	16.4	17.1	16.6	16.6	16.6	16.6	16.6
Capital Projects	19.5	20.3	7.9	8.3	8.3	8.4	8.7	9.0	9.2	9.5
Budget Additions	-	-	-	-	-	-	-	-	-	-
Efficiencies/Innovation	-	-	-	-	-	-	-	-	-	-
Fiscal Capacity Used	-	-	-	-	-	-	-	-	-	-
Total Expenditures	505.5	518.2	539.8	575.2	595.0	608.2	624.7	635.0	650.6	666.4
Net Surplus/(Deficit)	9.7	0.2	(3.0)	(29.1)	(39.1)	(32.4)	(24.5)	(9.1)	(1.5)	4.6
Total Begining Balance	172.4	210.6	210.8	207.8	178.7	139.6	107.2	82.7	73.6	72.0
OPEB Trust Pymts	-	-	-	-	-	-	-	-	-	-
Chng in Reserves/Adjusts	28.5	-	-	-	-	-	-	-	-	-
Total Ending Balance	210.6	210.8	207.8	178.7	139.6	107.2	82.7	73.6	72.0	76.6
Cash & Investments	204.4	204.6	201.6	172.5	133.5	101.1	76.5	67.4	65.9	70.5
Allocation of Balance:										
Nonspendable	0.4	-	-	-	-	-	-	-	-	-
Operating Programs	62.0	57.7	57.7	42.7	42.7	42.7	42.7	42.7	42.7	42.7
Capital Reserves	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
OPEB Reserve	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Pension Reserve	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Econ Uncertainty Reserve	55.2	58.7	62.6	66.6	70.8	75.3	80.2	85.6	91.4	97.5
Unassigned Balance	32.9	34.2	27.3	9.3	(34.0)	(70.9)	(100.4)	(114.9)	(122.2)	(123.7)
Unassign+EUR+PERS+OPEB	108.3	113.1	110.1	96.0	56.9	24.5	0.0	(9.1)	(10.7)	(6.1)
% of Total Expenditures	21.4%	21.8%	20.4%	16.7%	9.6%	4.0%	0.0%	-1.4%	-1.6%	-0.9%

MEASURE U										
Sales Tax	$64.0	$103.4	$105.1	$103.4	$104.3	$110.2	$116.4	$122.9	$127.1	$131.3
Interest	1.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Revenues	65.3	103.6	105.4	103.7	104.6	110.5	116.7	123.2	127.3	131.6
GF Program Support	44.5	59.1	79.9	78.2	79.1	85.0	91.2	97.7	101.8	106.1
Library	-	-	-	-	-	-	-	-	-	-
Econ Develop/New Progs	-	7.5	22.0	19.0	16.0	13.0	10.0	10.0	10.0	10.0
Debt Service	-	-	3.0	6.0	9.0	12.0	15.0	15.0	15.0	15.0
Capital/Other	9.4	22.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total Expenditures	54.0	89.2	105.4	103.7	104.6	110.5	116.7	123.2	127.3	131.6
Net Surplus/(Deficit)	11.3	14.4	-	-	-	-	-	-	-	-
Total Begining Balance	36.2	47.5	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0
Chng in Reserves/Adjusts	0.0	-	-	-	-	-	-	-	-	-
Total Ending Balance	47.5	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0
Bal % of Total Expenditures	88.1%	69.5%	58.8%	59.8%	59.2%	56.1%	53.1%	50.3%	48.7%	47.1%

Appendix 2 – Summaries of Managed Competition Case Studies

INITIATIVE MANAGEMENT REVIEW
Indianapolis Fleet Services

I. Background

In February 1997, the City entered the final year of a three year agreement with Indianapolis Fleet Services (IFS), to provide management, maintenance, and repair of the City's fleet and to manage City-wide fuel sites. The agreement provides for two, one-year renewals. As part of the agreement, IFS abstained from a previously negotiated pay increase in 1997. In return, the internal group receives a percentage of the savings below its target price. Liquidated damages may be assessed when the agreement's strict performance standards are not met.

Financial and performance data are reported by IFS and audited by the Internal Audit Division on an annual basis. This data serves as the foundation for the employees' incentive payments and provides a basis of comparison to previous years. Under the agreement, the City and IFS split the gross savings 75% to 25%, respectively, in 1995 and 70% to 30% in 1996 and 1997.

Under the agreement, IFS has the opportunity to attract new business from other governmental customers. In addition to maintaining the City's fleet, IFS employees service vehicles from IUPUI, Franklin Township Fire Department, Citizen's Gas, and the Speedway Police Department. This allows IFS to maximize its use of existing capital resources and reduce fixed overhead costs charged against the agreement's target price.

II. Overall Results

The IFS competition has generated substantial real dollar savings and considerable service quality improvements. Exhibit One presents IFS financial figures since 1992. While the City fleet has grown 4.6% since 1994 — attributable mainly to IPD's take-home car program — Fleet Services continues to underspend its budget, producing cumulative savings of $8.5 million over the last five years. In addition, IFS employees have consistently achieved savings below the contract target price. Average incentive pay in 1995 was $934 per employee and in 1996 was $810 per employee. More importantly, additional savings to taxpayers generated as a result of beating the target price totaled $807,628 in 1995 and 1996.

Exhibit One: IFS Budget and Agreement Target Prices

	1992	1993	1994	1995	1996	1997
Budget	$ 13,853,600	$ 13,997,100	$ 12,561,100	$ 12,192,300	$ 12,578,100	$ 12,806,500
Actual	10,999,100	11,664,300	11,111,200	11,190,300	11,645,300	
Annual Savings	2,854,500	2,332,800	1,449,900	1,002,000	932,800	
Cumulative Savings	**2,854,500**	**5,187,300**	**6,637,200**	**7,639,200**	**8,572,000**	
Agreement Target Price				$ 5,331,050	$ 5,456,321	$ 5,526,256
Gross Savings under Target Price				473,706	333,922	
Net Employee Incentive Pay, Less Penalties				**75,659**	**64,016**	

In addition to cost savings, the IFS agreement has been an operational success as measured by several important criteria. First, the percentage of vehicle repairs completed under the eight hour performance criterion has risen dramatically, reaching an all-time high of 82% in 1996 (see Exhibit Two). This is impressive considering that the number of employees was reduced from 119 in 1994 to a lean 79 presently. The number of complaints from IFS's internal customers also fell by over 60% from 1991 to 1996.

Exhibit Two:
% Vehicle Repaired < 8 hours

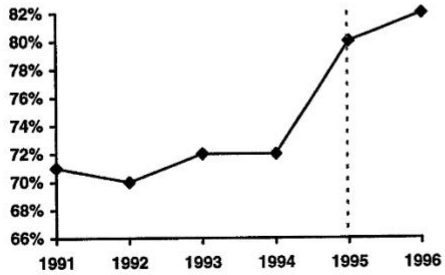


Exhibit Three:
Hours Lost due to Worker's Compensation

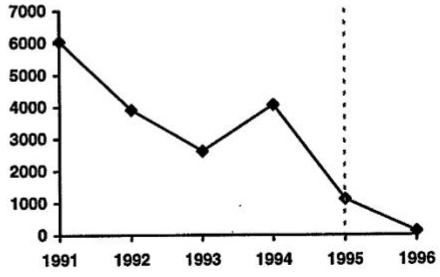


Exhibit Three demonstrates a dramatic reduction in time off resulting from on-the-job injuries. IFS workers lost only 117 hours in 1996 compared with 6040 hours in 1991, a 98% reduction. Because IFS employees realize that worker's compensation and on-the-job injuries jeopardize the team's ability to meet performance objectives, both real injuries and frivolous injury claims have been nearly eliminated.

III. Summary

While actual spending and the number of employees are down, IFS continues to meet its core performance measures. The competition process has empowered IFS employees and allowed them to share in the cost savings. IFS's successful implementation of new and innovative ideas has demonstrated a commitment to low cost, high quality services.

Attachment: Money in their pocket. *The Indianapolis Star*. March 16, 1997, page C-2.

Initiative Management Review -- Executive Summary
Residential Solid Waste Collection

Background
Under the 1993 Residential Solid Waste Initiative, the Solid Waste Division of the Department of Public Works (DPW) maintains service agreements with both internal and external vendors for the collection and disposal of city residential solid waste. Previously, twenty-five separate districts in the city were serviced by four private haulers and DPW's in-house crews. Districts were organized in an ad hoc and illogical manner, driving unit costs up. Agreements with private haulers were negotiated as franchises, which gave each hauler a monopoly in its assigned area. Additionally, in-house districts were serviced with little regard to the bottom line, and actual costs per unit were ill-defined. The current initiative, implemented in January 1994, promotes cost efficiency and improved service quality by (1) consolidating and restructuring the city's solid waste collection areas into eleven logically formed districts, and (2) utilizing competition between internal and external vendors to achieve the lowest possible unit costs.

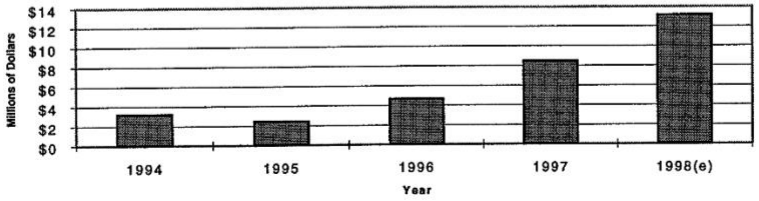
During the fall of 1993, a Request for Bids to provide collection services was sent by DPW to several private solid waste haulers and to the Solid Waste Division employees. Bid costs were solicited on a weekly per unit cost basis for any of ten solid waste collection districts. DPW employees won three collection districts, the maximum number allowable under the rules of the competition. Browning-Ferris Industries, Anderson, Ray's Trash, and Rumpke were awarded contracts for the remaining districts. Services provided include (1) hand collection of up to ten containers per unit per week and two heavy trash items per month, (2) leaf collection services during city-designated leaf season, and (3) curbside recycling on a monthly subscription basis. Service agreements were originally signed for both three and five year terms, set to expire at staggered intervals. Strict provisions for liquidated damages exist to deter vendor non-performance. These include (1) a $10 fine for each legitimate complaint above 1% of the total number of service units per week, and (2) a $100 fine per unit for the failure to collect waste within 24 hours of notification by Contract Compliance.

Recent negotiations resulted in two-year service extensions for two external vendors and DPW employees, whose initial contracts were set to expire on December 31, 1996. Extensions with private haulers include no unit cost increases, and the MOU extension with the public group sets a newly revised cost target below current operating levels and generally consistent with private hauler costs. In addition, more stringent liquidated damages provisions will greatly enhance compliance effectiveness. Most important among these is an immediate $10 per unit fine when more than ten units are missed on any single route. Previously, a vendor could ostensibly skip an entire route on the regularly scheduled service day and not be fined, so long as the service was provided the next day. With the new liquidated damages provisions, the probability of that occurring is almost totally eliminated.

Overall Results

Overall financial and operational results are quite favorable compared to previous solid waste collection performance. Unit costs for all solid waste collection services are below 1993 levels in all of the eleven districts in the county, and the overall quality of service is greatly improved. Figure 1 demonstrates the cumulative savings attributable to the solid waste initiative, excluding a reduction in the Solid Waste Division budget due to the termination of collection services to apartments. Cumulative savings under the solid waste initiative exceed $13 million through 1998. Savings for DPW employees are a result of increased productivity, allowing for a reduction of overall head-count through attrition.

Figure 1: Cumulative Savings for Solid Waste Initiative Against 1994 Baseline



The solid waste initiative has also achieved continuous improvements in service quality. The number of complaints received by the MAC has fallen nearly fifty percent since 1993 to a present level of 2.53 per thousand units serviced. In large part, these improvements can be attributed to a vigorous compliance enforcement effort. For the external vendors, liquidated damages were assessed with greater consistency and certainty, resulting in a substantial improvement in service quality. Although DPW's performance quality is still below the external vendors, it has also improved over this past year to a more acceptable range. These short term improvements are ostensibly a result of linking employee incentive pay to the amount of liquidated damages received.

Summary and Conclusion

As evidenced in personal interviews and third-party performance statistics, overall satisfaction with the solid waste initiative is high, total cost for solid waste collection is down, and service quality is up. Cumulative savings for the five year initiative exceed $13 million over pre-competition 1994 budgeted expenditures, and complaints per thousand units serviced have declined substantially as well. By utilizing the power of the competitive marketplace, the Solid Waste Collection Initiative has saved taxpayer dollars and improved service quality.

For more information contact: Mike Brink (EDD Analyst, 327-5703)
Brad Faris (EDD Adjunct Analyst, 327-5264)

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MEMORANDUM

DATE: March 5, 2020

TO: Jorge Oseguera, City Auditor

FROM: Howard Chan, City Manager

CC: Mayor and City Council

SUBJECT: **CITYWIDE INNOVATION AND EFFECIENCY ASSESSEMENT, POTENTIAL STRATEGIES REPORT**

This communication is in response to the Citywide Innovation and Efficiency Assessment, Potential Strategies Report prepared by the City Auditors Office and the consultant team at Management Partners. As City Manager, I acknowledge the receipt of this report. The purpose of this memorandum is to provide a succinct response to each of the 39 recommendations included in the report.

I would like to take the opportunity to thank the City Auditor and Management Partners for working with all City Departments and the Assistant City Manager team to ensure accurate, thorough, and responsive information was collected. I would also like to thank my staff for making this work a priority and their openness to the recommendations. This truly was a team effort.

Below please find responses to each of the recommendations.

Recommendation 1. Create an innovation strategy to guide internal and external initiatives, drawing from the more developed similar programs in Denver and Phoenix.

Response: The City Manager's Office supports this recommendation. The City is a leader in innovative initiatives and partnerships. There are many examples of award-winning innovations like Streamline Sacramento, Front Street Animal Shelter, Electrify America, Parking Modernization, 5G Wireless, 311Call Center, Inclusive Economic Development, as well as many more internal efficiency programs. However, the City also recognizes continued opportunity for growth and formalization of the innovation program. The City is currently in the

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planning stages of updating the city's Digital Strategy that will include an innovation component with a focus on formalizing innovation culture and measuring innovation successes.

Recommendation 2. Prepare and submit a local ballot measure to modernize the Business Operations Tax.

Response: The Finance Department has continued to recommend this strategy and supports this recommendation.

Recommendation 3. Convert three positions within the Police Department Digital Forensic Unit (DFU) from sworn to non-sworn positions.

Response: The Police Department does not support this recommendation. DFU requires investigative experience and the ability to look at, retrieve and investigate highly classified material for criminal misconduct. Investigators must also testify in court and conduct investigations as a sworn officer.

Recommendation 4. Convert the Police Volunteer Coordinator position to a non-sworn position.

Response: This recommendation has been implemented. The sworn full-time employee has been transferred to the Outreach and Engagement Division. The duties of the Police Volunteer Coordinator have been transferred to professional staff (non-sworn) employee.

Recommendation 5. Conduct an audit of current Police Department administrative duties to determine the non-sworn duties that can be consolidated and civilianized.

Response: The Sacramento Police Department supports this recommendation. However, this recommendation is specific to the Police Training Unit. The Academy, Field Training, and In-Service Training units are staffed by both sworn and civilian personnel subject matter experts responsible for managing the unit and delivering and coordinating training. Generally, training specific to sworn employees is provided by sworn employees and civilian training is delivered by civilian personnel, although some courses are interchangeable. There is a recognized benefit to having sworn officers train sworn and vice versa with civilians as they are most knowledgeable about certain aspects of the job.

Recommendation 6. Convert the Fire Public Information Officer and two IT positions to non-sworn positions.

Response: The Fire Department believes that it is necessary to have a subject matter expert on fire and emergency incidents (like the Police Department structure). The department does

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not currently have a budgeted sworn Public Information Officer. However, a Captain currently is serving in this capacity.

The Fire Department believes that it is necessary to have a subject matter expert in the IT Captain position as this position requires operational knowledge. Currently, the Department has one sworn IT Captain position. This was reduced from two IT positions in 2016. The IT Captain is the Computer Aided Dispatch coordinator, which handles verification of response files and run zones, represents the Department at regional meetings with their peers, is the communications supervisor for all field communications, and is tasked with managing and project tasking all day-to-day repairs of in service field units.

Recommendation 7. Conduct an internal audit of current Fire administrative duties to identify non-sworn duties that can be consolidated and civilianized in the future.

Response: The Fire Department supports this recommendation and is continually analyzing its staffing models to identify efficiencies. As efficiencies are identified, we are required to work with our local bargaining units to implement.

Recommendation 8. Establish a cross-functional team including Public Safety, Information Technology and Finance staff to create a dashboard, monitor and provide guidance to all departments regarding methods to manage overtime.

Response: The Finance Department, Fire Department, Sacramento Police Department and Information Technology Department supports this recommendation. However, SPD does maintain significant controls over overtime, including management of overtime policies and reporting procedures. This recommendation, while helpful, does not address the driving factors of overtime or the requirement that the Department provide certain services irrespective of staffing levels.

Recommendation 9. Develop a process to continually review utility billing to reduce errors, maximize collections, and improve data quality and accuracy of utility billing.

Response: The Department of Utilities (DOU) supports this recommendation and has recently updated the utility review process as part of a billing system upgrade:

1. As mentioned in the report, DOU's billing system was audited in 2012 and all recommendations were implemented.
2. A significant upgrade of the billing system was completed in May 2019, which corrected many of the challenges with the previous billing system and initiated a utility billing review process. It would be appropriate to operate under the new system for at least two to three years then evaluate timing of a subsequent comprehensive audit.

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3. To further assist, the City Auditor has developed a risk-based audit priority list for the department. Although a billing audit does not currently rank high, this could change over the next few years as we operate the new system and challenges arise.

Recommendation 10. Conduct a third-party audit of utility invoices received by the City.

Response: The Department of Utilities supports this recommendation. As background, the City has various practices and efforts related to auditing of utility invoices received. The City has over 1,800 energy accounts for municipal electricity and natural gas consumption. Currently, staff monitors and tracks energy use at a high level using the city's energy management system, EnergyCAP, which is used in part for auditing of billing information. Additionally, an audit of the City's green efforts is currently underway, which includes analysis of streetlight data and billing, and may recommend process improvements.

Recommendation 11. Implement a business operations tax amnesty program and explore additional tax/fee compliance opportunities based on results.

Response: The Finance Department does not support this recommendation. The department currently contracts with Avenu Insights & Analytics (AI&A) for business operations tax (BOT) compliance. We are currently working to cross check businesses on our vendor payment list with businesses that have City BOTs to determine compliance. Additionally, AI&A cross checks businesses reporting sales tax with our BOT list.

The department currently works with businesses that are out of compliance by waiving late penalties and offering the business a payment plan to allow them the opportunity to come into compliance. Given the current efforts underway, we are moving businesses to compliance and receiving backpay for unreported taxes. As such, the department does not believe that an amnesty program will result in significant savings and may result in a loss to the City.

Recommendation 12. Conduct a street damage restoration and recovery study to ensure that the excavation cost recovery fee captures all related pavement life cycle costs.

Response: The Department of Public Works supports this recommendation and has already initiated development of a scope of work for a pavement cut fee study to evaluate appropriate fees and a moratorium policy for pavement cuts on new street construction and recently resurfaced streets. The goal is to bring a proposal forward for City Council adoption by the end of calendar year 2020.

Recommendation 13. Establish a moratorium of five years on pavement cuts following new street construction or major resurfacing projects.

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Response: The Department of Public Works supports a moratorium but will refrain from establishing a timeframe until we have completed our pavement cut fee study to evaluate appropriate fees and a moratorium policy for pavement cuts on new street construction and recently resurfaced streets. The goal is to bring a proposal forward for City Council adoption by the end of calendar year 2020.

Recommendation 14. Automate human resource and other support service processes and workflows to streamline tasks and eliminate manual systems.

Response: The Finance, Human Resources and Information Technology Departments support this recommendation and have already automated new hire and rehire transactions, which are the most labor-intensive transactions. The departments will continue to work together to automate all additional transaction types.

Recommendation 15. Prioritize the program areas and select at least two managed competition candidate projects to analyze in-depth annually for the next several years.

Response: The City Manager' Office supports the further evaluation of whether managed competition is a viable strategy. This strategy will require discussion with labor unions prior to implementation as it has a potential to impact our unionized workforce.

Recommendation 16. Expand market-based parking meter fees and enforcement to Sundays.

Response: The Department of Public Works supports this recommendation. The Parking Services Division has initiated a study that is currently evaluating the needs of the overall parking system including parking and mobility enhancements. This will include an initial review of expanding market-based parking meter fees and enforcement to Sundays.

Recommendation 17. Develop guidelines to determine when it is most advantageous to use Design-Build and similar public contracting methods to streamline capital project planning/ construction, align with existing strategic partnership initiatives and reduce overall infrastructure costs.

Response: The City Manager's Office supports this recommendation to develop guidelines for public contracting methods for capital projects to ensure the best contracting method is used.

Historically, the City has used various contracting methods including Design-Bid-Build, Design-Build (DB) and Design-Assist (DA). The DA contracts were also chosen to proceed with construction contracts using the Construction Management at Risk (CMAR) method. Some recent DB examples include Meadowview Navigation Center, Sam & Bonnie Pannell Community Center HVAC Control Replacement, and Energy Efficiency Retrofit Phase II. Some DA and CMAR examples include the North Natomas Community Center and Aquatic

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Complex, Memorial Auditorium Renovation, Sacramento Convention Center Renovation and Expansion, and Community Center Theater Renovation.

The Department of Utilities (DOU) is using an alternative procurement method, Multiple Award Task Order Contract (MATOC), for the ongoing Accelerated Water Meter Program (AWMP), which is a best-value contractor selection process based on qualifications, performance, and pricing. The process includes Request for Qualifications, Requests for Proposals, Council approval of a Master List of pre-qualified contractors and award of Task Order contracts. DOU has used a similar process to bid the McKinley Vault and 3rd Street Sewer Upsizing projects.

Recommendation 18. Identify one or two functional areas to begin gainsharing implementation.

Response: The City Manager's Office will further evaluate whether gainsharing is a viable strategy.

Recommendation 19. Determine departments or functional areas suitable for gainsharing.

Response: The City Manager's Office will further evaluate whether gainsharing is a viable strategy.

Recommendation 20. Initiate discussions with labor associations affiliated with the identified departments or functional areas.

Response: If after evaluation gainsharing appears viable, the Human Resources Department will initiate discussions with appropriate labor unions.

Recommendation 21. Issue a request for proposals (RFP) to obtain competitive proposals for solid waste collection and recycling services.

Response: The City Manager's Office supports further evaluation and analysis prior to issuing a request for competitive proposals. It is important to recognize that an evaluation and contracting for these services is a multiyear process and will require discussion with labor unions as it will impact our unionized workforce.

The Department of Public Works is currently evaluating solid waste and recycling services, rates, and opportunities to reduce costs and improve service. Although these services rank high in the latest Community Survey, the department recognizes that the industry and State regulations and requirements continue to change requiring innovative solutions to improve services while being cost effective.

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Recommendation 22. Conduct a re-routing exercise to balance routes, workload, and tonnage on a periodic basis.

Response: The Department of Public Works supports this recommendation and is part of the department's ongoing management practices. The last re-route study was completed in 2017. A new re-route study will take place in 2020 to right size routes which have become out of balance with much of the new development that has recently occurred in the City.

As noted above, the department is reviewing opportunities to improve services while being cost effective and periodic re-routing is a best practice that the city will continue to implement. As part of the proposed re-route study, an evaluation will be done to consider transitioning from a 4-10 work schedule in favor of a 5-8 schedule in order to improve efficiencies.

Recommendation 23. Utilize Global Positioning System (GPS) to monitor efficiency of refuse collection trucks.

Response: The Department of Public Works supports this recommendation. In fact, the department is currently evaluating a proposal to pilot innovations, to monitor and improve efficiency, such as real time GPS route management, widespread radio frequency identification deployment, and truck mounted pavement assessment equipment.

Recommendation 24. Adjust life cycle intervals to align with more common government fleet cycles.

Response: The Department of Public Works Fleet Management Division supports this recommendation and has already initiated an effort to better reflect life cycle intervals using best practices.

Recommendation 25. Incorporate salvage value, auction fees, and make-ready costs into future fleet replacement costs.

Response: The Department of Public Works, Fleet Management Division will evaluate the recommendations relative to salvage value and auction fees, however, these are subject to real-time market conditions at the time of disposal and can vary significantly. The department already includes make-ready costs into the fleet replacement budget.

Recommendation 26. Develop a dedicated internal service fund that supports future fleet replacements.

Response: The City has already established an internal service fund for the operation, maintenance and replacement of its fleet. Further, funding for annual fleet operations is centralized and departments do not have to "budget" for fleet replacement, rather funding is

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included in the annual budget to replace vehicles based on established replacement criteria. It is important to note that the City actually has a hybrid funding model, whereby investments in our large apparatus including fire and solid waste vehicles are included in the City's five-year capital improvement program and funds are set aside in advance for these purchases. While it is our goal to fund all replacements in advance of end of useful life, this is not financially feasible at this time.

Recommendation 27. Develop a comprehensive and accountable chargeback system that supports the fleet replacement fund.

Response: The Public Works and Finance Departments do not support this recommendation as outlined above in recommendation 26

Recommendation 28. Complete a comprehensive inventory of Citywide infrastructure assets that includes condition assessments and priority levels for maintaining/replacing.

Response: The City Manager's Office supports this recommendation. The City has documented inventories for most of its infrastructure including pools, parks, street lighting, traffic signals, bridges, pavement, traffic signs, pavement markings, parking meters, facilities, floodgates, drinking water, wastewater, and storm drainage. Yet not all have condition assessments and priority levels for maintaining/replacing. The report noted that the City has detailed infrastructure studies for some areas (pavement, facilities, parks, swimming pools) that identify over $484 million of deferred maintenance needs. The Department of Utilities has also identified at least $248 million in drainage system deferred maintenance. Further evaluation is needed to identify other areas that may require a comprehensive inventory and detailed study.

Recommendation 29. Develop a comprehensive asset management system based on best practices to plan and budget for the maintenance and replacement of City infrastructure assets.

Response: The City Manager's Office supports this recommendation. As noted in the report, the City does have studies identifying deferred maintenance needs (pavement, facilities, parks, pools) of over $484 million yet it does not account for all the City's infrastructure needs. The Department of Utilities has identified at least $248 million in drainage system deferred maintenance. There are other asset management systems (traffic signs, pavement markings, streetlights, water, wastewater, and others) in use, beyond those listed in the report. The Department of Utilities is in the process of identifying and categorizing all assets and working on finalizing risk models to develop rehabilitation plans for all three water systems. Further evaluation is needed to determine the feasibility and cost of developing a comprehensive asset management system for the maintenance and replacement of the City's infrastructure.

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Recommendation 30. Expand and accelerate strategies to implement green infrastructure.

Response: The Department of Utilities supports this recommendation. As noted in the report, the City already has several great examples of advancing green infrastructure through development of Stormwater Quality standards and recently completed projects. The department will continue to explore strategies to continue to implement green infrastructure toward meaningful environmental benefits and as part of a long-term cost-management strategy.

Recommendation 31. Conduct periodic audits of hiring and training outcomes for the Community Workforce Training Program and report the findings to the City Council.

Response: The City Manager's Office supports this recommendation. Currently, outcomes are monitored on a monthly basis. It is anticipated that a report will be provided to the City Council in Spring 2020.

Recommendation 32. Explore opportunities to monetize sewer and stormwater assets with telecommunications utilities.

Response: The Department of Utilities supports this recommendation yet agrees with the report that achievability is low. Some initial challenges that would need to be reviewed include:

1. Wastewater lines are a corrosive environment and would not be suitable for telecommunications infrastructure.
2. Concern that the presence of telecommunications infrastructure in wastewater, or storm drainage lines would hinder the City's ability to maintain the lines. Maintenance includes high pressure water jetting, root cutting, root killing herbicide.
3. Concern that there may be some liability for the City if the facilities was damaged.
4. Future rehabilitation/replacement would incur extra costs and likely require additional time to complete if telecommunication conduits were located in the City's mains.

Recommendation 33. Prepare an analysis of unfilled positions to identify opportunities to eliminate budgeted positions and implement dynamic staffing models.

Response: The Finance and Human Resources Departments support this recommendation. As a matter of practice, positions are continuously evaluated in the context of availability of funds against the needs and demands of our operating departments to deliver programs and services and adjusts accordingly. Many positions that are vacant now are due to the extremely tight labor market. It is difficult in a rules-driven employment process to quickly and efficiently fill positions.

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In addition, it is important to note that the 376 career vacancies (as of March 27, 2019) identified on page 141 of the report did not account for positions that had been alternately filled (position held vacant while non-budgeted position was filled) and that many of the identified positions outside of sworn safety positions are tied to required reimbursements/revenue activities. Consequently, elimination of these positions will not result in savings. Also, of the 376 identified in the report, 149.5 are safety recruits or sworn safety positions. Elimination of the safety positions would significantly affect service levels in both the Police and Fire Departments.

As of February 25, 2020, there are 197 career vacancies. Currently, 99 positions have been filled or in active recruitment, 79.3 positions held vacant are associated with reimbursements/revenues leaving a net 2.5 positions that could be eliminated, creating savings.

Recommendation 34. Allow departments to use part-time and contract staffing models to provide greater flexibility in meeting service demands and maximizing cost effectiveness.

Response: The Human Resources Department supports this recommendation. The City will work within the limits of negotiation requirements and the law to provide as much flexibility as possible relative to flexible staffing. In addition, keeping in mind the legislation that went into effect January 1, AB5, which dictates who can be classified as a contractor.

Recommendation 35. Change overtime calculation practices to be fully consistent with Federal law.

Response: The Human Resources Department supports this recommendation. The City has made improvements to the overtime calculation by excluding sick leave from the calculation. This will remain on the list for negotiations for all units.

Recommendation 36. Conduct a program-by-program review to determine which non-essential services should be continued and how the level of General Fund support can be reduced or eliminated.

Response: The Finance Department supports this recommendation and works with departments annually to align department budgets with program/service level needs. There is a complete inventory, Program Oriented Development, tied to the budget for all programs/services provided and the resources (positions and dollars) required to run these programs/services. Prior policy decisions have been to continue funding these programs/services.

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Recommendation 37. Establish a paramedic/ambulance subscription program.

Response: The Fire Department supports the evaluation of a subscription program. However, the department strongly disagrees with the financial estimates provided by the consultant ($1-1.5 million annually). The department estimates that the additional annual revenue is closer to $500K.

Further complicating the implementation of this type of program is that the ambulance transport program in Sacramento County is a borderless system with the closest ambulance dispatched, regardless of the changes made to the City's Fire Department. The department believes that a subscription program may be more successful if it is implemented by all four fire agencies (Sacramento, Sacramento Metro, Folsom, and Cosumnes). Implementation of a city-only program will require the development and implementation of countywide policy for ambulance transport by a non-city ambulance.

Recommendation 38. Pursue legislation that allows the City to collect payments to the General Fund from SMUD, similar to what private organizations pay.

Response: This recommendation was also included in the previous Management Partners report. At that time, the City Council was not supportive of pursuing this legislative change, which likely would result in increased rates.

Recommendation 39. Evaluate the feasibility of placing a Charter Amendment on the ballot to remove the requirement for binding arbitration for sworn police and fire personnel.

Response: This recommendation along with any City Charter amendment requires direction from the City Council.