EYE ON SACRAMENTO
Keeping Watch on Local Government For Sacramento's Future

Blueprint for a Post-Measure U Sacramento:

Beyond Our "Pay More, Get Less" City Government

A Report by

Eye on Sacramento

October 16, 2018

EYE ON SACRAMENTO

KEEPING WATCH ON LOCAL GOVERNMENT FOR SACRAMENTO'S FUTURE

Message from Eye on Sacramento Regarding the Blueprint

To: Members of the Sacramento City Council, Sacramento City Manager Howard Chan and the Residents of Sacramento

The Sacramento economy is humming with city tax revenues at record highs, increasing 16% in just the past two years, yet city politicians are asking Sacramento voters this fall to approve Measure U, a major $100 million increase in the city's sales tax, representing almost 20% of the size of the city's general fund. Why?

Why is it that the average Sacramento family is paying $800 more each year in higher city taxes and fees than it did in 2010, but core city services continue to deteriorate: streets are in poorer condition, parks are poorly maintained, quality-of-life crime is on the rise, street homelessness - a human tragedy – continues to expand, city utility services have been reduced, poverty in our community is increasing rapidly, with Sacramento recently ranked as having the 4th fastest growing poverty rate in the country, and we have fewer police officers on the street protecting our citizens than we did before the Great Recession despite increases in population?

Is this the "new normal" for Sacramento, for its residents to always pay higher and higher taxes and fees and to receive less in services?

Or is there another way, another path which Sacramento could take that would arrest the steady deterioration in the quality and quantity of our city's core services, without imposing ever higher tax burdens on our residents and businesses, particularly the burden of regressive sales tax hikes which are particularly punishing to our city's modest-income families, seniors on fixed incomes and the poor and homeless, people who lack the discretionary income to absorb them?

This report examines some the underlying reasons why Sacramento has devolved into what we refer to as a "Pay More, Get Less" city. Our report is based on Eye on Sacramento's eight years of monitoring Sacramento city government, coupled with a government accounting and municipal labor cost expert's assessment of the city's rapidly increasing labor costs. The report prescribes a "Blueprint for a Post-Measure U Sacramento:" a 22-point action plan - or a la carte menu, if you will - for Sacramento city government and the citizens of Sacramento that will, if implemented over the next few years, reduce the city's general fund annual expenditures by well over $125 million - *with no reduction in the levels of core public services upon which we all depend.*

In fact, full implementation of the Blueprint's recommendations *would free up substantially more resources* for the pursuit of high-priority city services and initiatives than the $100 million Measure U sales tax hike that is being proposed by city politicians – but without inflicting the financial pain on Sacramento's most vulnerable residents that a major hike in the sales tax would cause.

We hope that our Blueprint will help spark a very public and extended conversation about the future direction of Sacramento and its municipal government, as well as the kind of city we want to be. Will it be a city that delivers the highest and best value for its citizens' hard-earned tax dollars while preserving and improving core public services, or will it be a city that serves the few at the ever growing (and increasingly unaffordable) expense of the many?

The Blueprint is intended to serve as a "first draft" of sound, prudent proposals for regaining citizen control over the City of Sacramento's troubled financial future. We strongly encourage you to contact us with your ideas for reining in city spending, improving city service levels and making city government more accountable to its citizens. Don't be surprised to find some of your ideas included in future editions of the Blueprint.

I want to express our deepest gratitude for the invaluable contributions of Ms. Marcia Fritz to this report. Her background, extensive experience and practical knowledge of the inner workings of municipal budgets and government labor practices has helped to immeasurably improve the quality and value of this report to Sacramento.

If you have any questions about the Blueprint, please don't hesitate to contact me or Ms. Lisa Garcia, Eye on Sacramento's Vice-President for Community Outreach (e-mail lisa@Eyeonsacramento.org; phone: (916) 397-7939).

Craig Powell, President
Eye on Sacramento
E-mail: craig@eyeonsacramento.org
Phone: (916) 718-3030

SUMMARY OF EYE ON SACRAMENTO'S COST-SAVINGS RECOMMENDATIONS

Below is a summary of Eye on Sacramento's recommendations for reducing expenditures by the City of Sacramento, as more fully detailed in EOS's report entitled "Blueprint for Post-Measure U Sacramento: Beyond Our 'Pay More, Get Less' City Government," issued on October 16, 2018. Please visit www.eyeonsacramento.org to view or download the full report.

The estimated annual cost savings of each recommendation set forth below assumes the full phase-in of the recommendation, which in some instances will require multi-year phase-in periods. The following terms in this summary have the following meanings: CCS = Current Cost Savings; AFC = Avoided Future Cost; RE = Revenue Enhancement.

While most of the cost savings recommendations would the benefit the city's general fund, a number of them will also generate major savings in the budgets of the city's various enterprise funds, particularly items that involve general or citywide labor cost savings. But even savings in enterprise funds can redound to the benefit of the general. For example, by canceling the Convention Center expansion project, the convention center fund would burn up an estimated $13 million less per year in city hotel taxes. Those hotel tax revenue savings could – and should – be transferred to the general fund, rather than used almost entirely to subsidize an ill-advised expansion of the Convention Center.

Recommendation #1: ***Require All City Employees Pay 50% of Pension Costs (CCS): <u>$30 million</u>***

Recommendation #2: ***Eliminate "Release Time" Payments to Police Union Officials Who Perform No Police Work (CCS): <u>$1.4 million</u>***

Recommendation #3: ***Eliminate City's Duplicative Defined Contribution Retirement Plan (CCS): <u>$3.1 million</u>***

Recommendation #4: ***Eliminate Paid Time Off Cash-Outs (CCS): <u>$7.77 million</u>***

Recommendation #5: ***End Supplemental Pay for Educational Attainment (CCS): <u>$2.65 million</u>***

Recommendation #6: ***Phase-Out City's Obsolete and Unnecessary Retiree Health Care Benefit (CCS): <u>$28.28 million</u>***

Recommendation #7: ***Reduce Paid Holidays From 14 to 10 to Match Federal Employees' Holidays (CCS): <u>$4.95 million</u>***

Recommendation #8: ***Cancel Convention Center Expansion (CCS): <u>$13 million</u>***

Recommendation #9: ***Recover Portion of Training Costs from Early Departing Officers (CCS): <u>$1.4 million</u>***

Recommendation #10: ***Repeal Recently Adopted Ordinance That Gave Construction Trades Union a Monopoly on Future City Projects (AFC): <u>$10 million</u>***

Recommendation #11: ***Reduce Staffing on Fire Engines from Four to Three Firefighters (CCS): <u>$9.95 million</u>***

Recommendation #12: ***Shift Current City Homeless Policy to Transformational, Clinical Care Model (CCS): <u>$10 million</u>***

Recommendation #13: ***Avoided Future Operating Subsidies by Withdrawing from Streetcar Project (AFC): <u>$4 million</u>***

Recommendation #14: ***Use "Managed Competition" Model to Outsource or Improve Management of Sacramento Convention Center (CCS): <u>$5 million</u>***

Recommendation #15: ***Cap Future Operating Subsidies of Power House Science Center Project (AFC): <u>$30 million</u>***

Recommendation #16: ***Increase General Revenue By Demanding State of California Make "In Lieu Property Tax" Payments for City Services (RE): $15 million***

Recommendation #17: ***Fund Park Maintenance Funds by Increasing in Large Park User Fees (RE): $400,000***

Recommendation #18: ***Outsource Basic Park Maintenance (CCS): $7 million***

Recommendation #19: ***Engage Nonprofits to Manage Recreation Centers and Pools (CCS): $2.8 million***

Recommendation #20: ***Reduce Mayor/Council Staffing to 2013 Levels (CCS): $1.4 million***

Recommendation #21: ***Adopt Policy of Using "Single Role" Paramedics in City Ambulances (CCS): $6 million***

Recommendation #22: ***Redirect the "Redevelopment Dividend" From the Innovation & Growth Fund to the General Fund (CCS): $5 million (Estimated Annual Average Over Next 10 Years)***

Total Annual Current Cost Savings (CCS)	***$139.70 million***
Total Avoided Future Costs (AFC)	***$ 34.00 million***
Total Revenue Enhancements (RE)	***$ 25.40 million***
TOTAL ESTIMATED ANNUAL SAVINGS	***$199.10 million***

About the Authors

Craig Powell

Craig Powell is the President of Eye on Sacramento, a local government watchdog and policy research organization which scrutinizes the actions and policies of local government, examines seemingly intractable municipal problems, and offers policy solutions in Sacramento County. Organized in 2011, Eye on Sacramento, a 501(c)(3) nonprofit, is an independent advocate for responsive, accessible and cost-effective local government.

Mr. Powell is a 1977 graduate of the Haas School of Business Administration, University of California, Berkeley, where he received his Bachelor of Science degree, with joint emphases in finance and accounting. He received his Juris Doctor degree with Great Distinction in 1981 from the McGeorge School of Law, University of the Pacific, and was admitted as a member of the California Bar Association that same year. He formerly served as chair of the Corporate Law Section of the Sacramento County Bar Association. Professionally, Craig is a retired corporate and securities attorney with three decades of private practice experience. He is a fifth-generation Sacramentan and resides with his family in Sacramento's Land Park neighborhood.

Marcia Fritz, C.P.A.

Ms. Fritz has been a Certified Public Accountant (now inactive) since 1974 and has been in private practice since 1983. She graduated with honors from the University of Southern California with a Bachelor of Science Degree in Business Administration, emphasis in accounting. She's a former member of the California State Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

Ms. Fritz has 28 years of experience of performing audits for governmental entities, public companies, and small/medium businesses in a variety of businesses. She is formerly a senior manager with Ernst & Young in their San Jose, Orange County and Sacramento offices.

Her audit and accounting engagements have included SMUD, Sacramento Regional Water Authority, Sacramento County Ground Water Authority, the Counties of Sacramento and Contra Costa, City of Stockton, Sacramento Area Regional Sanitation District, Sacramento Area Flood Control Association (SAFCA) and the California Office of Public Education.

Ms. Fritz is a frequent speaker and instructor on the subject of state and local pension and employee compensation issues in California and has conducted courses on the subject for local elected officials in California. She is the direct descendent of four pioneer Sacramento families dating back to 1853.

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THE 2010 MANAGEMENT PARTNERS REPORT

In 2009, the City of Sacramento engaged the well-respected municipal government consulting firm, Management Partners, to conduct a top-down review of all city operations and to identify ways in which the city could reduce costs and improve performance. Management Partners analysts include a number of well-respected, highly-experienced retired city managers.

Management Partners submitted a "City-Wide Operational and Financial Review" report at a meeting of the Sacramento city council on May 18, 2010. Its final report set forth 49 specific, wide-ranging recommendations for reducing city costs and improving performance.

For a year or so after the report was issued, the city sought to implement at least some of Management Partners' recommendations and actually tracked its progress towards doing so. Over time, however, the city council and city manager lost interest in the reforms, particularly those that presented potential political challenges to the city council. The city has not since engaged a municipal management consulting firm to conduct a full review of its operations and finances. Given the passage of nearly a decade since the last top-down outside review of city operations and finances, we recommend that the city council commission another top-down, citywide review in the next few months.

Throughout this report, we note those cost savings recommendations of ours that were also recommended by Management Partners in its 2010 report to the city council.

GENERAL LABOR COST SAVINGS

The City of Sacramento spends 52.5% or $577.5 million of its overall $1.1 billion annual spending on labor costs, according to its proposed 2018/2019 unified budget. The city's current general fund budget (FY 2018/2019) calls for $484.4 million in expenditures. The $598.3 million remainder of the city budget is spent by the city's various enterprise funds, with the city's Department of Utilities budget being the most significant, as well as on capital improvements. Labor costs comprise a much larger proportion of the general fund budget than they do for the rest of the city's spending, primarily due to the heavy concentration of labor costs in the city's police and fire departments.

According to the current city budget, labor costs comprise 99.78% or $116.8 million of the fire department's overall budget of $117 million, while labor costs drive 90% or $133.2 million of the police department's overall budget of $147.3 million. Collectively, labor costs in the police and fire departments amount to $250 million or 51.6% of this year's entire general fund budget.

Why is this important? Because to achieve any appreciable savings in the city's general fund budget (which funds most of the city services we all associate with city government, apart from utilities services and other fee-producing services), we must carefully examine and identify labor cost savings opportunities, particularly those in the city's police and fire departments.

<u>Policy Choice: Employee Layoffs vs. Controlling Unit Labor Costs</u>

The principal way the city reduced its labor costs during and in the aftermath of the Great Recession was to issue wholesale layoff notices to city employees, which led, in turn, to deep cuts in vital city services in department after department. *This practice was wrong*. It was unfair to the terminated city employees and unfair to city residents and businesses who saw the city services that they depended upon slashed.

There are two principal ways the city can reduce its labor costs: it can either use the blunt axe approach of slashing the number of units of labor it employs (i.e. via wholesale firing of city employees, as it did in the last recession) <u>or</u> it can reduce the labor costs it incurs for each unit of labor it employs - without slashing its workforce. The latter approach – reducing unit labor costs - protects vital public service levels during tight budget years while avoiding the human pain wholesale terminations inflict on city employees and the loss of core public services the public demands.

The city must begin reining in its unsustainable and escalating unit costs of maintaining its work force by:

(1) Limiting salary increases to annual increases in general inflation;
(2) Reducing or phasing out supplemental pay categories;
(3) Gaining control over its rapidly escalating costs of providing employee benefits;
(4) Eliminating wasteful, inefficient and cost-spiking work rules under its labor contracts;
(5) Requiring its employees to pay a fair share of their own benefits; and
(6) Shifting its focus to, first, halting and then reversing the steady deterioration of city workforce productivity, instead of turning a largely blind eye to its productivity declines as it has over the several years.

The Great Recession did lead to some improvements in city productivity, as the city council, by making large scale layoffs, was forced to deliver city services with a shrunken workforce. But since the recession ended, city productivity has steadily declined.

Improving the productivity of city government is a choice. The city manager and the city council need to spend less time planning how it will spend taxes on attention-grabbing new projects and initiatives and much more time discharging its legal oversight responsibilities under the city charter and putting in place prudent fiscal and managerial controls over the city's expansive bureaucracy. The city council's recently formed Governance Ad Hoc Committee, chaired by councilmember Larry Carr, is a small but important beginning to such an effort.

Never again should the city resort to mass layoffs to control its labor costs. Never again should the city enter into multi-year agreements with its labor unions which contractually disable it from reducing unit labor costs when it's prudent and responsible to do so. If the city council implements the bulk of the comprehensive cost-saving reforms we recommend in this report, it should never again feel the need to wield a blunt axe against its own workforce in order to balance its books.

Our recommendations for lowering general labor costs, without reducing core service levels, are set forth below.

<u>City Employees Should Pay One-Half of Their Own Pension Costs</u>

Currently, city employees pay only about 25% of the total costs of their own pensions. In practice they pay 50% of what is known as the "normal" cost of their pensions, which is the annual pension cost incurred or accrued for each additional year their service to the city. But the city's annual pension bill includes a much more expensive component: the cost of paying down the city's huge unfunded liability for city pensions.

City taxpayers currently pick up 100% of the annual cost of paying down the city's unfunded pension debt.   much more substantial annual cost of paying down the huge unfunded pension liabilities owing to city employees. The unfunded liability is a result of chronic underfunding of city pension contributions and overly optimistic projections of the returns on pension assets held by CalPERS.

It is the rapidly escalating city cost of paying down its growing unfunded liabilities that is putting tremendous financial pressure on the city budget, pressures that will increase dramatically over the next few years. The city's already substantial annual payment to CalPERS for these liabilities is expected, by both city staff and CalPERS, to increase by $62 million annually over the next four to five years.

By renegotiating all city labor contracts to phase in a requirement that all city employees bear 50% of the cost of paying down unfunded pension liabilities, the city would realize an estimated $30 million in annual cost saving, computed as follows:

Estimated 2018-2019 Employer Contribution - Misc.	$35,413,500
Estimated 2018-2019 Employee Contribution - Misc.	$12,540,391(3)
Total EE & ER Pension Contribution - Miscellaneous	$47,953,891(1)

https://www.calpers.ca.gov/docs/actuarial-reports/2016/sacramento-city-miscellaneous-2016.pdf- Page 4

Estimated 2018-2019 Employer Contribution - Safety	$57,392,152
Estimated 2018-2019 Employee Contribution - Safety	$12,456,054(4)
Total EE & ER Pension Contribution - Safety	$69,848,206(2)

https://www.calpers.ca.gov/docs/actuarial-reports/2016/sacramento-city-safety-2016.pdf - Page 4

Total EE & ER Pension Contribution-Misc. & Safety (1) + (2)	$117,802,097
	X 1/2
Half of Total Pension Contribution	=$58,901,048 (A)

Total Misc. & Safety Employees Contribution Estimated (3)+(4)	$24,996,445 (B)
Total Savings if Employees Pay Half of Pension Costs (A) – (B)	$33,904,603

This was also a Management Partners recommendation (MB Recommendation #34).

Estimated Annual Savings if Employees Pay 50% of Pension Costs: $30,000,000

Reduce Paid City Holidays From 14 to 10 (Equal to Federal Holidays)

City employees are already beneficiaries of generous city vacation policies. City employees currently have 14 paid holidays each year, while federal employees enjoy only 10 paid holidays and State of California employees enjoy just 11 paid holidays. There is no demonstrable reason why city employees should receive 40% more holiday pay than the holiday pay received by federal employees. The budget savings from shifting from 14 to 10 paid holidays are considerable, as computed below:

2018-2019 Projected Payroll – Miscellaneous EE's $187,561,931 (a)
https://www.calpers.ca.gov/docs/actuarial-reports/2016/sacramento-city-miscellaneous-2016.pdf
2018-2019 Projected Payroll – Safety EE's $134,137,989 (b)
https://www.calpers.ca.gov/docs/actuarial-reports/2016/sacramento-city-safety-2016.pdf

Total Projected (Pensionable) Payroll (a) + (b) = $321,699,920

Reduced Holidays as a % of Total Workweek Days/Year 4 days vs. 260 = 1.53846%
Wage Savings (1.53846% x $321,699,920 Total Payroll) = $4,949,229
(Does not include employer taxes and pension costs saved.)

Estimated Annual Wage Savings from Reducing Paid Holidays From 14 to 10: $4,949,000

Suspend Employer Contributions to City's 401(a) Money Purchase Plan

City employees are already beneficiaries under a generous defined *benefit* pension plan. Few people are aware that the city also makes *additional* payments to a defined *contribution* plan (401(a) Money Purchase Plan) on behalf of certain select city employees who are also beneficiaries under the city's defined benefit pension plan. The city can - and should - amend its labor agreements and employee benefits policies to eliminate this unnecessary, duplicative and costly benefit.

https://www.cityofsacramento.org/-/media/Corporate/Files/Finance/Accounting/Financial-Reporting/CAFR-Documents/CAFR_063016_FINAL-122816.pdf?la=en – Page 93

The city contributed $3,086,000 to its 401(a) defined contribution plan in the fiscal year ending June 30, 2017.

Estimated Annual Savings of Eliminating Duplicative Defined Contribution Plan: $3,086,000

Eliminate Cash Outs of Paid-Time-Off

Eliminating the city's current practice of cashing out credits accumulated by city employees for paid-time-off (PTO) would provide significant budgetary savings. The city should also end its practice of paying for PTO for police and fire fitness workouts which are not mandatory.

Such "compensated absences" are defined as follows:

> "Compensated absences - estimated amounts due to employees for earned, but unused, compensated absence accounts, including leave balances for vacation, sick, holiday, and compensated time off. Compensated absences are generally liquidated by the City's General Fund, enterprise funds, and internal service funds."

https://www.cityofsacramento.org/-/media/Corporate/Files/Finance/Accounting/Financial-Reporting/CAFR-Documents/CAFR_063016_FINAL-122816.pdf?la=en, Pages 74 and 79

Estimated Annual Savings from Eliminating PTO Cash-Outs: $7,771,000
(Plus, savings from eliminating payments for non-mandatory fitness workouts)

Eliminate Supplemental Pay for Educational Attainment & Certifications

The city pays its police and firefighters a significant number of supplemental pay items above and beyond base salaries that substantially increase employee compensation and, because supplemental pay is counted as "pensionable pay," substantially increases the city's liabilities and costs for employee pensions. The better practice would be to eliminate supplemental pay items to the extent practicable so that base city salaries are an accurate reflection of actual employee compensation. Their elimination would also reduce the potential for abuse via combining and compounding pay items. Their elimination would also give the public a far more accurate picture of actual city employee compensation. It is also questionable whether the city receives real value from a number of its supplemental pay items.

Employees should come to their jobs with sufficient education to fully perform their duties. It should not be the burden of city taxpayers to pay additionally for educational attainment that should be a basic prerequisite of a position. Supervisors and managers should hold degrees. Command level officers and firefighters should hold master's degrees. Education incentive pay should be eliminated as a supplemental pay item. Promotions and salary hikes should be earned through employee performance and effort, not further educational attainment while on the job or through acquiring certifications of completion of a course of study funded by taxpayers.

"Other [supplemental] pay" for full-time police officers = $2,336,160 in 2017.
https://transparentcalifornia.com/salaries/search/?a=sacramento&q=police&y=2017

"Other [supplemental] pay" for full-time firefighters = $977,617 in 2017.
https://transparentcalifornia.com/salaries/search/?a=sacramento&q=firefighter&y=2017

$2,336,160 police + $977,617 firefighter = $2,651,021

Supplemental pay for educational attainment can add an additional 20% to base wages compared to other workers performing the identical work. For purposes of our calculations, we have assumed that 80% of the city's supplemental pay is for educational attainments while on the job.

Estimated Annual Savings from Dropping Supplemental Pay for Educational Attainment: $2,651,000

Phase Out Retiree Health Care Benefits Over Three Years

The city provides a retiree health care benefit to city employees (including medical, dental and vision coverage). The city's unfunded liability for this benefit is now approaching $400 million. Benefits are paid on a "pay as you go" basis. The city has set aside only $25 million in an OPEB Trust to fund this benefit (also known as "Other Post-Employment Benefits" or "OPEB").

The city is accruing an annual OPEB expense of approximately $43 million, but it's currently contributing slightly less than half that amount towards OPEB benefits. The difference between the $43 million in annual accrued OPEB expense and the city's actual yearly contribution is added to the city's growing unfunded OPEB liability each year.

The County of Sacramento wisely phased this benefit out over a two-year period several years ago. Since the adoption of the Affordable Care Act (ACA), the OPEB benefit is increasingly obsolete and unnecessary. Lower-income city retirees are eligible for full premium subsidies under the ACA, while more highly compensated city retirees (primarily police and firefighters) have adequate pension income to bear their own retiree health care costs until they become eligible for Medicare. Consequently, we recommend that the city phase out its OPEB benefit over a three-year period.
https://www.cityofsacramento.org/-/media/Corporate/Files/Finance/Accounting/Financial-Reporting/CAFR-Documents/CAFR_063016_FINAL-122816.pdf?la=en - Pages 93 and 94

Potential Annual Savings from Phase-Out of OPEB Costs: $28,279,000

POLICE DEPARTMENT REFORMS

Stop Paying Salaries of Full-Time Police Union Officials Who Perform No Police Work: "Release Time"

Under the city's labor contract with the Sacramento Police Officers Association, city taxpayers are paying the salaries of the full-time leaders of the SPOA who perform no police work while on what is referred to as "release time." These police officers are "released" from their police duties but are still paid by city taxpayers. Taxpayers should not be subsidizing the salaries and benefits of labor union officials who perform no police services. Such costs should be entirely borne by the SPOA and its members. According to EOS estimates, the city currently pays nearly $1,000,000 in salary costs for officers on "release time," plus an estimated $400,000 each year in associated CalPERS pension contributions.

Estimated Annual Savings from Eliminating "Release Time" Payments: $1,400,000

Require Officers Departing Early to Reimburse City for Training Costs

Sworn police officers (and firefighters) are paid while being trained. The average police officer who leaves the force does so after 4.5 years in the department, insufficient time for the city to fully recover or amortize its considerable investment in training officers. We estimate that city's costs for training a new officer are approximately $100,000 each. With 28 officers leaving the police force in 2017 after an average of 4.5 years on the job (primarily to take jobs on the police forces of other jurisdictions), Sacramento loses a large part of its estimated $2.8 million annual investment (which varies considerably year-to-year depending on policy academy enrollment). The city's training investment is walking out the door each year to work in nearby jurisdictions who typically don't have to bear the cost of operating a police academy.

To remedy this loss of city investment, the city should require recruits to reimburse it for their training costs if they leave the force before their 10th anniversary (prorated after the first five years of city employment). In practice, the jurisdictions recruiting our officers will likely agree to cover all or a portion of the departing officers' reimbursement obligation, similar to the way in which private employers frequently absorb the recruitment fees of employees they hire. Such a practice would fairly impose on the hiring jurisdiction a fare share of the training costs of the officers they hire away from us.

https://www.calpers.ca.gov/docs/actuarial-reports/2016/sacramento-city-safety-2016.pdf - Appendix C, Page C-1

Estimated Annual Recovery of Training Costs of Departing Officers: $1,400,000

Selectively Replace Sworn Officers with Lower-Cost Civilian Employees

As they retire, we recommend that the city replace selected sworn officer positions with highly-trained, lower-cost civilians when the use of force is not a generally accepted tactic for a specific job (civil process, CCTV monitoring, burglary and homicide investigators, etc.). The early retirement of homicide detectives can easily cause homicide cases to fall apart if the assigned detective isn't available to see it through to its conclusion. As an example, the East Area Rapist case would not have been solved had the retired Contra Costa County detective who broke the case had not volunteered to work beyond his normal safety retirement date to solve the case.

This is also a partial recommendation of Management Partners (MB Recommendation #22).

Savings of Replacing Selected Sworn Officers with Highly Trained Civilians: Unknown

We're awaiting a response to our public records request concerning sworn city police officers currently in positions that could be filled with highly-trained civilians.

FIRE DEPARTMENT REFORMS

<u>Shift From “Dual-Role” to “Single-Role” Paramedics in City Ambulances</u>

A wasteful work rule in the city’s labor agreement with Firefighters Local 522 requires that all ambulance workers, currently certified as either EMT’s or paramedics, must also be certified as firefighters. There is no need for an ambulance worker to also be certified as a firefighter. Under the terms of the city’s contract with the firefighters union, the unnecessary “dual role” certification requirement is adding about $14,000 annually to the salary and benefits cost of each ambulance worker, which adds an additional $400,000 to the annual operating costs of each of the city’s 15 ambulances.

As noted by a Sacramento Bee editorial that supported a change to “single role” paramedics (August 24, 2017), an unplanned test of such a policy conducted in the first six months of 2017 was trouble-free and evidenced none of the safety concerns expressed by the firefighters union. The change to “single role” paramedics in city ambulances was first identified and championed by city councilmember Jeff Harris, upon whose cost estimates we rely.

Estimated Annual Savings of “Single Role” Paramedics in City Ambulances: $6,000,000

<u>Reduce Staffing of City Fire Engines from Four to Three Firefighters</u>

The great majority of fire departments in the Sacramento region staff their fire engines with three firefighters per vehicle. Sacramento is a distinct outlier which staffs its engines with four firefighters per vehicle.

In 2008, when he was running as a candidate for mayor of Sacramento, Kevin Johnson signed a written pledge to Firefighters Local 522 that, if he were elected mayor, he would not support and would oppose any reduction in the staffing of firefighters on fire engines (copy on file at EOS’s offices). Firefighters Local 522 endorsed and financially supported Johnson in his 2008 and 2012 mayoral campaigns. Johnson won the race and, during his two terms as mayor, kept his pledge to the firefighters union not to tamper with the four firefighters per engine standard.

In Management Partners’ 2010 report to the city council (MB Recommendation #25), it recommended as follows:

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

The city council ignored Management Partners recommendation.

Four years ago, then Sacramento city manager John Shirey also advised the city council to reduce firefighter staffing on fire trucks from four to three in all suburban-type neighborhoods and to preserve four-firefighter staffing only in fire stations located in the Downtown core, due to its concentration of multi-story buildings. The city council ignored Mr. Shirey's recommendation.

There were 382 full time fire engineers, fire engineer paramedics, firefighters, and firefighter paramedics in 2017, an estimated 2/3rds of which were employed as firefighters. Their total wages and benefits were $58,501,909, or $153,146 average compensation for each firefighter.

https://transparentcalifornia.com/salaries/search/?a=sacramento&q=firefighter&y=2017

The potential savings of reducing firefighter staff on fire engines from four to three can be computed as follows:

25% (reduction from 4 to 3 firefighters) X 66% (based on the estimate that 2/3rds of all city firefighters are assigned to fire suppression, with the remainder assigned to ambulance duty) X $58,501,909 (total wages and benefits of all city firefighters in 2017) = $9,949,000

Estimated Annual Savings from Reducing Staffing on Fire Engines from Four to Three Firefighters: $9,949,000

Excessive Deployment of Vehicles & Crews on Medical Calls

Current city and fire department policy is to dispatch a four-person fire engine and a two-person ambulance to every medical call for service in the city. Deploying six emergency personnel and two emergency response vehicles to every medical call in the city is both excessive and wasteful.

The firefighters union's justification for such deployments is that, while a two-person ambulance crew is capable of handling medical calls, fire engines are often the first response team to arrive on the scene because the city maintains many more fire stations than ambulances. While that may be true, it begs the question: why isn't the department reconfiguring its vehicles and resources to shorten ambulance response times to avoid the need for two-vehicle, six-person responses? Given the steady increase in medical response calls to the fire department and the steady decline of fire calls (calls for medical assistance now account for about 90% of all fire department dispatches), the need for such reforms are becoming more and more acute. As former city manager John Shirey quipped, "Our fire department is now really an ambulance department that occasionally puts out fires."

A further argument defending the status quo configuration is that having four firefighters and a fire engine respond to every medical call doesn't add much to staffing costs because the firefighters would likely otherwise be at the fire station awaiting a fire call if not dispatched to deal with a medical call. While that may also be true, is it the best use of firefighters' time and in the public interest for firefighters to be largely idle at the fire station unless dispatched on a medical call or an increasingly rare fire call? Other cities have adopted cross-training policies for firefighters, cross-training them as police officers or in other roles to avoid long stretches of idle hours and to maximize their value to the public. Is this something Sacramento should explore?

We don't pretend to have the answers to these questions, but we do believe these issues should be thoroughly examined in a public dialogue. This was also a Management Partners recommendation (MB Recommendation #27).

Potential Future Annual Cost Savings: Unknown

CHANGE CITY POLICIES ON HOMELESSNESS

Shift Homeless Policy to Pursuing Transformation Change in a Clinical Environment

Mayor Steinberg came into office in 2016 rejecting the idea of opening new shelters to temporarily house the homeless and advocating instead for the construction of "permanent supportive housing" for the homeless. He has since reversed course and has embraced opening homeless shelters, starting with the opening of the Winter Triage Shelter in North Sacramento in late 2017 which has an annual operating cost of $5.4 million. He is seeking city owned sites for the placement of two or three "pop-up tent" shelters that could each accommodate up to 200 people. The projected aggregate operating cost of three pop-up tent shelters in Sacramento is an estimated $16 million/year.

The mayor claims that he's copying the recent "incredible success" of pop-up tent homeless shelters in San Diego and wants to "replicate" in Sacramento what San Diego is doing. The mayor is mistaken. The San Diego city council recently noted, and local San Diego media widely reported, that their tent shelters have fallen far short of their initial stated goals for placing occupants in permanent housing. Operating costs are also higher than anticipated. Finally, the Downtown San Diego Partnership recently conducted a count of the homeless on the streets of San Diego and found that the number of street homeless has gone UP, not down, since the opening of San Diego's three pop-up shelters.

Haven for Hope Model

The missing piece in the city's homeless policy is a focus on helping homeless individuals achieve transformational change in their lives, not merely providing "supportive services" in a non-clinical environment. We urge city and county leaders to examine the highly successful – and very cost effective – model used in San Antonio TX: the Haven for Hope model, which offers both low-barrier triage care for the homeless *and* an adjoining comprehensive "transformational campus" which brings to bear the services of several dozen homeless service providers of every imaginable type, all under the coordination of a unique case management system that maintains a single-minded focus on helping the homeless transform their own lives and achieve independence from lifelong dependency on supportive services and taxpayer-provided permanent housing. It is a solution that is not only dramatically more cost-effective than providing shelters and "permanent supportive housing," it's the most humane and hopeful approach to dealing with the tragedy of homelessness.

The annual cost of operating the Haven for Hope in San Antonio, which typically houses 1600 individuals each night, half in the low-barrier courtyard and half in its transformational campus, amounts to $20 million per year, 55% of which is funded by private individuals, foundations and corporations and 45% funded by state, county and local governments – a fraction of the city's per person cost of operating its bare-bones Winter Triage Shelter in North Sacramento. The opening of the Haven for Hope nearly a decade ago reduced street homelessness in San Antonio by 85%. San Antonio has roughly the same population as Sacramento.

According to a city study issued in October 2015, Sacramento was spending more than $13.6 million per year on costs related to homelessness: $6.6 million on services and support for the homeless and approximately $7.0 million on the costs of mitigating the community impacts of homelessness. Today, with the continued operation of the Winter Triage Center in North Sacramento, the city's aggregate costs related to homelessness is currently in the range of $20 to $25 million annually. In addition, Sacramento Steps Forwards, the nonprofit designated as the distributor of federal homeless assistance dollars, spends approximately $19 million each year on services for the homeless. County government will spend close to $70 million this year in homeless services. Meanwhile, the federal government's Whole Person Care program is funding a $64 million program over the next three years in Sacramento that seeks to connect the homeless with medical and mental health care services, even though the homeless being "connected" are living on the street instead of in a stable clinical setting.

The estimated combined federal, county and city spending on homelessness and related costs in Sacramento county *annually* in the next three years amounts to $136 million, not counting $10 to $20 million more in state government funding recently approved by the Legislature to deal with homelessness which will trickle down to Sacramento County and local city governments this year. Three-year total cost: an estimated $500 million.

This is a monumental amount of money to spend on what are largely untested programs and initiatives that show limited promise of effectively dealing with the growing problem of homelessness.

If the city, county and/or state governments were to use a tiny fraction of this sum to partner with nonprofit partners to construct, at a $20-$25 million cost, and operate a transformational campus modeled after the highly successful Haven for Hope homeless facility in San Antonio, our city and county governments would have an excellent opportunity to dramatically bring down their exploding costs of dealing with homelessness, both in terms of short-term costs of care and the avoided long term costs of building and maintaining "permanent supportive" housing that would not be needed to house those formerly homeless individuals who achieve independence and self-sufficiency.

Given the effect the Haven of Hope has had in reducing street homelessness in San Antonio, this is a model that compels the attention of our local elected officials. A delegation of two Sacramento county supervisors and their homeless officials toured the Haven for Hope facility earlier this year. We encourage Sacramento city councilmembers and their homeless officials to do the same.

If a Haven for Hope-type facility were built somewhere in Sacramento county and the city bore 25% of the cost of developing and operating the facility, it is reasonable to project that the city's $5 million initial investment and $5 million annual operating support would reduce the city's expenditures on homelessness by $15 million per year, for a $10 million annual savings, net of its $5 million annual operating subsidy of the facility.

We recommend that city government partner with county government and local nonprofit partners to partially fund the construction and support the operation of a Haven for Hope-type facility in Sacramento.

Estimated Annual Savings of Homeless Costs by Shifting to Transformational Care Model: $10 million

TRANSPORTATION

Discontinue the Troubled Downtown Riverfront Streetcar Project

The city has sunk approximately $11 million into Downtown Streetcar Project, a project that proposes to build a circulating streetcar route from 19th Street, at its eastern most point, through Downtown, across the Tower Bridge, to West Sacramento on its western most point. The streetcar project is a joint one, involving the cities of Sacramento and West Sacramento. It would be built with a combination of federal, state and local funds. While the cost of building the project was put at $200 million last year, several sources have reported to EOS that actual costs are likely to be much higher. Project proponents have no plans in place to raise the capital needed to fund higher costs of construction.

EOS has very serious concerns with the streetcar project (see the EOS report entitled "Start Digging a Hole," www.eyeonsacramento.org). Since the streetcar wouldn't expand beyond Downtown, it would not improve mobility or get people out of their cars or reduce miles driven. Because it would be a very slow-moving form of transportation, it would likely draw few users.

Because it would operate without dedicated lanes, it would serve to further congest already congested traffic on Downtown streets. The proponents' arguments that the streetcar project would stimulate economic growth has not been empirically established in other cities. Further, the high cost of building the system would divert limited transportation infrastructure funding away from more effective, higher priority projects that would actually improve Sacramento's mobility and reduce miles driven.

For the purposes of this report, however, we are most concerned with the impact of expected streetcar operating deficits on the city's general fund. Emeritus Professor Gregory Thompson of Florida State University, a nationally and internationally recognized expert on rail transit systems and vice-chair of EOS's Transportation Committee, has studied the operating deficits the streetcar system would likely experience. He's concluded that the system would likely produce operating deficits of between $6 million and 8 million each year, significantly higher than the $5 million annual deficits projected by project proponents. Professor Thompson characterizes the Sacramento streetcar project as "little more than an amusement ride for tourists."

Additionally, the revenues that the city is relying upon to fund the streetcar's annual losses are ephemeral at best. While the $1 million/year committed by the City of West Sacramento is clear, the city is relying on two additional funding sources: (1) a $2 million per year property tax assessment that would be paid by property owners in a community financing district (CFD) approved by a vote of local property owners in an election held last year; and (2) $2 million in projected streetcar passenger fares and advertising revenues.

Both sources of money for covering streetcar losses are highly suspect. First, the $2 million from the CFD tax assessment is the subject of a current court challenge that alleges that the vote of property owners was unlawful and not in compliance with California law. Second, the projections of both streetcar fare revenues and advertising revenues are massively overstated. Even the city's own consulting engineer on the project, HDR Engineering, revealed in an internal communication that the streetcar is likely to only generate $200,000 in annual fare revenue and only $15,000 in annual advertising revenue.

Additionally, the Federal Transportation Administration, a division of the U.S. Department of Transportation, in a recent field risk assessment raised serious doubts about whether the project will qualify for $100 million in federal funding. Further, the Trump Administration has signaled its opposition to funding further urban streetcar projects.

If federal funding for the project is granted and accepted, the city would become legally obligated to continue operating the streetcar for decades or be legally obligated to return the federal funding. Consequently, annual streetcar operating deficits would act like a fiscal albatross around the necks of city taxpayers for decades. Streetcar operating deficits, according to Professor Thompson's calculations, could run from nearly $3 million/year to as high as $6.8 million/year.

To protect the city's general fund, the city should act promptly to withdraw from the streetcar project to avoid the financial threat that the project poses to city taxpayers and core city services.

Estimated Annual Avoided Cost by Withdrawing from Streetcar Project: $4 million

RECAPTURE HOTEL TAX REVENUES FOR THE GENERAL FUND

Reduce Scope of Convention Center Projects

The city is planning to launch three convention center-related projects: (1) the renovation and substantial expansion of the Sacramento Convention Center itself at a cost of $240 million; (2) the renovation and upgrade of the Convention Center Community Theater at a cost of $95 million; and (3) the renovation of the Memorial Auditorium to temporarily accommodate performances during the renovation of the Community Theater, a $15 million cost.

EOS has issued two reports in recent years on the ongoing large-scale annual losses at the convention center. We first reported annual losses of $16 million in 2013, while our subsequent report in 2016 revealed that annual convention center losses had climbed to $19 million. Investing $240 million more in a facility that is already costing city taxpayers tremendous sums every year is foolhardy. The last expansion of the convention center in 1996 increased the center's annual losses as rosy projections of higher convention traffic failed to materialize, which triggered an emergency city bail out loan to the convention center fund – a loan which we understand is still not fully repaid.

Officials at Visit Sacramento are again touting rosy projections that claim that a further expansion and renovation of the convention center will significantly expand the center's convention bookings. These projections are simply not credible. The convention industry is a declining industry and competition is intense, with West Coast cities engaged in a ruinous expansion of convention center space in pursuit of a declining number of customers. Furthermore, Sacramento simply cannot compete successfully against San Diego, Long Beach, San Jose and San Francisco as we lack the tourist attractions and amenities that coastal cities can offer the convention trade.

The proposed $240 million expansion and renovation of the convention center would only benefit a small number of politically influential Downtown hotel owners and restauranteurs and add a modest number of low-wage jobs. It would offer nothing but higher costs to city taxpayers, as the estimated $500 million plus total cost of servicing new convention center bonds issued to finance the expansion/renovation would vacuum up most of the $30 million in annual hotel taxes the city currently collects. Such a "vacuum" effect would reduce *pro tanto* city hotel tax revenues that could - and should - otherwise pour into the city's general fund.

The city needs to stop putting the financial interests of politically influential special interests ahead of the interests of Sacramento residents.

Estimated Annual Savings of Canceling Convention Center Expansion: $13 million

The renovation of the Community Theater and Memorial Auditorium are very different matters. The city is bound by the terms of a legal settlement of claims asserted under the Americans With Disabilities Act to make substantial renovations to the Community Theater. Additionally, the time to consider the alternative of building an entirely new Community Theater at the current site or at alternative site has passed as Theater renovation work is currently underway. The $15 million renovation of the Memorial Auditorium is being driven by the need to use it as a temporary venue for ongoing artistic performances disrupted by the renovation of the Community Theater.

Outsource Management and Marketing of the Convention Center

EOS has been encouraging the city for several years to outsource management and marketing of the convention center to a nationally-recognized convention center management firm. Such a move would substantially reduce operating costs, increase convention center booking revenues, and reduce convention center losses. A professional convention center management firm would have far greater marketing muscle and a much more extensive marketing network than tourism and convention center officials in Sacramento.

Outsourcing management and marketing of municipal convention centers is a well-established national trend that has improved the performance of several centers. Los Angeles outsourced management and marketing of the L.A. convention center several years ago which not only eliminated the city's annual convention center losses but led to annual profits for the city.

The mayor proposed outsourcing management of the Sacramento Convention Center early in his term as mayor and the city reportedly entered into active negotiations with a prospective management firm, but negotiations failed for reasons that were not disclosed. There is no indication that the city is currently pursuing outsourcing opportunities with other management companies. It should do so without delay.

Estimated Annual Savings from Outsourcing Convention Center Management: $5 million

Shelve Plans to Subsidize Another Convention Center Hotel

Mayor Steinberg has also signaled that he would support a city taxpayer subsidy for a new hotel on the eastern side of the Sacramento Convention Center. While the city made a significant profit on its equity investment in the Sheraton Hotel nearly 20 years ago, it would be foolish for city officials to assume that lightening will strike twice in Sacramento's highly volatile hotel market. There would be, at best, negligible public benefit to giving a multi-million taxpayer subsidy to a corporate hotel developer, owner or operator. The city's investment would almost certainly be financed with long-term city debt which would likely double the cost of the public subsidy once interest costs are considered.

Proponents of a taxpayer subsidy of a new convention center hotel argue that Sacramento is losing convention center bookings because of inadequate hotel space in the immediate proximity of the convention center. But if there were enough market demand for a new convention center hotel, there would be no shortage of hotel developers and hotel operators willing to put up their own capital to build such a hotel. The very fact that such developers and operators are not willing to venture their own money into such a project is crystal clear evidence that demand for such additional hotel space is currently lacking.

The city should stay clear of a costly subsidy of a new convention center hotel.

A Brief Comment on City's Ballooning Debt Level

The city's total indebtedness has increased nearly three-fold in the past decade, from approximately $1 billion to nearly $3 billion today. The proposed $355 million in city bonds to fund the three convention center-related projects and the $30 million to fund construction of the Power House Science Center, will add significantly to the city's ballooning total debt. At the same time, the city's debt for unfunded retiree health care costs is now $400 million and increasing at a pace of about $28 million per year. The city's unfunded pension debt is over $500 million and increasing at an even faster pace.

The city has nearly exhausted the ability of its general fund to support new indebtedness. Maxing out the city's credit card has very real impacts on city interest costs and its ability to borrow to fund essential infrastructure needs, as opposed to nice-to-have city amenities like the Golden 1 Arena, convention center expansion and the Power House Science Center. Furthermore, the financial pressures imposed on the city's general fund (and on other city funds and cash flows that city officials are using to finance city debt) will escalate considerably when the economy sinks into recession (which is long past due, given historical experience).

The city would be very well-advised to halt the incurrence of any new debt other than that necessary to fund its essential infrastructure needs until it has: (a) implemented significant spending reductions (such as those recommended in this report) (b) dealt with its ballooning annual pension bills and expanding retiree health care liabilities; and (c) set aside sufficient budgetary reserves to weather a significant economic recession.

Impose a Hard Cap on Subsidies of Operating Losses at the Power House Science Center

The Sacramento City Council earlier this year approved borrowing $30 million to fund the construction of the Power House Science Center. It did so without reviewing a feasibility study, a marketing study or pro forma projections of the Power House's anticipated annual operating deficits. Some involved in the project put the likely annual operating deficits in the neighborhood of $30 million. The city has no plans for how it will fund the Power House's annual deficits, other than vague discussions of possibly tapping the city's hotel tax revenues to fund it, which will already be largely tapped out by the proposed Convention Center projects (see "Reduce Scope of Proposed Convention Center Projects" above).

If the city does not immediately get a handle on: (a) the Power House's likely annual operating deficits; (b) impose a hard cap on the city's commitment to fund such deficits; and (3) establish a plan for funding annual deficits up to the hard cap, the Power House will open to great fanfare and then either be quickly shuttered for lack of operating subsidies or the city will face a serious ongoing fiscal crisis in footing almost the entire estimated $30 million annual operating deficit of the facility.

Given the city's uncertain financial future, it would be prudent to pause construction of the Power House project until a prudent plan for funding its likely operating deficits is put in place.

Potential Annual Avoided Costs from Pausing Power House Project: $30 million

These savings do <u>not</u> count the multi-million annual savings from avoiding annual debt service payments on city debt incurred to fund the construction of the Power House.

<u>Redirect 50% of Hotel Tax Revenue Stream to the General Fund</u>

Our research has found that most major California cities direct roughly 50% of their hotel tax revenues (also known as "transit occupancy taxes") to their general funds. Such use of hotel tax revenues makes them available to support police, fire, parks and other general functions of city government. By contrast, Sacramento currently transfers only 6.25% of its hotel tax revenues to its general fund: just $2 million of the $30 million per year its hotel tax is currently generating. Another small percentage is used to support Visit Sacramento, formerly the Sacramento Convention & Visitors Bureau.

The lion's share of hotel tax revenue is used to defray losses in the operation of the three community center assets: the Convention Center, the Community Theater and the Memorial Auditorium. *Sacramento is the only major city in California that devotes almost its entire hotel tax revenue stream to subsidizing its convention center assets.*

Almost all increases in hotel tax revenues that are generated by expansions of the convention center are perpetually plowed back into subsidizing the convention center assets and covering its annual losses. The city's general fund and Sacramento residents receive no discernible economic benefit from the closed loop subsidy system as do the residents of other cities from their cities' hotel tax revenues.

Redirecting hotel tax revenues to the city's general fund will require the city council to delete a current provision of the city code which inexplicably limits use of hotel taxes to subsidizing the three convention center assets.

By canceling the proposed $240 million convention center expansion, outsourcing its management and redirecting the resulting cost savings to the city's general fund, we estimate that the city could redirect approximately $18 million of hotel tax revenues to the city general fund annually.

Estimated Annual Additions to General Fund from Hotel Tax Revenues: $18 million

REVENUE ENHANCEMENTS

Secure "In Lieu of Property Tax" Payments from State for City Services

Based on a very preliminary review of property records, well over 100 blocks of property in the city are directly owned by state government or owned by private parties but leased by state government on long-term leases (privately owned property leased to the state is largely exempt from property taxes). Many of these parcels comprise some of the largest and most valuable properties in the city. We estimate that, if state-owned and leased properties were subject to city property tax, the city's property tax revenues would be roughly $15 million higher than they are today, representing slightly less than 10% of the city's current total annual property tax collections.

We had hoped that while Darrel Steinberg was President Pro Tem of the California State Senate – and a state senator representing Sacramento - he would have used his elevated political stature to end the inequitable "free ride" that state government has been getting at city taxpayer expense, but he took no action to end the unfair practice on his watch in the State Legislature.

Strategy for Securing "In Lieu Property Tax" Payments

Our city leaders and area legislators should adopt a unified "no compromise" position with their fellow state legislators on this basic issue of fairness: either the Legislature annually appropriates the funds needed to pay the city a fair and reasonable "in lieu property tax" fee or our area legislators should withhold their votes on all bills until they do. If that strategy proves ineffective, the city should notify the Governor that city services to the state government will be suspended as of a date certain unless the fee is remitted to the city, excepting only when life or public safety is in imminent peril.

Estimated Annual Revenue Enhancement to the General Fund from "In Liew Property Tax" Payments from State of California: $15 million

Increase Park User Fees for the Biggest Financial Beneficiaries of Parks

Parks are politically vulnerable to deep budget cuts during budget downturns. Funding for park maintenance is typically the first major item to be cut during city budget crunches to insulate the police and fire departments from cuts. Over one-half of the city's park maintenance workers were terminated in the most recent recession and not all of the eliminated positions have been restored, leading to a decline in the condition of city parks.

But parks are an essential amenity and quality-of-life attribute. Parks in poor condition discourage economic growth and make it harder to attract amenity-minded people to come to work in Sacramento.

City parks – particularly major parks - are highly sought-after venues for a considerable number of major fundraising events in the park sponsored by nonprofit organizations. These are very heavy users of park resources, but they currently contribute nothing towards the maintenance of the very venue they use to generate gross revenues which can exceed $500,000 for a single event. To partially insulate park maintenance from deep cuts in future tight budget years, the city should substantially increase the park user fees it charges for groups that are the largest financial beneficiaries of park resources. The city ought to impose a user fee for these users based on a set percentage (i.e.10%) of the gross revenues generated by the organizations sponsoring major events in city parks.

The city is also receiving a considerable number of citizen complaints over the excessive frequency of traffic congestion-producing major events in certain major city parks. By charging money-making sponsors of major park events a significant, but fair, fee for the privilege of taking over large portions of city parks on busy weekends, the overuse problem of city parks by such events should abate, while those events that are particularly popular, and thus profitable for event sponsors, will likely continue.

With hundreds of fundraising events in city parks each year, we estimate that a 10% user fee for sponsoring nonprofits will raise about $400,000 for city park maintenance annually. Such revenues should be dedicated exclusively to park maintenance.

Estimated Annual Revenue Enhancement to Park Maintenance Funds from Increase in Major Park User Fees: $400,000

DEPARTMENT OF YOUTH, PARKS & COMMUNITY ENRICHMENT

Park Maintenance: Escalating Costs and Declining Productivity

The Department of Youth, Parks & Community Enrichment, formerly the Department of Parks & Recreation (the "Parks Department"), is an example of a city department for which taxpayers are "paying more and getting less." It suffered deep cuts in manpower during the recession, when nearly 50% of all park maintenance worker positions were eliminated.

Under a seniority-based "first hired, first fired" work rule under the city's labor contract with the bargaining group that represents park workers, Operating Engineers #3, all junior-level park workers were dismissed during the recession and its aftermath, while all senior level workers were retained. Since junior-levels workers are younger, more capable of performing the physically demanding work of maintaining parks and are paid substantially less than senior park maintenance workers, the recessionary job cuts in the Parks Department have had a devastating impact on the department's productivity and performance.

While some park maintenance positions were restored with Measure U funding (i.e. with costlier senior positions restored first), the pre-recession levels of park staffing have not been restored due to a significant increase in the average age, seniority level, salaries and benefit costs of the remaining workforce of park workers.

Compounding the problem was the city's five-year labor contract entered into with Operation Engineers #3 just before the onset of the recession, which locked the city into handing out substantial pay raises and major hikes in benefit levels throughout every year of the recession and beyond. Throughout the recession, Operating Engineers #3, unlike most city bargaining units, steadfastly refused to agree to cancel or postpone their contractual multi-year pay raises and benefit hikes in exchange for avoiding park worker layoffs. Instead, the union accepted wholesale layoffs of junior park workers while senior park workers enjoyed multi-year raises and benefit hikes throughout the recession.

Consequently, there is currently a very large and growing differential between the total compensation (salaries plus benefit costs) that city park workers are currently receiving, and the typical pay levels of landscape maintenance workers in the private sector. Due to this yawning pay disparity, the city could substantially reduce its park maintenance costs by outsourcing basic park maintenance to private landscaping firms on a competitive bid basis.

During the Great Recession, both the city's budget director and its Parks Department director publicly stated that it was their opinion that the city could reduce its cost of park maintenance by 50% by outsourcing park care to private landscaping firms. Since those projections, the average total compensation of city park workers (including spiraling pension costs) has risen substantially.

Recent Productivity Trends in the Parks Department

In the last two years, the productivity of the Parks Maintenance Division of the Parks Department has markedly eroded. As reported in the city's proposed budget for FY 2018/2019 issued earlier this year, the city's park maintenance cost per acre has increased from $3,368 to $3,946, a 17% erosion in productivity over the past two years. Similarly, the number of developed park acres maintained per each full-time park worker has declined by nearly 10% in the past two years, from 23.18 acres to 21.00 acres.

This is not because city park workers are working any less hard; it's because the labor costs per park worker continue to escalate, a trend that's almost certain to continue unless the city acts to stop it.

By contrast, the more specialized work of maintaining the irrigation systems in city parks has been showing sharply increased productivity in recent years. The number of irrigation service requests handled by the typical irrigation repair specialist each year has increased from dramatically from 79.27 to 179.60 service requests over the past two years. This productivity gain occurred despite significant increases in the total compensation costs of such workers over the same period – a testament to strong management and the hard work of park irrigation specialists.

City Outsourcing Strategy

In studying the extensive literature on outsourcing municipal services, we've concluded that significant savings can most often be realized by outsourcing the work performed by the least-skilled, lowest-compensated municipal employees, while outsourcing the work performed by more highly-skilled city employees (i.e. computer specialists, attorneys, engineers, etc.) rarely results in net savings to a municipality and, more often than not, results in higher costs. Historically, the pay and benefit levels of less-skilled municipal workers are most often the most "out-of-whack" with the compensation levels of comparable workers employed by private firms.

The budget of the Parks Maintenance Division of the Parks Department (which also includes park planning and park capital improvements) increased from $11.7 million to $14.3 million over the past three years (see Proposed City Budget FY 18/19, supra), a sharp 22.2% increase. But manpower in the division increased by just 5% over the same period, from 140 to 147 employees, a further indicator of sharp increases in park worker average compensation levels and declining Park Maintenance Division productivity.

Because of rising compensation levels and steadily eroding productivity in the Park Maintenance Division of the Parks Department in recent years, EOS estimates that outsourcing basic park maintenance today would likely reduce total city park maintenance costs by 60%, a 10% greater savings than projected by city officials during the last recession.

Estimated Annual Cost Savings from Outsourcing Basic Park Maintenance: $7 million

Given recent sharp increases in productivity in maintaining irrigations systems in city parks, we don't recommend that the maintenance of park irrigations systems be outsourced. But we recommend that the city closely monitor the efficacy of the Parks Department's park ranger program, which has experienced declines in productivity in recent years.

Managed Competition Model

We recommend that the city adopt a "managed competition" strategy in outsourcing park care, a practice that's been adopted in several cities, including San Diego. Under managed competition, the bidders for the work would include not only private firms, but also the department whose services are being put out to bid. The leadership and staff of the incumbent department would scour its operations to identify cost savings opportunities that would allow it to be competitive in bidding for retention of the work. In San Diego, the proposals submitted by several incumbent city departments were the winning bids in all recent bidding opportunities, which preserved the jobs of current city employees while unlocking significant savings that benefitted San Diego taxpayers and relieved fiscal pressure on the city's budget.

The city also has the option of reducing costs by outsourcing basic park care to experienced local volunteer organizations, nonprofits and neighborhood groups, including several park volunteer corps that have been organized to address the decline in the condition of city parks in their neighborhoods in the aftermath of the last recession.

Outsourcing Policy: Employee Retention Offers

We advise that when opening up city services to competitive bidding, the city require bidders to grant city employees who're currently performing such services the opportunity to apply for jobs with the winning bidder.

Outsourcing maintenance and operating services are not novel for the City of Sacramento. The city currently has several landscaping maintenance contracts in place to maintain city-owned landscaping located throughout the city. Additionally, the city successfully outsourced the management and maintenance of all city golf courses in recent years to Morton Golf, an action that eliminated a chronic $500,000 deficit in the city's golf enterprise fund.

Outsourcing basic park care can also be expected to improve the quality of park maintenance and, thus, the overall condition of city parks, as landscaped contractors would be able to employ greater numbers of maintenance workers than the city at a lower overall cost. It would also open a large number of job opportunities for Sacramento's youth, as well as entrepreneurial opportunities for current and future private landscaping firms in Sacramento.

Engage Nonprofits to Manage & Operate Recreation Centers and Pools

The Parks Department's operation of the city's recreation centers and pools, now part of the Department's new "Community Enrichment Division," are experiencing the same sort of rapid increase in total compensation costs and major declines in productivity as basic park maintenance.

Since FY 2015/2016, the budget for the CED has increased from $8.3 million to $11.4 million in the current fiscal year, a 37.4% increase. But manpower in the CED increased only 9.7%, from 214 employees to 234 employees.

The Parks Department outsourced the management and operations of most recreation centers, community clubhouses and pools to nonprofit organizations during the recession in a cost-savings move, but then cancelled almost all of those arrangements following passage of the Measure U ½% sales tax hike. We believe that was a mistake.

Nonprofits, freed from the high labor and legacy costs of city employees, can manage the day-to-day operations of the city's recreation centers, clubhouses, swimming pools and wading pools much more efficiently and for considerably lower costs than the city. The city should, instead, focus its resources and efforts on developing, overseeing and maintaining robust programming, particularly for youth and seniors, at these important city assets, in close collaboration with nonprofit operators of the assets.

We project that shifting day-to-day operations of rec centers, clubhouses and city pools to nonprofit operators would reduce costs 25% from current levels.

Estimated Annual Savings of Engaging Nonprofits to Manage Rec Centers and Pools: $2.8 million

MISCELLANEOUS REFORMS

Reduce the Mushrooming Costs of the Mayor/City Council Offices by 25%

The staffs of both the mayor's office and councilmembers' offices have mushroomed in the past ten years, even though the number of city employees they oversee has fallen. Staffing hikes have been particular high in the mayor's office. We believe such "empire building" in mayor and council offices has been ill-advised. We recommend that staffing levels be reduced through attrition to 2013 levels.

Mayor and city council staffing has increased 36% since 2013, rising from 25 staffers in 2013 to 34 today (which includes two positions charged to the city manager's budget, but assigned to the mayor's office). The additional staffing has led to a 44% spike in labor costs in the mayor and council offices, amounting to $1,420,000 in higher annual costs since 2013.

Estimated Annual Savings of Reducing Mayor/Council Staffing to 2013 Levels: $1.42 million

<u>Repeal Recently Enacted Construction Trades Union Monopoly on City's Projects</u>

In September, the city council, at the urging of the mayor, rushed through a new ordinance that dramatically reduces the number of contractors who would be likely to bid on city public works projects, including the convention center projects.

The new ordinance creates an effective construction trades union monopoly on all future city projects of $1 million or more. Since virtually all minority and women-owned local contractors are non-union, the new ordinance effectively bars minority and women-owned local contractors from bidding on city work. Further, an estimated 90% of all local construction trades worker are not members of the construction trades union and, therefore, will be barred from working on city contracts in the future.

This highly discriminatory ordinance was jammed through the city council by the mayor with a waiver of multiple council procedural requirements. There was no prior review of the ordinance by the city council's Law & Legislation Committee, as required by council rules; no first reading of the ordinance, as also required by council rules; and it was accommodated by a city staff report that failed to reveal both the ordinance's true purpose (to suppress competition) and the significant financial impact the ordinance would have on taxpayer costs.

When asked by councilmember Jeff Harris at the council meeting at which the ordinance was approved if they had evaluated the likely financial impacts of the ordinance on the city treasury, both the mayor and city staff said that they had not.

EOS estimates that the ordinance, by dramatically reducing the number of contractors eligible to bid on city projects, will increase city labor costs on the convention center projects alone by an estimated $25 million and will increase total costs of the three projects (including higher bond interest costs) by an estimated $50 million, based on historical pricing patterns in contract bid auctions where non-union bidders are excluded. Annually, we project that the labor monopoly ordinance will increase city contracting costs by approximately $10 million.

We cannot help but note that the State Building and Construction Trades Council has, in the past 100 days, contributed an astonishing $250,000 to the Steinberg-controlled "Yes" on Measure U campaign. EOS believes this is the largest contribution from a single source to a city office holder, or a political fund under his or her direct control, in the history of the City of Sacramento.

The labor monopoly ordinance is causing real harm to city taxpayers, the city treasury, virtually all minority and women-owned local contractors and the 90% of local construction workers who are not members of the construction trades union, a considerable proportion of whom are African-Americans, Hispanics and other ethnic minorities.

We recommend that the city council immediately repeal the labor monopoly ordinance.

Estimated Annual Savings from Repealing Labor Union Monopoly Ordinance: $10 million

This estimate does not include the one-time savings of $50 million in lower city labor costs and bond interest costs on the convention center projects that a repeal of the ordinance would bring.

Increase Staffing of City Auditor's Office

We strongly recommend that the city council appropriate funding to increase staffing in the city auditor's office, which would allow city auditor Jorge Oseguera to expand the number and frequency of audits of all city departments, funds and programs. We also recommend that the increased staffing be used to assign one full-time auditor to audit the scandal-plagued and largely unmonitored Department of Utilities.

Additional staffing for the city auditor will also enable his office to more aggressively pursue complaints of waste and wrongdoing lodged with the city's Whistleblower Hotline, which provides one of the best returns on investment in the city budget, according to comparable rates of return experienced in other California cities.

Redirect the "Redevelopment Dividend" to the General Fund

When redevelopment was ended in California during the Great Recession, property tax revenues on properties located in redevelopment areas that were previously diverted to redevelopment spending by the Sacramento Housing & Redevelopment Agency are now flowing into the city's general fund. These cash flows must first, however, be used to pay off nearly $1 billion in bond debt incurred by SHRA over past decades. Consequently, Sacramento's "redevelopment dividend" (the property tax revenues now available to cities and other local jurisdiction as a consequence of the termination of redevelopment agencies) started off small (i.e. $1 million a year) but is steadily outstanding SHRA bond debt is paid down. Our rough estimate is that the average annual redevelopment dividend that will flow into the city's general fund from redevelopment's demise will average approximately $5 million per year over the next ten years.

In the latter part of Kevin Johnson's term as mayor, the city council approved a diversion of the redevelopment dividend from the general fund to the city's "Economic Growth Fund." The fund has since been renamed the "Innovation and Growth Fund." The use of the I & G fund to date has included making venture capital investments in area companies, funding investments in art entrepreneurs, funding tenant improvements at the Sacramento Valley Station and other various expenditures. Much of the Fund's expenditures are administered out of the mayor's office, exposing such expenditures to the potential for political favoritism.

We don't believe that city staff possesses the core competency or experience to effectively or successfully administer a municipal venture capital investment fund, an endeavor that is challenging to even the most experienced and talented private venture capital fund managers. We believe that funds from the redevelopment dividend now pouring into the I & G Fund in increasing annual amounts should be returned to the general fund to fund core city services.

In their budget message last spring, the city's professional finance staff also advised the city council to consider returning the redevelopment dividend to the general fund.

Estimated Annual Average Savings Over the Next Ten Years from Returning the Redevelopment Dividend to General Fund: $5 million

<u>Assure Greater Oversight of City's Labor Contract Negotiations</u>

Three years ago, during EOS' campaign to persuade the city council to adopt robust ethics and transparency reforms, EOS recommended that the city adopt what's known as a "Civic Openness in Negotiations" ordinance or COIN ordinance, under which the city would be required to disclose the back and forth offers and counteroffers made in its negotiations with its unions. COIN ordinances also require city staff or an independent financial analyst to compute and disclose the cost to taxpayers of each offer and counteroffer and to provide the public and the media ample time to digest the terms and costs of a proposed final labor contract before it's approved by the city council.

Soon thereafter, the California Legislature and Governor Brown, under pressure from government unions, passed into law a statute that effectively bars municipalities from adopting COIN ordinances under threat of forfeiting state grants and loans, which effectively killed COIN ordinances in California.

The anti-COIN statute does not, however, bar a city from adopting an ordinance requiring that its financial staff provide a thorough assessment of the financial impact of proposed city labor contracts on city budgets, both immediate costs from salary hikes, as well as often ignored long-terms hikes through the "echo effect" of major pay hikes on the city's ballooning pension costs and liabilities. Such an ordinance should also require such disclosures to be made at least three weeks before approval of a labor contract. The ordinance would allow local media and citizens activists to analyze the financial impacts and alert the public at large of contracts that are wasteful or excessive. Currently, even city council members are largely in the dark about the full costs of the city labor contracts they approve.

We encourage the city council to adopt such an ordinance at its earliest opportunity.

<u>Outsource SHRA's Property Management of Public Housing Assets</u>

To reduce city labor costs, inject cost accountability and consciousness, and bring the benefits of competitive pricing to the day-to-day management of the Sacramento Housing & Redevelopment Agency's public housing assets, we recommend that the city adopt a plan to shift property management of SHRA-owned and controlled assets to private property management companies on a competitive bid basis.

This is also a Management Partners recommendation (MP Recommendation #20).

Estimated Annual Savings of Outsourcing Management of SHRA Properties: Unknown

<u>Delete Provision from the City Charter Which Requires Binding Arbitration of Police and Fire Labor Contract Disputes</u>

As our final, and perhaps most important, recommendation, we urge the city council to place on the next municipal election ballot a measure that would delete form the city charter a provision that currently requires contract labor disputes between the city and the police union or the firefighters union be resolved by recourse to mandatory, binding arbitration by a third-party arbitrator.

This is a provision that was unwittingly approved by voters decades ago without realizing the serious negative impacts it could have (and has had) on city finances and taxpayers. Without such a binding arbitration a charter provision, the city council is empowered under labor law to resolve any contract impasse by making a "last, best and final" offer to the union involved. If the union then fails to accept the city's final offer, the city can then impose the terms of its final offer on the union, thereby maintaining the city council's ultimate authority over city spending as democratic governance requires.

But under a binding arbitration clause like the one currently in the city charter, a labor contract impasse with the police or fire unions can only be resolved by a decision of a third party, unaccountable arbitrator, whose ruling is binding on the city and, derivatively, on city taxpayers. Under arbitration rules, each side submits its last, best offer to the arbitrator. The arbitrator then chooses which offer to impose on the parties – compromise resolution or "splitting the difference" is not allowed.

In practice, this has had an almost in terrorem effect on city governments and city councils, causing them to cave at times to excessive union demands for pay hikes or benefits increase out of fear that a third-party arbitrator would impose the far more onerous terms of a union's last offer. Binding arbitration also impedes a city's ability to implement meaningful cost reductions and work rule reforms with its unions since most arbitrators use the terms of nearby cities' labor pacts as benchmarks for their rulings. If other cities' labor contracts don't have such work rule reforms or cost reductions, good luck convincing a third-party arbitrator to impose them.

Several of the reforms we've recommended in this report would require modifications to the terms of the city's labor contracts with the police union and the firefighters union. Repealing the city charter's arbitration provision will clear the way for the city to more easily adopt such recommendations.

This is also a Management Partners recommendation (MB Recommendation #41).