

**City of Santa Ana  
Budget Stabilization Study**

**August 2011**





# MANAGEMENT PARTNERS

INCORPORATED

August 24, 2011

Mr. Paul Walters  
Interim City Manager  
City of Santa Ana  
20 Civic Center Plaza  
Santa Ana, CA 92702

Dear Mr. Walters:

Management Partners is pleased to provide this report that contains our analysis and recommendations for budget stabilization. The purpose of the analysis was to identify ways to reduce costs and increase revenue so the City can align expenditures with annual revenues.

Santa Ana has been affected by the serious economic recession as have other cities and has taken steps to reduce costs. Nevertheless, costs continue to outpace revenues at a significant level. Deficits of major proportions are projected in all five years of the forecast created as part of this project. Steps will be needed immediately to reduce costs. A deficit of \$13.6 million was projected in the City's adopted budget but with the new state budget, the reality is that your current year budget is out of balance by several million dollars more. This annual deficit will grow to \$24 million or more in FY 2012/13 if no changes are made in ongoing costs during the current fiscal year. The City does not have reserves to fill these gaps as the unrestricted fund balance has been spent over the last few years. Additionally, other risks and uncertainties, along with cash flow requirements, mean that remaining balances in the internal service funds are not sufficient to maintain existing levels of expenditures. Simply put, the City must now take substantial action to reduce its spending.

The options available to the City are difficult ones. Over the past several years, the City has reduced positions, outsourced services, negotiated compensation deferrals and reductions, and increased fees. To maintain services, the City has also used its unrestricted fund balance as a major means of closing the gap between annual expenditures and revenues. The options that are now available are largely compensation reductions and new service delivery models involving reducing personnel and associated costs. With multi-year labor agreements in place,

cost reduction options are even more challenging. There are some opportunities to increase revenue, but not at a high enough level to eliminate the deficit without voter-approved tax increases. While such increases are possible, the options are constrained by the current economic situation with high levels of unemployment, a troubled housing market and stagnant personal income growth.

In this report, we have identified a three-pronged approach to achieve a stabilized budget:

- Compensation reductions
- Service delivery model changes
- Revenue increases

The next step for the City will be to create a specific implementation action plan. The action plan will identify cost reductions to pursue through negotiations, cost reductions that the City can make without union agreement, and tax measures that the City Council may wish to consider. In our view, timely implementation of the action plan is imperative, given the City's lack of reserves and growing deficit. We appreciate the assistance and collaboration of staff in providing data and a variety of information essential to our analysis. Thank you for the opportunity to serve the City of Santa Ana.

Sincerely,



Gerald E. Newfarmer  
President and CEO



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## Executive Summary

The City of Santa Ana engaged Management Partners to conduct a budget stabilization study to assist the City in creating a plan to provide services within its projected resource capacity. The study was initiated in response to serious resource constraints occurring over the past several years which were exacerbated by the economic recession beginning in 2008. With a significant drop in revenue, and with costs continuing to increase through contractual obligations still in place, the City recognized that steps had to be taken to reduce costs. The City's general fund has a significant structural deficit. It requires reductions in the underlying cost structure in the current fiscal year that will ensure ongoing savings in future years.

The City's FY 2011/12 budget message as presented to the City Council on May 16, 2011 summarizes the challenges quite well. The budget message states:

*Overall, we anticipate a very slow recovery and growth in our revenue. In the meantime, ensuring long-term financial stability for Santa Ana will require the courage to significantly reduce expenditures. In order to provide quality City programs and services so they are financially sustainable in the future, the City must look to reinvent itself through the elimination of redundancies, by consolidating programs, contracting out, and seeking assistance from the various bargaining groups on wages and benefits.*

Management Partners has created a ten-year financial perspective that includes five past fiscal years and a five-year forecast. Santa Ana's current financial condition illustrates the extraordinary economic declines central urban cities are experiencing as a result of the recent recession.

The recession has had a serious impact on total general fund revenues. As compared with revenues of \$208.3 million in FY 2007/08, projected revenues for FY 2011/12 are \$192 million, which is a 7.8% drop. During the period FY 2007/08 and FY 2011/12, total expenditures decreased \$10.1 million, representing 4.9% less than expenditures in FY 2007/08. This reduction came from renegotiating labor contracts to defer or eliminate raises, eliminating vacancies, outsourcing, laying off employees and other cost control methods.

However, even though the City cut costs in those years, key general fund revenues dropped at a faster rate. The result was that costs were not reduced nearly enough, and recurring expenditures still exceeded recurring revenues during that period. The consequent deficit was bridged by using nearly all of the City's fund balance, spending approximately \$40 million in fund balance over four years to maintain City operations. Management Partners heard comments from staff that the City had hoped revenues would grow sufficiently to make up the gap. However, such revenue growth did not occur and now the City's general fund balance has been depleted to a critically low level of only \$5 million.

Large, unexpected losses in revenues can and do occur (such as the recently adopted state budget that includes revenue takeaways from the City). Such losses require reserves to give the City time to reduce its expenditures in effective, strategic ways. The Government Finance Officers Association recommends at least two months of operating expenses be maintained in general fund reserve, which would be between \$30 and 35 million for Santa Ana.

### **Significant General Fund Structural Deficit**

The City has a deep structural deficit projected throughout the five-year forecast period. The deficit is caused by a combination of eroding revenues, multi-year labor contracts with scheduled compensation increases and higher retirement costs. The City's revenue base has not recovered from the recession; rather, revenues are dropping and are unlikely to reach levels achieved prior to the recession for a number of years. The remaining fund balances cannot pay for ongoing operating costs and large, sustained reductions will be required. Reducing ongoing expenses must largely come from ongoing reductions in personnel costs since these costs represent about 79% of total general fund expenditures. Of the personnel costs in the general fund, about 83% are for police and fire.

The five-year forecast prepared by Management Partners for this analysis was based on factors known as of May 2011. The deficit for FY 2011/12, as presented in the City's budget in May 2011, was projected to be \$13.6 million. However, with adoption of the state's budget in June 2011, the City's deficit is now likely to be \$20 million or more in FY 2011/12. The structural gap will grow even larger by July 1, 2012, to \$24 million or greater for the FY 2012/13 budget.

The state's budget includes takeaways from cities in redevelopment funding and some vehicle license fee revenues. The City's Redevelopment Agency pays \$5 to \$6 million annually for services provided through general fund operations on behalf of the Redevelopment Agency. Vehicle license fee (VLF) revenue losses from the state budget appear to be about \$1.2 million for FY 2011/12. The actual losses from redevelopment and VLF takeaways are being confirmed by City staff.

Obligations in labor agreements increased compensation costs over \$10 million on July 1, 2011. Another \$4 million in costs were added through higher retirement system charges to the City. Increased retirement rates are projected for the following two years as well, along with compensation increases that are in long-term contracts.

New revenue sources would strengthen the City's resources and are needed. The significant new revenue sources all require voter approval, which is uncertain and not within control of City government.

As noted, fund balance was used to bridge the gap over the past several years. For FY 2011/12, a portion of the internal service funds is being used to fill the gap between revenues and expenditures. This was required because costs increased on July 1, 2011 without corresponding increases in revenues. The particular funds being used (the liability fund and workers' compensation funds) contained a higher balance than actuarially required, which is why they were identified as a gap closure. However, it is important to note that the City has largely expended its general fund balance and has no alternatives other than the internal service funds for emergencies. The transfer from the internal service funds for the current fiscal year should only be viewed as a one-time bridge to a much lower expenditure base. Continuing to deplete the balances in the internal service funds will only put off inevitable operational reductions and increase the financial dilemma for the City.

## Mission of a Full Service City

The City's mission, as stated in its annual budget is the following: "Our purpose is to provide quality service to enhance the safety, livability and prosperity of our community." The City's vision is one of a full-service community, as shown in its vision statement: *The dynamic urban center of Orange County acclaimed for our:*

- *Investment in children*
- *Neighborhood pride*
- *Enriching cultural experiences*
- *Appreciation of diversity*
- *Thriving economic climate*
- *Quality government services*
- *Leadership among California's cities*

**Benchmarking with other cities shows Santa Ana to be among the lowest in per capita expenditures for services.** This makes the City's vision of being a full service city quite challenging and requires that the City consider service mix and delivery options that may be different from peer jurisdictions having higher revenue levels. The Santa Ana community is a desirable place to live and work not just because of its good public safety services but also because of a wide range of amenities such as the library, Santa Ana Zoo and Bowers Museum, and services such as code enforcement, planning, recreation, street repair, and park maintenance.

In the last several years, service reductions have occurred much more significantly in non-safety departments than in safety departments, which is to be expected due to the priority placed on public safety. However, given the size of the budget gap, and because most of the general fund is now directed to police and fire, future service reductions will need to come mostly from the safety departments.

## Timing of Cost Reductions

Cost reductions will need to be identified early in FY 2011/12 and must be ongoing in nature. Reductions will need to take effect in the second half of FY 2011/12 so that costs are no higher than projected revenues by June 30, 2012. Cost reductions must take into account the recent state actions affecting redevelopment and VLF funds. This will enable the City to begin FY 2012/13 with a balanced budget.

The City does not have sufficient funds to fill the gap with one-time measures and it will not grow itself out of the financial dilemma.

Additionally, with the depletion of the general fund balance and the lack of a general fund reserve, in order to meet cash flow requirements the City must maintain its internal service funds at adequate levels.

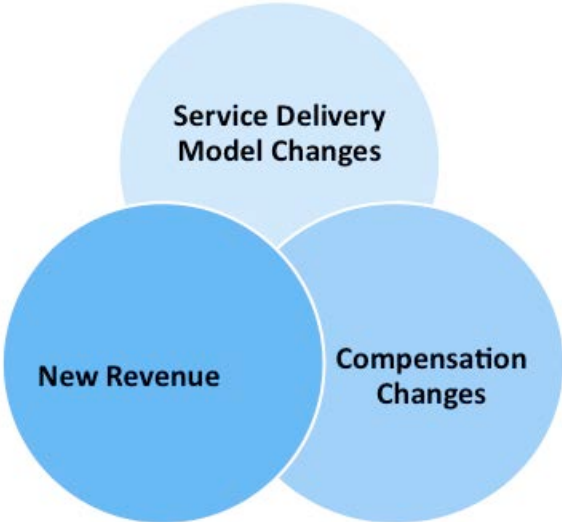
**Three-Pronged Approach**

We have identified a three-pronged approach to reducing costs and increasing revenue. We focused on practices that, if changed, could reduce costs while preserving services.

The alternative to these options is to eliminate some services altogether, outsource whole departments, or to do traditional “across the board” reductions. We have not focused on those alternatives, although given the size of the City’s current and future deficits, some of those are likely to be required.

The three components are shown below in Figure 1.

*Figure 1. Three-Pronged Approach to Financial Stability*



Reductions in compensation will need to be negotiated with employee associations. The City is challenged by having multi-year labor agreements in place. Most of the service delivery model changes will impact personnel and, therefore, meet and confer processes must be undertaken. Since the budget gap is so wide, it will be critical that the City also identify its alternatives to negotiated agreements. That was outside the scope of the Management Partners analysis and is not in this report.

The alternatives presented in this report are difficult and there are no easy choices. Most of the options identified represent fundamental changes in the number of employees and in compensation. A summary of avenues for cost reduction and increased revenue to pursue in FY 2011/12 is provided Table 1 below. Attachment A contains the complete list of recommendations from this study. Order of magnitude estimates of savings are shown in Table 1, but more detailed analysis and, in some cases, proposals from outside agencies or vendors will be required to ascertain the actual savings.

An important caveat about this list of options is that the total of the items for which there are estimated savings or new revenue *without voter-approved taxes* is about \$16 million. Now that state takeaways are a factor, the amount of cost savings or revenue increases will need to be more than this amount.

Reducing costs does not happen without work. Therefore, given the urgency of the need to make structural changes, the City is advised to assign staff to this task, setting aside other lower priority work. Additionally, this is a time where other new initiatives should not come forward. Since having a balanced budget and ensuring stability of the City is critical for any other work to advance, Management Partners suggests that policymakers and management prioritize this as the most essential work to be done in the near term.

Because most of the changes impact employees, it will be important for employees to be engaged in solutions. The City depends on its committed, competent, capable staff to deliver valued community services. Thus, budget balancing is not an independent act – it is one that affects and involves employees, their families and their livelihoods. The community is also affected when services are reduced. It means that a transparent, open, engaging process will be essential to creating a healthy, sustainable organization comprised of committed, competent, and capable staff in the future.

The first step in achieving a healthy, sustainable organization is to stabilize the budget, which is the focus of this report. Once the budget is stable, the City can then focus on ways in which to grow and thrive.

Bold, decisive action will be needed to implement changes in the City's cost structure. Achieving financial health – both to stabilize the budget and to realize sustainability and growth – will require a partnership of the City Council, staff and community.

Table 1. Summary List of Options for Cost Reductions and New Revenue

Strategies	Estimated Annual
<b>NEW REVENUE</b>	
1: Improve Paramedic Subscription Program penetration	\$500,000
2: Implement full-cost recovery for false alarm program	\$50,000
3: Adjust fees charged to outside agencies to achieve full cost recovery	To be determined
4: Establish enterprise fund for the jail; ensure full cost recovery of services provided to outside agencies	To be determined
5: Obtain voter approval for new or increased taxes (UUT, sales, 911)	\$10,000,000*
<b>COMPENSATION CHANGES</b>	
5: Increase employee contribution to match the full "employee share" of PERS (8% for non-safety, 9% for safety)	\$4,500,000
6: Institute two-tier retirement benefit	To be determined; no early savings
7: Reduce premium pay (provide on the basis of business need)	\$2.3M (at 25% reduction)
8: Implement FLSA-approved methodology for calculating overtime	\$1.6 to \$2.4M
9: Increase contributions to employee and retiree health benefits	To be determined
<b>SERVICE DELIVERY MODEL CHANGES</b>	
10: Convert four staff captain positions into non-sworn positions	\$300,000
11: Regionalize SWAT	\$500,000
12: Change EMS delivery system model	\$3,500,000
13: Contract for fire dispatch	\$500,000
14: In-source fire IT	\$45,000
16: Contract remaining animal control services	\$50,000
17: Contract background Investigations	\$130,000
18: Civilianize police training	\$475,000
19: Reduce take-home vehicles	\$165,000
20: Contract with County for library services	\$470,000
21: Privatize the Santa Ana Zoo	\$200,000
22: Merge Planning and Building Agency and the Community Development Agency	\$200,000
23: Conduct managed competition process for fleet maintenance	\$825,000
24: Outsource workers' compensation administration	\$183,000
25: Implement direct purchasing and eliminate Stores and Property Unit	\$190,000
<b>TOTAL ESTIMATED REVENUE AND SAVINGS</b>	<b>\$26,683,000 to \$27,483,000</b>

\*Estimate for 911 tax; actual revenue realized will depend on the specific tax pursued

## Project Approach

This section of the report describes the methodology used in conducting this study, a forecasting model we have provided to the City and the peer cities used for purposes of benchmarking.

### ***Methodology***

In completing this budget stabilization study, Management Partners involved a Steering Committee comprised of Executive Management Team members, interviewed people, analyzed a significant amount of data, conducted benchmarking with other cities, and reviewed preliminary information and recommendations with the City's Executive Management Team.

Interviews were conducted to hear observations about the City's budget balancing approach over the past several years and to obtain suggestions for areas to analyze for either revenue increases or cost reductions. We met with each member of the City Council, all members of the Executive Management Team, a number of mid-managers, and the President and another board member from each of the City's bargaining units.

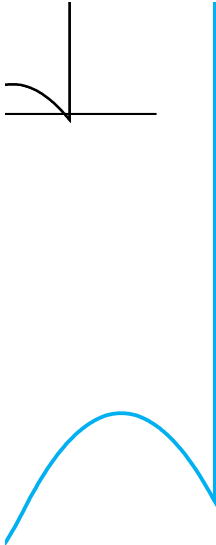
Documents analyzed included the following:

- Comprehensive Annual Financial Reports,
- Budgets for several years,
- Memoranda of understanding for the full-time employee bargaining units,
- Data from all City departments showing the cost of many programs,
- Compensation data, including overtime and special pays,
- California Public Employee Retirement System (PERS) costs over several years and projections,
- Workers' compensation data and costs, and
- Police and fire statistics on calls for service.

### **Forecasting Model**

As part of this project, we created a forecasting model that has been provided to City staff for future use. The model will allow staff to quickly create various scenarios and prepare new five-year forecasts based on different assumptions. Through the model, staff can make changes in revenue forecasts as well as changes in expenditure assumptions and then see the results of those changes. The five-year forecasting model consists of three interdependent spreadsheets. The diagram in Figure 2 below shows the data flow of the forecasting model.

*Figure 2. Five Year Forecasting Model Data Flow*



### **Benchmarking**

Peer agency benchmarking is used to identify where an agency stands in comparison with similar organizations. Benchmarking typically provides a snapshot and general comparison of budget and staffing. Management Partners often conducts surveys of peer agencies because there is value in benchmarking the general characteristics of one organization against another. Such statistics can provide a rough sense of how the organization compares to its peers. However, care must be taken not to

become overconfident that the benchmarking statistics are indicative of specific problems or support particular conclusions. Benchmarking provides context, but should not be used to determine budget or staffing changes.

Six cities were identified for purposes of comparing public safety budgets, full-time equivalent (FTE) public safety employees, and general fund revenues and expenditures. One of the criteria used to select peer agencies was population. Table 2 below shows the comparison cities and their populations.

*Table 2. Peer Agencies and Populations*

Peer Agency	Population
Anaheim	336,265
Chula Vista	243,916
Fremont	214,089
Long Beach	462,257
Riverside	303,871
Sacramento	466,488
Santa Ana	324,528

*Source: 2010 US Census*

Management Partners takes great care in conducting benchmarking surveys. However, the benchmarking data are most effectively used as one tool, along with the other detailed analysis provided in this report, to make determinations about implementing budget stabilization strategies. Results of the peer agency analysis are discussed in subsequent sections of this report.

## Financial Analysis

This section provides an overview of the City's current and projected financial condition and key cost drivers within the general fund.

### ***Regional and State Perspective***

According to recent projections by the Center for Continuing Study of the California Economy (CCSCE), California's economy is moving out of the recession as measured by many indicators, but continues to be hampered by low job growth and high unemployment. These factors, along with the collapse in housing prices, make timing for a full recovery for the local government sector very uncertain. While the California economy has a number of strengths, the depth of the recession and the asset values lost mean that it will be at least 10 years before unemployment rates will return to the 5% to 6% range. Santa Ana has exhibited lower levels of income growth and taxable sales than Orange County as a whole and has recently seen population growth ebb.

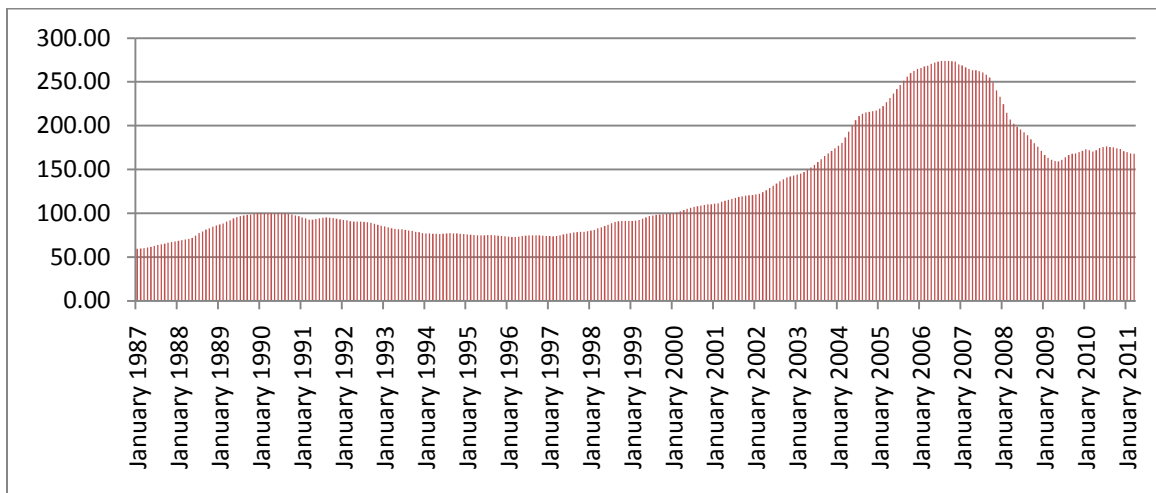
This context means that the City, while located in an affluent part of California, faces significant challenges in the local economy. For long-term sustainability it will be necessary to align growth in City expenditures with the overall growth in the underlying local economy, a reversal from recent periods in which expenditures for Santa Ana's local government have outpaced growth in the income base of the City and its residents. For example, in FY 2006/07 through FY 2008/09 total City expenditures grew by 6.6% while revenues fell by 0.6%. During this time period taxable sales, personal income and private sector employment all fell by an even larger amount than the decline in City revenues.

Additionally, according to the state's Employment Development Department May 2011 report, unemployment in Santa Ana is at 13.4% which is above California's unemployment level of 11.4%. According to the California Association of Realtors, housing sales in Orange County have decreased by 18% from May 2010 to May 2011. Additionally, as shown in Figure 3 below, the Schiller Home Pricing Index indicates that

home prices have fallen dramatically over the past five years in the Los Angeles-Long Beach-Santa Ana metropolitan area.

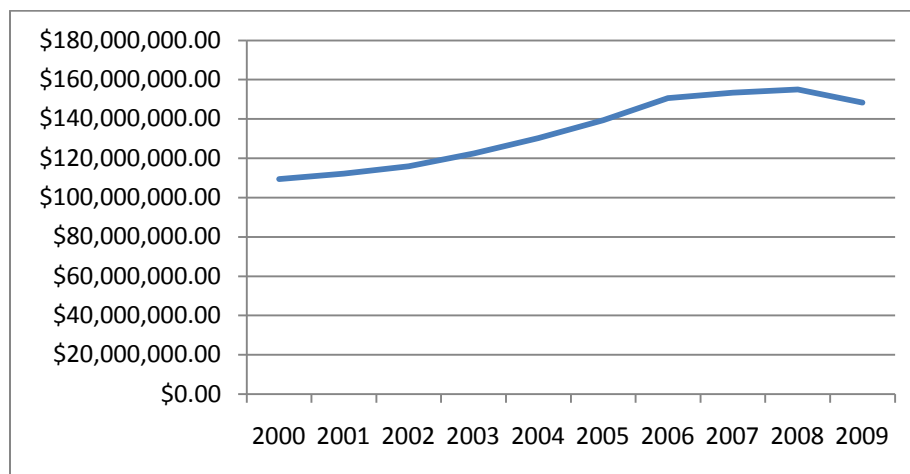
Home prices are important to cities for two main reasons. First is their link to property tax revenues, one of the larger municipal revenue sources. Second is the fact that home equity is the major source of wealth for most households and as wealth decreases so does spending, impacting the other major source of municipal finance, sales tax.

Figure 3. Home Price Sales: Los Angeles-Long Beach-Santa Ana Metropolitan Area



Total personal income growth in Orange County as a whole is shown in Figure 4. After a somewhat steady increase between 2000 and 2008, personal income decreased by 4.3% from 2008 to 2009.

Figure 4. Total Personal Income in Orange County



All of these economic indicators suggest that the pace of revenue growth for Santa Ana will be slow and that spending will need to be reset to a lower level which is more consistent with the underlying local economy.

## ***Budget Principles***

An important strategy for avoiding structural budget deficits is to adopt budget principles that are relatively easy to understand and can serve as a meaningful framework for maintaining financial discipline. Reporting the state of the municipality's finances to the governing body for public discussion is a way for the fiduciary responsibilities of the elected officials and executive managers to be understood by the public and organization.

The League of California Cities' Institute for Local Government has prepared a publication called "Financial Management for Elected Officials: Question to Ask." The publication provides guidance about financial planning policies that should be in place. The following key items are cited by the League.

- *Budget policy:* Commitment to a balanced operating budget
- *Long-range planning:* Financial analysis and strategies to assess the long-term implications of current and proposed expenditures and related financial obligations
- *Asset inventory:* Requirement for a current listing of major capital assets, asset condition, and a plan for replacing assets
- *Long-range planning for pension and other post-employment benefit costs:* Identification of how the agency will meet such obligations
- *Reserve and other fund balances:* Requirements to maintain prudent level of resources and method of setting aside moneys to replace assets
- *Revenue policies:* Focus on diversification of revenue sources to protect against fluctuations in individual sources
- *User fees and charges:* Establishing expectations about covering the cost of providing services and how costs are determined
- *One-time and unpredictable revenues:* Use of such revenues for one-time needs rather than on-going expenses
- *Limited purpose revenues:* Spending special purpose revenues for the intended use only
- *Financial reporting:* Comparing actual expenses and revenues with what was predicted in the agency's budget
- *Debt financing:* Specifying how debt financing will be used and the level of debt allowed

- *Cash management and investments:* Ensuring prudent practices in investment.

The following budget principles reflect best practice policies in public financial management. It is a typical practice for cities to have adopted budget policies of the type described below.

**Structurally Balanced Budget.** The annual budgets for all City funds should be structurally balanced throughout the budget process. Ongoing revenue should equal to or exceed operating expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, a plan should be developed and implemented to bring the budget back into structural balance.

**Multi-Year Financial Forecasting.** To ensure that current budget decisions consider future financial implications, a five-year financial forecast should be developed. The annual general fund proposed budget balancing plan should be presented and discussed in context of the five-year forecast. Any revisions to the proposed budget should include an analysis of the impact on the forecast out years. If a revision creates a negative impact on the forecast, a funding plan should be developed and approved to offset the impact. The five-year forecast should be updated quarterly to reflect changes in revenues and unexpected changes in expenditures. The forecast should be presented to the City Council for discussion and to provide information to the public.

**Use of One-Time Resources.** One-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) should not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding reserves, retiring debt early, making capital expenditures (without significant operating and maintenance costs), and other nonrecurring expenditures.

**Established Reserves.** Santa Ana has multiple funds, based on different revenue sources and requirements. Because there are risks (both known and unknown), it is important that reserve levels in all funds be maintained as a hedge against such risks. Without proper reserves, there can be major disruptions in services when unforeseen financial demands emerge, requiring immediate attention. The City should maintain an adequate reserve level and/or ending fund balance for each fund, as determined annually and as appropriate for each. For the general fund, different types of reserves should be maintained, including an economic uncertainty reserve to provide a cushion for unexpectedly low revenues

in any given year, and a contingency reserve for other emergency needs that arise. More about reserves is explained below, including recommended levels. City Council authorization should be required for the expenditure of established reserves, along with repayment requirements.

**Debt Issuance.** A municipality should not issue long-term (over one year) general fund debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All general fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

**Employee Compensation.** Negotiations for employee compensation should consider total compensation bargaining concepts and focus on all personnel services cost changes (e.g., step increases and the cost of benefit increases). Compensation costs should be included in the five-year financial forecast to ascertain affordability to the municipality, within context of expected revenues.

**Fees and Charges.** Fee increases should be utilized, where possible, to assure that program operating costs are fully covered by fee revenue. Opportunities should be explored to establish new fees for services where appropriate.

**Capital Improvement Projects.** Capital improvement projects with annual operating and maintenance costs exceeding \$100,000 should not proceed without City Council certification that funding will be made available in the applicable year of the cost impact.

**Grants.** City staff should seek, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit. Before any grant is pursued, staff should provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues should not be used to begin or support the costs of ongoing programs.

**Performance Measures.** All requests for departmental funding should include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

To resolve its structural budget deficit and prevent a recurrence in the future, the City needs to adopt budget principles to help elected and

appointed officials maintain the financial discipline crucial to a large organization like the City of Santa Ana.

**Recommendation 1. Adopt a comprehensive set of budget principles to provide a meaningful and easy to understand framework for maintaining financial discipline.** Present a report to the City Council on the financial results of the policies at least once a year. Present an updated five-year forecast to the City Council at least three times a year.

### ***Existing and Forecast Budget Deficit***

Without significant reductions in spending, there will be a continuing significant gap between expenditures and revenues during the next five years. Deficits are projected in all five years of the forecast.

The significant points in this analysis are:

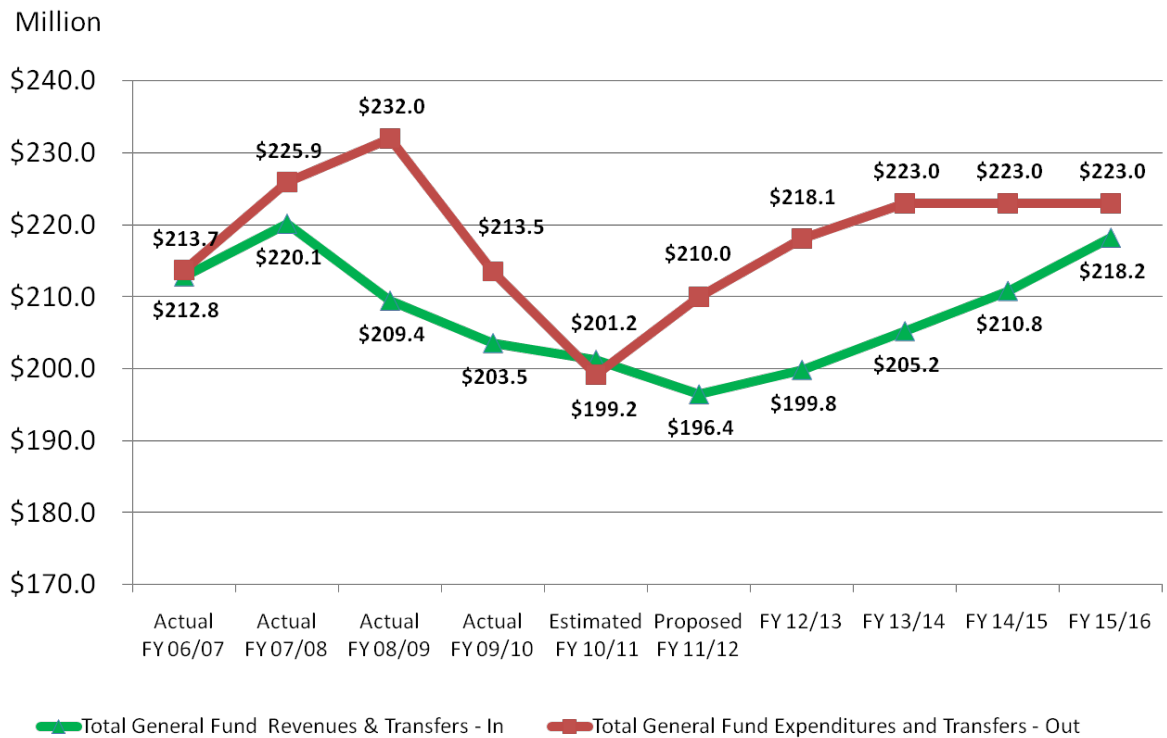
- The City does not have sufficient resources to fill the ongoing structural deficit and will not be able to maintain current levels of services and costs.
- While the City has had unrestricted fund balance to fill a large portion of the gap in the past few years, that fund balance has now been largely spent. The City does not have sufficient one-time monies from other sources at its disposal to fill the gap.
- Significant reductions in expenditures will be required to meet the limitations of available revenue.

The deficit in the adopted budget for FY 2011/12 is \$13.6 million, or 6.5% of the total general fund. A deficit of approximately \$18.3 million is projected for FY 2012/13, representing 8.4% of the total general fund.

*Note: These estimates are based on information as of May 2011 and are now out of date as they do not include the loss of redevelopment funding and some portion of the vehicle license fee (as specified in the recently adopted state budget).* The City's general fund receives about \$5 to \$6 million a year in payment for services performed by general fund operations on behalf of the Redevelopment Agency. Therefore, the gap is likely to be \$20 million in FY 2011/12 and \$24 million in FY 2012/13. These are significant numbers and will require hard decisions in the near term.

Figure 5 provides a ten-year financial perspective. It shows that the City has had a deficit for several years. In the past five years, where there is a gap showing between the top line (expenditures) and the bottom line (revenues), the City used unrestricted fund balance to ensure delivery of services.

Figure 5. Ten Year Financial Perspective



The forecast shown is not a prediction of future policy decisions by the City Council, nor is it our recommendation as to what spending and revenue levels should be. It simply reflects negotiated employee compensation commitments, California Public Employee Retirement System (PERS) rates as currently known, and revenue projections based on an assumption of modest growth in the economy. As can be seen, revenue declined steadily from FY 2007/08 and is not expected to begin rising until FY 2012/13. The rate of growth will not be sufficient to meet the contractual obligations of the City. Additionally, since the unrestricted fund balance has been spent down to about \$5 million and since the City does not have a reserve, there are no additional sources with which to fill the gap.

In the past several years, the major reason for the deficit was the sudden drop in revenues combined with compensation increases. For the future, key contributors to the deficit are compensation increases and PERS rates, along with revenues that decrease in the near term and are expected to grow only slightly during the period of the five-year forecast.

PERS rates are causing a greater portion of the City's available resources to be allocated to that purpose, rather than to service delivery. Increases in PERS rates will cost the City about \$10.5 million between FY 2010/11 and FY 2013/14. The percentage of general fund budget spent on PERS benefits will go from 7.9% in FY 2006/07 to 9.6% in FY 2011/12, and to 12.35% in FY 2013/14, a 36% increase for an expenditure which is basically an overhead cost for which the City has little control over in the short term.

The FY 2011/12 budget gap is being closed with \$8.2 million in transfers from the liability and workers' compensation funds and \$5.4 million in reductions in spending by City departments, requiring careful cost control and management. The liability and workers' compensation funds have been actuarially determined to contain more funds than required, so this use is appropriate as a transition to cost reductions of an ongoing nature. **However, once those funds are used they are no longer available, and therefore, structural, ongoing reductions in costs and/or an infusion of sustainable, significant new revenues are required.**

### ***Past Budget Balancing Strategies***

Over the past five years, the City has balanced its budget through a combination of cost reductions (including layoffs, furloughs and labor concessions), transfers from other funds, and use of fund balance.

Employee-related cost reductions included work furloughs of one Friday per month in FY 2009/2010 for non-sworn personnel (excluding public safety dispatch and jail operations), suspension of leave cash-outs on a temporary basis, and deferral or elimination of some wage increases.

The City is lean and getting leaner. Santa Ana has gone through four rounds of employee layoffs, which resulted in a total of 175 issued layoff notices. A summary of the results of these four rounds of layoffs is shown in Table 3 below.

Table 3. Employee Layoffs in 2009 and 2010

Action	Round 1	Round 2	Round 3	Round 4	Total
Employees Laid Off	19	13	13	29	74
Employee Retirements in Lieu of Layoff	17	5	3	6	31
Layoff Notices Rescinded	17	12	2	4	35
Employees Accepted Other Positions in the City in Lieu of Layoff	3	6	1	9	19
Employees Appointed Temporarily	1	0	0	0	1
Employees Found Other Positions within the City	0	2	0	11	13
Employees Accepted Voluntary Demotion	0	0	0	2	2
<b>TOTAL</b>	<b>57</b>	<b>38</b>	<b>19</b>	<b>61</b>	<b>175</b>

All City departments have made changes to reduce costs. For example, training budgets have been virtually eliminated. This has helped save costs, but is not sustainable in the long term because the City needs to have highly skilled and trained employees, especially when there are fewer of them. Other examples of cost savings are the move from printing meeting agendas to posting them electronically, resulting in an annual savings of over \$17,000. Many employee positions have been eliminated and others have been held vacant. Additionally, fees have been increased to achieve a higher level of full cost recovery.

The nature of the problem facing Santa Ana can be found in the fact that while expenditures have been reduced and many positions have been eliminated, personnel costs per employee have continued to increase. Specifically the general fund budget indicates that the City budgeted approximately \$167 million for personnel expenses in FY 2008/09 to support 1,785 positions, approximately \$93,812 per FTE. By FY 2011/12 the City had reduced budgeted personnel expenses of \$153 million to support 1,510 FTE, but per position costs increased to \$101,570. This fact does not mean that employees are seeing general increases in wages but rather that overhead costs such as PERS rates are increasing and that layoffs tend to impact positions with less tenure and, therefore, lower rates of pay. Moreover, even with all of these cost reductions, unrestricted general fund balance has been a primary resource to help close the budget gap. In FY 2006/07, which is the base year of our ten-year model, the fund balance was \$41.4 million. It is estimated to be only \$5 million at the close of FY 2010/11. This amount is insufficient for a City of the size

of Santa Ana, particularly with its lack of reserves (see discussion about reserves below).

Personnel costs currently constitute approximately 74% of all general fund expenditures. Therefore, personnel costs will need to be reduced in order to create a stabilized budget. Public safety comprises 83% of the general fund personnel expenditures, requiring cost reductions from both police and fire to reduce the deficit.

**Recommendation 2. Initiate significant immediate changes to the expenditure and revenue base, with major reductions in spending taking effect in FY 2011/12 increasing into FY 2012/13.**

Santa Ana was compared with several peer cities as a way of ascertaining relative position regarding revenues and expenditures. As Figures 6 and 7 show, Santa Ana's expenditures per capita and revenues per capita are below the average of the peer cities.

Figure 6. Total General Fund Expenditures per Capita

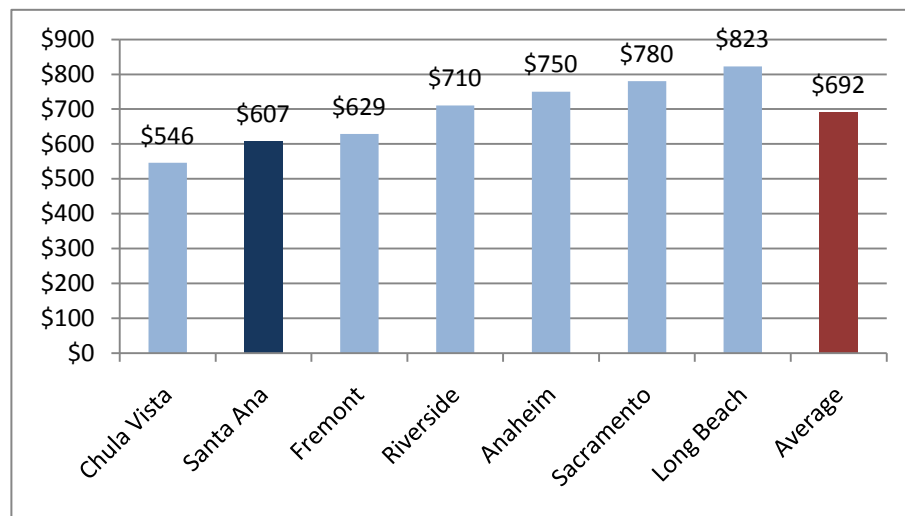
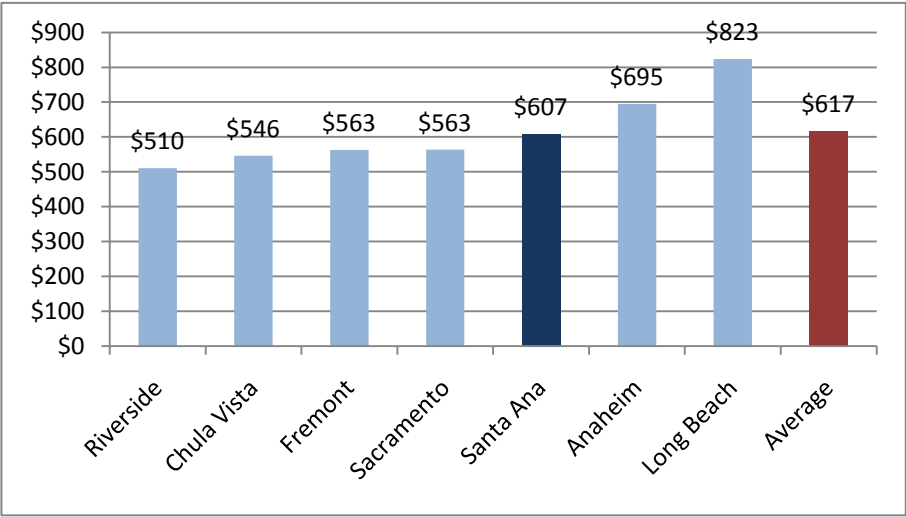


Figure 7 shows total general fund revenue per capita.

Figure 7. Total General Fund Revenue Per Capita



**Forecast Assumptions and Risks**

Two important assumptions have been included within the baseline five-year forecast. First, all negotiated increases and known PERS rates are included. In addition, revenues are assumed to grow at modest rates, reflecting a general improvement in the economy over the next five years.

There are several risks to the forecast, as described below.

- The forecast does not include the potential loss of redevelopment funding or vehicle license fee revenue which are now part of the state budget. Analysis by City staff is underway to determine the precise level of loss for Santa Ana.
- The forecast does not include the creation of general fund reserves. Therefore, if revenues are lower or expenditures are higher than shown in the forecast, there is no reserve available as a back-stop. There are limited funds available in the internal service funds which potentially could be shifted to a reserve fund (see below), although these are not sufficient to meet reserve requirements. It is critical that the City establish adequate reserves to mitigate unforeseen financial requirements and emergencies. Unfortunately, building adequate reserves will also add to the deficit.
- Revenues are projected to increase at modest rates, reflecting the underlying economy in Santa Ana and the region. Economists are now suggesting the possibility of a double-dip recession. If that

occurs, the modest gains built into this forecast will not materialize. Housing foreclosures continue to be significant, and unemployment is persisting at high levels, even higher in Santa Ana than the state as a whole.

- Known PERS rates are included for FY 2011/12 and FY 2012/13, and PERS preliminary rate estimates for FY 2013/14 are also included. The forecast does not include an assumption of PERS increases in FY 2014/15 or FY 2015/16, although it is likely that there will be increases in those years as well. PERS rates are causing a greater portion of the City's available resources to be allocated to that purpose, rather than to service delivery. Due to increases in PERS rates, the cost is increasing by about \$10.5 million between FY 2010/11 and FY 2013/14. The percentage of general fund budget spent on PERS benefits will go from 7.9% in FY 2006/07 to 9.6% in FY 2011/12, and to 12.35% in FY 2013/14.

**Recommendation 3. Engage a pension actuary to provide estimates of PERS rates for fiscal years 2014/15 and 2015/16.**

- A series of cost allocation studies are underway to determine appropriate internally charged rates for general fund services provided to City departments, including to other funds. Once those studies are completed, there may be a positive or negative impact on the general fund, if rates are determined to be either too low or too high. The results of those studies will be available within one to two years.
- The forecast does not include funding for capital costs or critical positions that are likely to be required by the City for efficient operations and facilities. For instance, major building repairs, technology or equipment replacement, utility and commodity increases or other similar added costs are not included in the forecast. Some of those cost items have been identified and included in alternate forecasts, but will need to be refined and included in the base forecast.

**Recommendation 4. Develop an integrated five-year capital program that includes likely general fund requirements for major building repairs, information technology replacement, park maintenance and other major capital maintenance items.** This will help create a true general fund forecast that incorporates anticipated

spending levels on non-operating items that are critical for successful operations.

### Changes in Revenue

The recession has had a serious impact on total general fund revenues. From the high of \$208.3 million in FY 2007/08 total revenues dropped to \$201.5 million in FY 2008/09 (a 3.3% decrease), and then decreased again in FY 2009/10 to \$192.9 million (a 4.3% decrease). Since FY 2009/10 the City has not seen any appreciable growth in total revenues, as they have remained in the \$192 million range through FY 2011/12. Total general fund revenues are not expected to increase until FY 2012/13 and then only modestly by 1.78% (\$196 million), still a 5.9% decrease from the high of FY 2008/09. The primary decreases in revenues came from the taxes category. As shown in Table 4 below, anticipated taxes for FY 2011/12 are lower by \$19.5 million (or 12.8%) than taxes received in FY 2007/08.

Table 4. Changes in Revenue between FY 2007/08 and FY 2011/12

Taxes (Thousands of Dollars)	Actual FY 07/08	Proposed FY 11/12	% Increase (Decrease)
Business Tax	\$ 10,444	\$ 10,050	(3.8%)
Documentary Stamp Tax	727	506	(30.4%)
Half-cent Sales Tax (Safety)	1,866	1,547	(17.1%)
Homeowner Property Tax Subvention	169	235	39.1%
Hotel Visitors Tax	7,714	6,600	(14.4%)
Property Tax	31,991	27,315	(14.6%)
Property Tax In Lieu Vehicle License Fees	26,432	25,202	(4.7%)
Sales tax	44,556	35,958	(19.3%)
Utility Users Tax	28,112	25,090	(10.7%)
<b>TOTAL TAXES</b>	<b>\$ 152,011</b>	<b>\$ 132,503</b>	<b>(12.8%)</b>

Source: City of Santa Ana Finance and Management Services Agency

The projected annual revenue growth included in the five-year forecast is shown in Table 5 below.

Table 5. Projected Revenue Increases FY 2011/12 to 2015/16

Fiscal Year	Overall General Fund Revenue Increase Projected
2011/12	.19%*
2012/13	1.78%
2013/14	2.75%
2014/15	2.79%
2015/16	3.58%

\*Estimated year end revenue from prior year

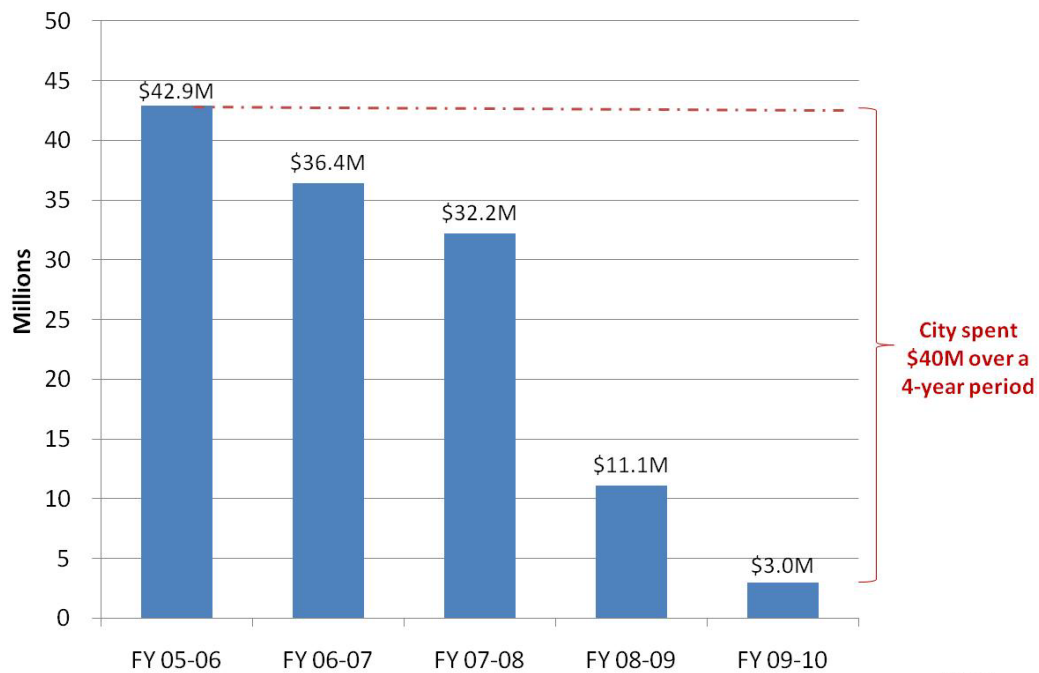
Source: City of Santa Ana Finance and Management Services Agency

### Use of Fund Balance

The City was in a fortunate position of having nearly \$43 million in unrestricted fund balance going into the recession. This has enabled Santa Ana to cushion its budget cuts in a significant way and maintain operations. As noted previously, despite layoffs, furloughs, compensation deferrals and numerous budget reductions, expenditures still exceeded revenues by a significant amount. The gap was filled through the use of the fund balance, as shown in Figure 8 below.

The fund balance started out at \$42.9 million in FY 2005/06 and was expended to \$3 million in FY 2009/10. The fund balance has now increased to \$5 million as of the end of FY 2010/11. Figure 8 shows the use of fund balance during the FY 2005/06 through 2009/10 period.

Figure 8. Unrestricted Fund Balances during the Period FY 2005/06 to FY 2009/10



Source: City of Santa Ana Finance and Management Services Agency

## Reserves

Reserves are essential for municipalities because of variations and risks in revenues, lawsuits that may not be covered by insurance, natural disasters that can disrupt services and cause significant facility damages and other unforeseen financial requirements. Reserves are also often needed for cash flow purposes to ensure the entity has sufficient cash on hand to pay bills, given the timing of revenues received. Additionally, cities often create reserves to build the capital needed to build facilities and replace major assets.

The strength of a city’s financial position is judged on the basis of many indicators, one of which is the level of reserves available to cover unexpected losses and risks. The level of reserves maintained by municipalities varies widely. Each fund should have its own reserve to guard against risks. In 2002, the Government Finance Officers Association (GFOA) issued a policy recommendation on general fund reserves. The GFOA recommendation is as follow:

*The adequacy of unreserved fund balance in the general fund should be assessed based upon a government’s own specific circumstances. Nevertheless, GFOA recommends, at a*

*minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures. The choice of revenues or expenditures as a basis for comparison may be dictated by what is more predictable in a government's particular circumstances. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unreserved fund balance to either revenues or expenditures, that decision should be followed consistently from period to period. In practice, levels of fund balance (expressed as a percentage of revenues/expenditures or as a multiple of monthly expenditures) are less for larger governments than for smaller governments because of the magnitude of the amounts involved and because the diversification of their revenues and expenditures often results in lower degrees of volatility.*

A survey was conducted in 2007 by the California Society of Municipal Finance Officers (CSMFO) on cities' reserve policies. Seventy cities reported results. Most of the reporting cities had a minimum or target between 10% and 30% reserve level, calculated as a percentage of operating expenditures. The specific survey results were:

- 4 cities had a reserve level of 4% to 9%
- 15 cities had a reserve level of 10% to 14%
- 11 cities had a reserve level of 15% to 19%
- 14 cities had a reserve level of 20% to 24%
- 13 cities had a reserve level of 25% to 29%
- 13 cities had a reserve level of 30% to greater than 70%

### **Lack of Reserve Policy**

The City of Santa Ana does not have a reserve policy. Its unrestricted general fund balance has essentially served as a reserve, which was largely used during the recession and is no longer available. The unrestricted general fund balance has been largely expended over the last several years to fill the resulting budget gaps.

It is essential that governments maintain adequate reserves to mitigate risks and to provide adequate cash flow during the first five to six months

of every fiscal year. (The majority of municipal revenues are not received until late December or early January.)

Fund balance levels are a crucial consideration, too, in long-term financial planning. Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate its continued creditworthiness.

Many organizations have multiple reserves, each with a specified purpose, funding sources, required funding levels, and repayment requirements when used. For financial sustainability and long-term financial health, the City should have reserve policies and begin to build them to an adequate level. Internal service funds have been used for budget balancing purposes during this recession, but they are not general fund reserves (see discussion below).

Applying the GFOA's recommendation of no less than two months of regular general fund operating expenditures to the City of Santa Ana would need a reserve (or unrestricted fund balance) at a level of \$35.7 million in FY 2011/12. That represents about 17% of expenditures. A 15% reserve would require \$31.5 million for Santa Ana on a budget of \$210.0 million. By way of perspective, the City had \$42.9 million in unrestricted fund balance in FY2005/06 for a general fund budget of \$213.7 million.

The actual unrestricted fund balance in the FY 2011/12 general fund budget is estimated to be \$5.0 million. This is \$30 million short of the two-month operating expenses minimum.

Reserve levels vary widely by city and often reflect the risks they are incurring and other non-general fund reserves that are available. Several examples of reserve policies are provided below.

1. **City of Anaheim** "The City will strive to maintain a minimum unreserved fund balance in the General Fund of between 7% and 10% of General Fund budgeted expenditures in order to moderate revenue losses and maintain core services during times of economic hardship."
2. **City of Fremont** "The General Fund maintains three reserves: the Contingency Reserve, the Program Investment Reserve, and the Budget Uncertainty Reserve."
  - a. Contingency Reserve: 10% of annual operating expenditures

- b. Program Investment Reserve: 2.5% of annual operating expenditures
  - c. Budget Uncertainty Reserve: amount determined by measuring amount of financial risk associated with revenue, the State budget, and uncontrollable costs.
3. **City of Long Beach** “The City shall maintain an Emergency Reserve equivalent to 10 percent of General Fund recurring expenditures and an Operating Reserve equivalent to 10 percent of General Fund recurring expenditures. Once the General Fund budget is brought into structural balance, a minimum of 5 percent of all new (ongoing) discretionary revenue will be devoted to the operating fund reserve. If these reserves are used, a plan will be developed and implemented to replenish the funds used.”
4. **City of San Luis Obispo** “The City will maintain a minimum fund balance of at least 20% of operating expenditures in the General Fund and a minimum working capital balance of 20% of operating expenditures in the water, sewer and parking enterprise funds. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:
  1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
  2. Contingencies for unseen operating or capital needs.
  3. Cash flow requirements.”

**Recommendation 5. Establish a reserve policy adopted by the City Council.** Build reserves over a five-year period sufficient to cover a minimum of 15% of ongoing general fund operating expenditures.

### **Internal Service Funds**

Internal service funds (ISFs) have been established for several uses, pursuant to accepted governmental accounting practices. An ISF is a fund for goods and services provided for specific purposes. Rates for each ISF are established and charged to departments for the goods and services provided to them. The City of Santa Ana has 10 internal service funds:

- **Central Services** - For the provision of printing, duplicating, messenger and postal services.

- **Building Maintenance** - For the provision of building maintenance, janitorial services and utilities to the City departments.
- **Equipment Maintenance and Replacement** - For the provision of maintenance on, materials and supplies for, and replacement of, City vehicles and other gasoline or diesel-powered equipment, and maintenance of a warehouse inventory of materials and supplies for all City departments.
- **Liability and Property Insurance** - For the administration of the City's self-insurance programs and the payment of liability claims.
- **Employee Group Insurance** - For the administration of the City's health and dental benefits.
- **Workers Compensation** - For the administration of the City's workers' compensation and payment of liability claims.
- **Information and Communications Services** - For the design, installation and maintenance of all data networking, voice, radio, and facsimile services of the City's operating departments.
- **City Yard Operations** - For the maintenance and security services at the City's corporate yard and fleet maintenance facility.
- **Engineering and Administrative Services** - For the provision of engineering, design, project management and construction inspection services for public facilities and infrastructure, and the development and administration of transportation policy and the City's capital improvement program.
- **Quality Service Training** - For the provision of training and support services, through the use and application of total quality improvement tools, for the continuous improvement of City services.

Only two ISFs (workers' compensation and liability) have actuarial bases for determining funding level. They appear to be presently funded at adequate levels given the risks. However, other internal service funds appear to be underfunded because portions of them have been used in recent years as budget balancing mechanisms. There has not been an analysis to actually determine what level of funding is needed to ensure that basic services paid for by those funds can be maintained. Additionally, since the City does not have a general fund reserve (or sufficient unrestricted fund balance), any excess funding in the internal service funds should be placed into a general fund reserve (unrestricted fund balance) to begin building a reserve to adequate levels, as discussed above.

Each of the internal service funds should be carefully analyzed to determine the proper level of funding to pay for the services or equipment that depends on those funding sources. The City has taken the first step in this analysis by engaging MGT of America to conduct a cost allocation study. This study will establish the basis for allocating costs for the City's internal service funds, beginning with fleet and building maintenance.

**Recommendation 6. Conduct an analysis of each internal service fund to determine funding requirements for the services and equipment paid for out of each of those funds and create a five-year forecast for each ISF.** Set rates to departments based on a cost allocation study and funding requirements for each ISF. Shift any excess balances into unrestricted fund balance to begin building a general fund reserve.

### ***Cost Drivers***

The major cost drivers for the City's general fund are compensation and PERS. Other costs are the City's debt payment on the police building (\$9.1 million a year), contracts, commodities and fixed charges which represent about 16% of total general fund costs. The compensation and PERS cost drivers are described in more detail below.

### **Compensation Increases**

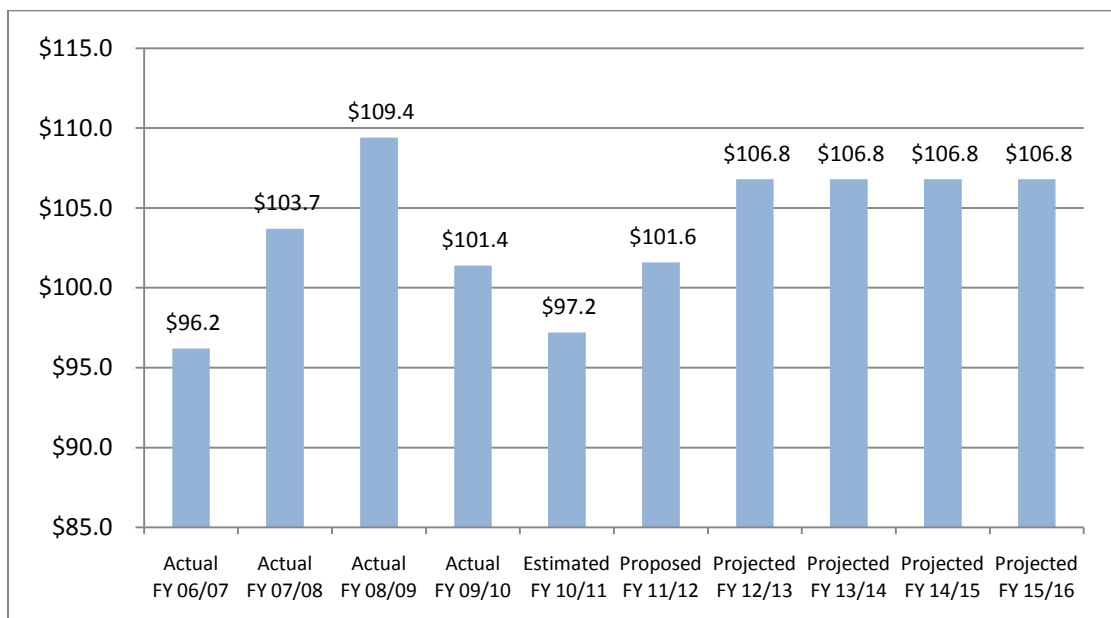
Table 6 shows contractually obligated memoranda of understanding (MOU) increases by bargaining unit.

Table 6. *Negotiated Compensation Increases Taking Effect in FY 2011/12 and FY 2012/13*

Bargaining Unit	FY 2011/12	FY 2012/13
Confidential Association of the City of Santa Ana (CASA)	2.50%	2.00%
Executive Management (Sworn and Non-Sworn)	3.00%	0.00%
Fire Benevolent Association (FBA) Non-Sworn	2.50%	4.00%
Fire Benevolent Association (FBA) Sworn	2.50%	4.00%
Fire Management Association (FMA) Non-Sworn	3.00%	3.50%
Fire Management Association (FMA) Sworn	3.00%	3.50%
Police Management Association (PMA) Non-Sworn	3.00%	3.50%
Police Management Association (PMA) Sworn	3.00%	3.50%
Police Officers Association (POA) Non-Sworn	3.00%	3.50%
Police Officers Association (POA) Sworn	3.00%	3.50%
Santa Ana Management Association (SAMA)	3.00%	3.50%
Service Employees International Union (SEIU)	0.00%	0.00%

Figure 9 shows the historical as well as the projected general fund salary and wages expenditures, including scheduled increases. There are no additional compensation increases after the current MOUs have expired, and therefore, the projection does not include any future increases. This table also does not include PERS costs or overtime costs.

Figure 9. *General Fund Salary and Wages Expenditures*

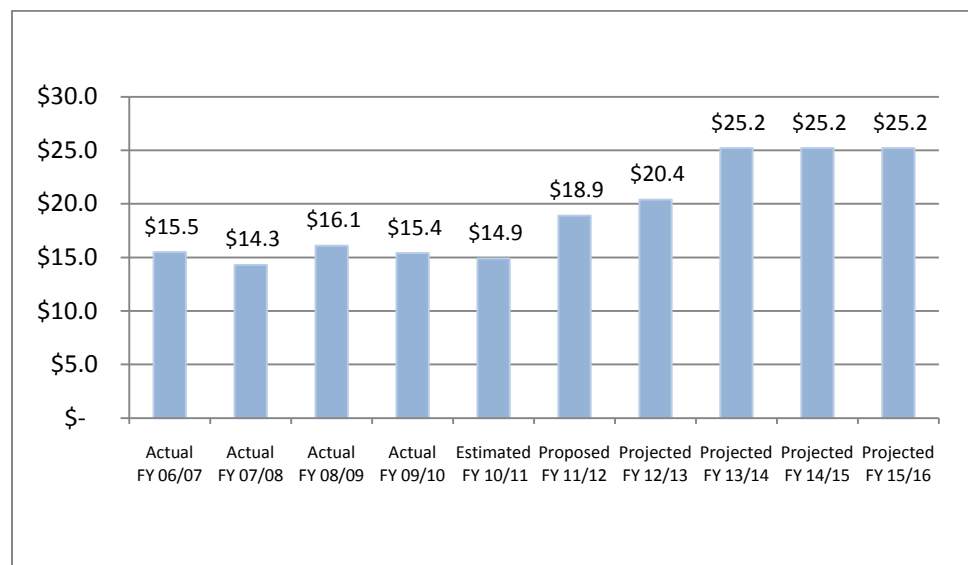


### Retirement Costs

The City's costs for employee retirement have increased from \$15 million in FY 2006/07 to nearly \$19 million in FY 2011/12. By FY 2013/14 the annual cost will be over \$25 million. To put this into perspective, the City was spending about 7.2% of its general fund budget on retirement costs in FY 2006/07. In FY 2011/12 it will need to spend 9% of the budget on those costs, and by FY 2012/13 it will require 11.3% of the budget for retirement obligations.

Figure 10 shows the past and projected costs during the ten-year period. The last three years of the projection are based on an estimate from PERS for FY 2013/14, with an assumption that there will be no increases from that point on. Such an assumption may not be sound, and should be checked through the actuarial analysis discussed in Recommendation 2 above.

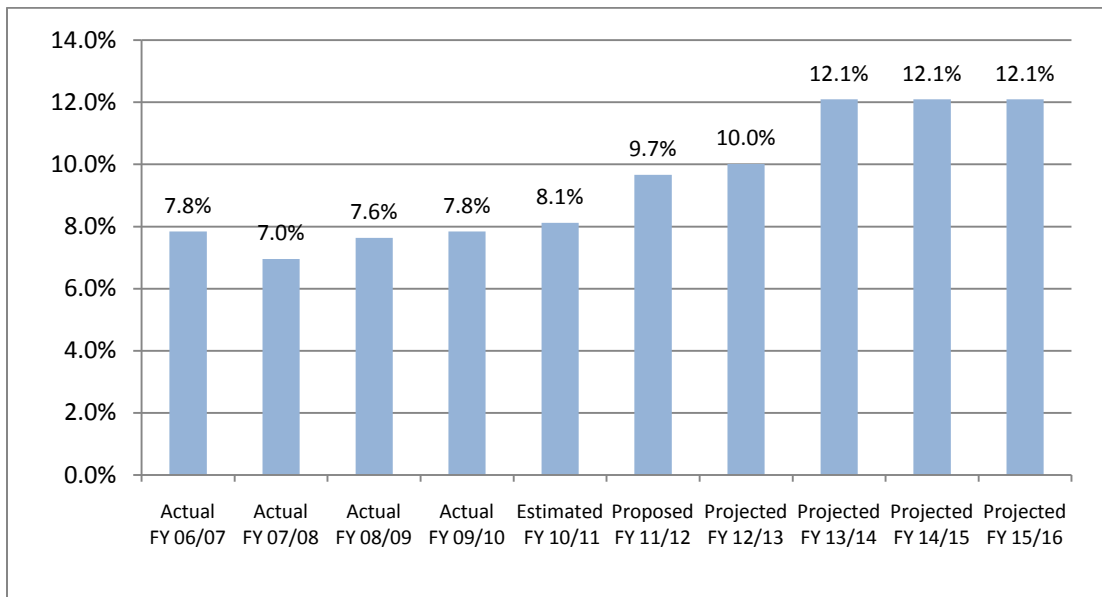
Figure 10. General Fund Retirement Costs



It should also be pointed out that PERS rates will be increasing even without additional negotiated salary increases beyond FY 2012/13. The amount of PERS increase show between FY 2012/13 and FY 2013/14 is \$4.8 million (with no increase in salaries).

As Figure 11 below demonstrates, retirement costs to the City are consuming a larger percent of general fund departmental budgets.

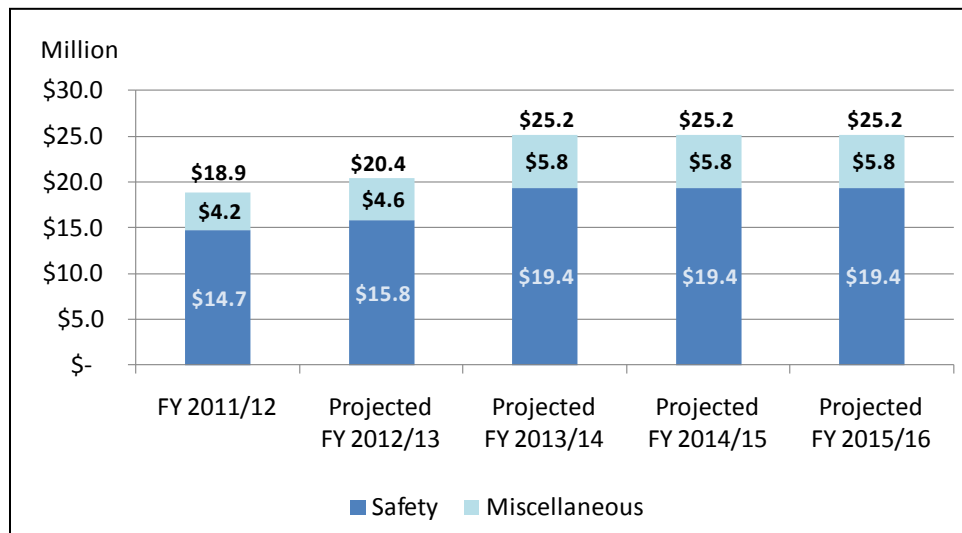
Figure 11. Retirement Costs as Percent of Department Budgets



About 75% of the City's retirement costs are for public safety and the balance is for miscellaneous employees. This reflects the compensation structure of public safety, which is significantly higher than for non-safety. Additionally, it reflects the higher retirement benefit level for public safety than non-safety.

Figure 12 shows the cost allocation between safety and non-safety for fiscal years 2011/12 through 2015/16 (with the caveat that the City does not have a final rate for FY 2013/14 or any estimates for FY 2014/15 or FY 2015/16).

Figure 12. General Fund Retirement Cost for Safety and Miscellaneous Employees



### Two Parts to PERS Costs

The City pays the majority of PERS costs. PERS divides the rates into two parts: 1) employee rates and 2) employer rates. It has been a common practice for Santa Ana and many other agencies to pay both parts of the rates.

What is referred to as employee rates are set by PERS at 9% for safety employees and 8% for miscellaneous (non-safety) employees. Through negotiated agreements, Santa Ana’s employees pay varying levels of the employee share, as shown in Table 7 below.

The City could negotiate any level of sharing with its employees and is not limited to 8% for miscellaneous and 9% for safety as the employee share. Some cities are planning for a greater share of PERS costs than what has commonly been referred to as the “employee share” as shown below. For instance, the City of Newport Beach has a new City Council policy that says, “The retirement benefits portion of total compensation will be structured over time to achieve a 50/50 cost sharing between the City and the employees, including the implementation of defined contribution programs in the event such programs are authorized for the City’s use.”<sup>1</sup>

<sup>1</sup>Compensation philosophy adopted by the Newport Beach City Council on June 14, 2011.

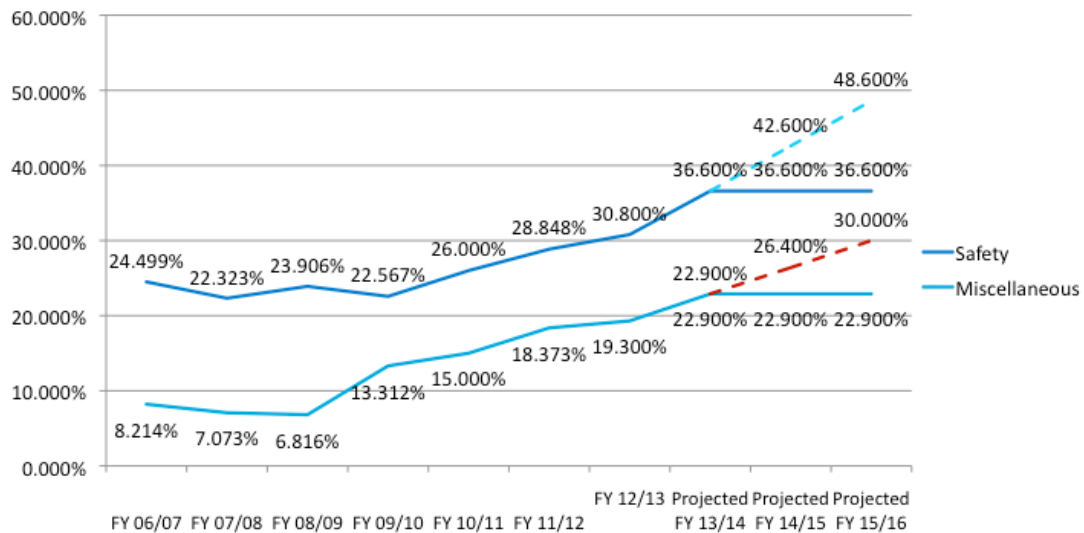
Table 7. Employee Payments for Retirement

Bargaining Unit	Percent Paid by Employee	Employee Share Established by PERS
FBA	1.43%	9%
FMA <sup>1</sup>	0.93%	9%
POA <sup>2</sup>	2.42%	9%
PMA	2.42%	9%
SEIU	8.00%	8%
SAMA	6.33%	8%
CASA	7.33%	8%
Unrepresented <sup>3</sup>	6.33%	8%/9% <sup>4</sup>

<sup>1</sup>FMA employee contributions will increase to 1.43% on 1/1/12, 2.43% on 1/1/13, and 3.43% on 1/1/14  
<sup>2</sup>POA employee contributions will increase to 3.42% on 7/1/12, but will revert back to 2.42% on 7/1/13  
<sup>3</sup>Police Chief pays 1.42%; Fire Chief pays 0.93% until 1/1/12, when it increases to 1.43%, then 2.43% on 1/1/13, and 3.43% on 1/1/14  
<sup>4</sup>PERS “employee share” is established at 8% for miscellaneous (including unrepresented) employees and 9% for safety employees (including unrepresented).

The rates charged by PERS to the City of Santa Ana represent the employer-only portion of the cost. Whatever portion of the employee share is not paid by employees is also a cost to the City. Figure 13 shows the PERS rates charged to the City over a ten-year period. It should be noted that rates are only known through FY 2012/13. PERS has provided an estimate of the rates they may charge in FY 2013/14, and that is shown in the following line chart. In FY 2014/15 and FY 2015/16, the rates shown in the bold line assume the same rates as the PERS estimate for FY 2013/14. However, the rate for those years could be different. The dotted line shows what the rate could be if the existing trajectory continues. The five-year forecast does not assume those higher rates. However, it is a risk in the forecast that should be noted.

Figure 13. PERS Rates for Employer Share for Ten-Year Period



Note: Recommendation 2 suggests the City engage an actuary to obtain an estimate of PERS rates in FY 2014/15 and FY 2015/16 to improve the financial forecast perspective.

### Other Compensation Drivers

In order to obtain a perspective on total compensation costs to the City, Management Partners assessed the compensation of the top 100 earners citywide (which includes police and fire), the top 50 earners in the Police Department, and the top 50 earners in the Fire Department. In each case, an average percentage was calculated for base salary, overtime, premium pays and non-pay benefits. Table 8 below compares the percentage make-up of each category that comprises total compensation.

Table 8. Total Compensation

Category	Base Salary	Premium Pays	Overtime	Non-Pay Benefits
Top 100 Citywide	45%	8%	17%	30%
Top 50 Police	50%	7%	10%	33%
Top 50 Fire	39%	9%	21%	31%

### Premium Pays

As can be seen from the above figures, premium pays constitute a significant portion of compensation of top wage earners. The total amount of premiums paid in calendar year 2010 equaled \$9,231,089. This

does not include overtime, which is a separate type of compensation. Santa Ana has 67 different types of premium pay. By comparison, the City of Fremont has 24 types of premium pay, costing about \$1.6 million.

Table 9 shows the total amount of premiums that were paid by bargaining unit, the number of employees in each bargaining unit who received premium pay, and the average amount of premiums each employee received.

Table 9. Premiums Paid by Bargaining Unit

Bargaining Unit	Total Amount of Premiums Paid	Number of Employees Receiving Premiums	Average Amount Received per Employee
POA	5,017,609	499	\$10,055
FBA	3,286,257	201	\$16,350
SEIU 6	602,940	242	\$2,491
PMA	114,856	14	\$8,204
FMA	69,824	5	\$13,965
SEIU Part -time	64,743	147	\$440
Unaffiliated Confidential	32,840	25	\$1,314
Seasonal Part-time	19,912	6	\$3,319
Executive Management - Sworn	12,659	1	\$12,659
Administrative Management	4,725	3	\$1,575
Mid Management	4,725	3	\$1,575
<b>TOTAL</b>	<b>\$ 9,231,089</b>	<b>1,146</b>	

In calendar year 2010, approximately \$5 million was paid to members of the POA and \$3.29 million was paid to members of the FBA in premium pays. Premium pays are largely “PERS-able” which means they are included as compensation counted toward calculating retirement benefits and, therefore, are a factor in the City’s pension costs.

The top three types of premium pays, senior pay for police and fire and bilingual pay citywide, constitute two-thirds of the total premiums paid. The top 12 (which total more than \$100,000 each) are shown in Table 10, and constitute the majority of the \$9.2 million paid in calendar year 2010.

It is not clear that everyone receiving premium pays are actually performing the work for which the pay is intended on a regular basis.

*Table 10. Top 12 Premium Pay Categories*

Type of Premium Pay	Total Dollars Paid
Senior Pay (Police Career Development Pay)	3,045,564.42
Senior Fire Personnel	2,036,476.29
Bilingual Pay	1,327,341.58
Paramedic Duty	489,832.50
Shift Differential	282,235.28
Hazardous Materials	249,117.00
Detective Investigator	229,013.76
Technical Truck	220,882.92
Shift Overlap	170,802.31
Education (POA)	143,940.67
Assistant Team Leader	136,092.91
Field Training Officer	100,616.46
<b>TOTAL</b>	<b>8,431,916.10</b>

### ***Expenditures by Type of Expense***

Figure 14 shows that 79% of the general fund is allocated to personnel expenses. Commodities have been reduced significantly over the years and there is no real opportunity for additional reduction. Personnel costs is the only area where savings could be significant enough to eliminate the deficit.

Figure 14. FY 2011/12 General Fund Expenditure Budget of \$210 Million by Type of Expense

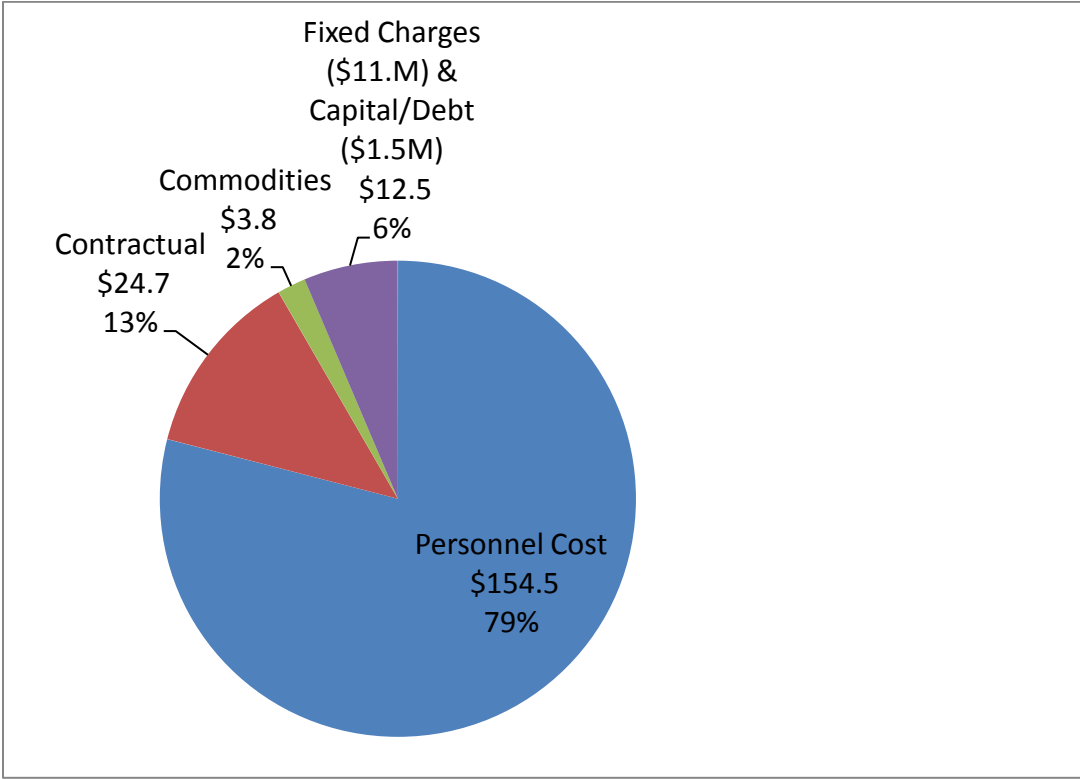
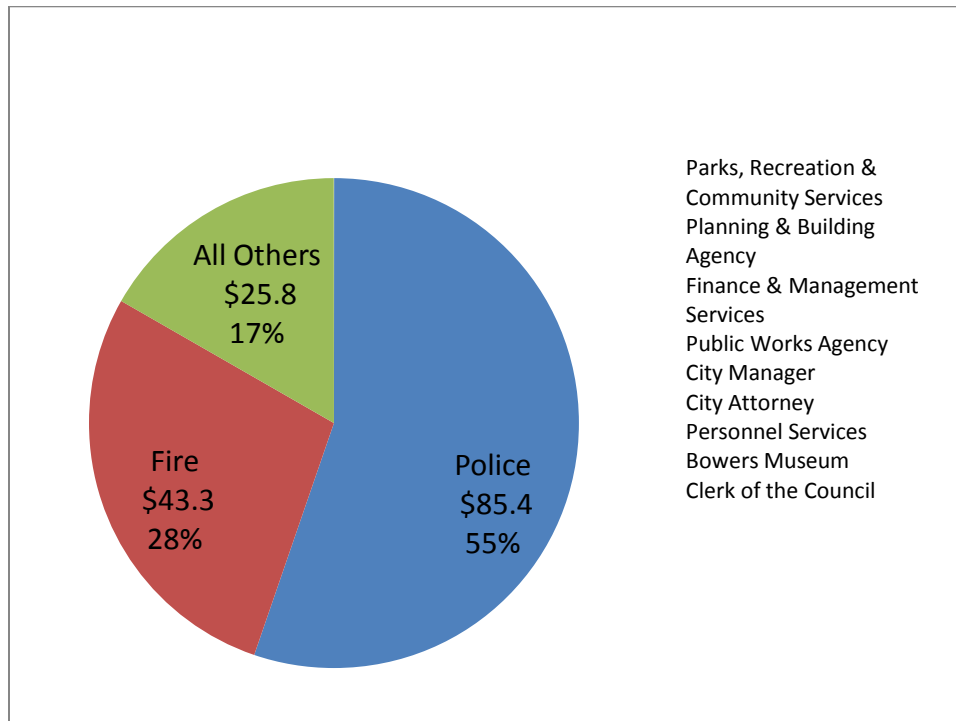


Figure 15 below shows that 83% of the City's personnel costs in the general fund are within police and fire.

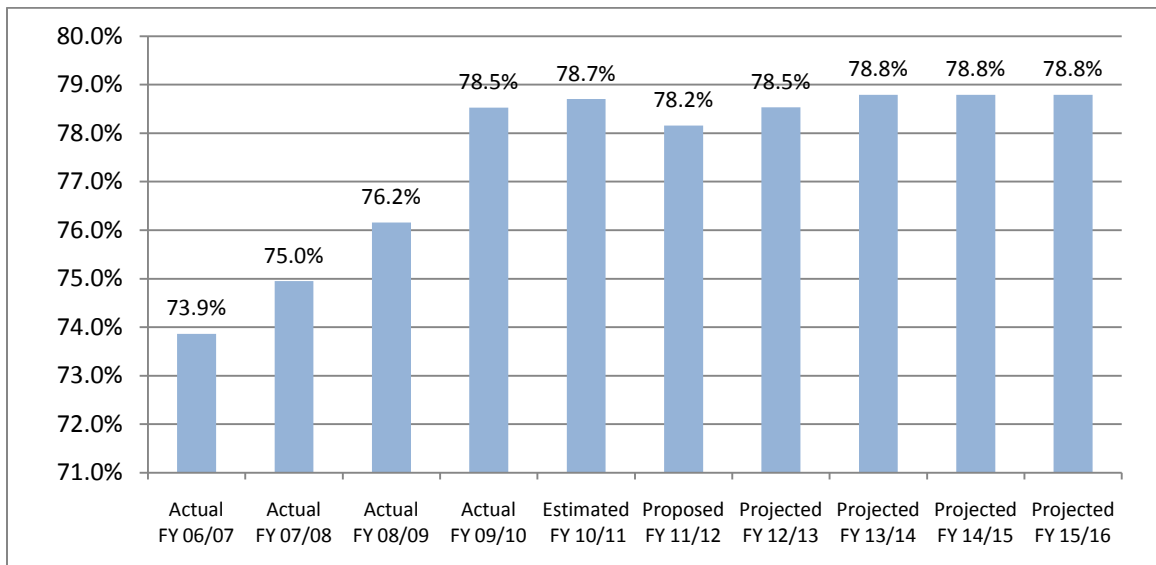
Figure 15. Allocation of Personnel Costs Within the General Fund



### **Public Safety Costs**

The City of Santa Ana places a high priority on public safety services. The percent of the general fund allocated to public safety is growing. During budget balancing cuts in recent years, non-safety operations have experienced larger reductions than public safety. As a result of those cuts, and as a result of PERS costs and negotiated compensation increases, the City's allocation to public safety is growing as a percent of the general fund. Figure 16 shows this change.

Figure 16. Public Safety as Percent of General Fund Expenditures



Given the high percentage of the general fund allocated to public safety, Management Partners compared public safety budgets on a per capita basis with peer jurisdictions. Peer comparisons of this sort are difficult and should not be used for drawing firm conclusions. The ways in which each city organizes its departments and the availability of outside funding sources and fee structures of services are very different. However, benchmarking can be useful in pointing to where additional analysis is needed or general trends.

The percent of general fund budget allocated to police and fire is higher in Santa Ana than the peer cities. Additionally, as was shown in the revenue comparisons above, general fund revenue is lower on a per capita basis for Santa Ana compared with peer cities.

### Police

The Santa Ana Police Department is unique compared with peer cities in that it administers a very large full-service jail facility. For comparison purposes, the figures below show costs associated with the Santa Ana jail in two ways: 1) included and 2) excluded from police department costs. It is important to note that an assessment of jail budgets and employees in the peer cities was outside the scope of this project.

Figure 17 shows the FY 2010/11 police department budgets per capita for each of the peer agencies in comparison to the City of Santa Ana. Again,

absolute comparisons are not possible, given year-to-year fluctuations in costs that any one city may have. The following is shown only as a general point of comparison.

Figure 17. Police Budgets per Capita

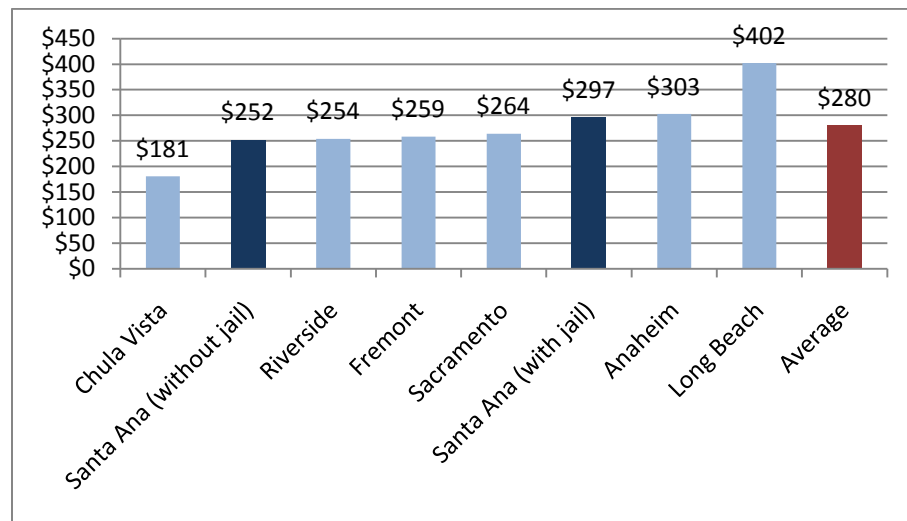


Figure 17 shows that the Santa Ana Police Department budget per capita (including the jail) is higher than average, while the Santa Ana Police Department budget per capita (excluding the jail) is below average.

Figure 18 shows Police FTEs per 1,000 population for the comparison cities. Again, when Santa Ana includes police FTEs those associated with the jail, the number per 1,000 population is above average, while when jail staffing is excluded, Santa Ana is below average.

Figure 18. Police FTEs per 1,000 Population

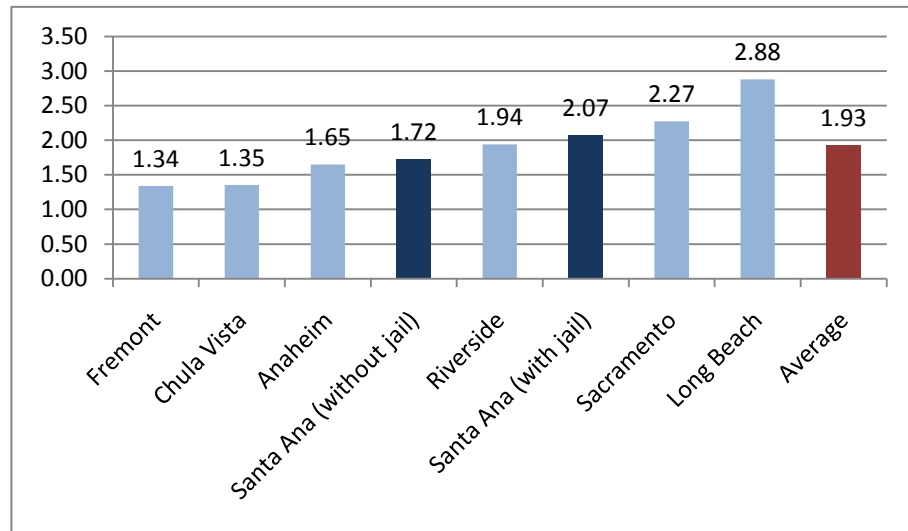
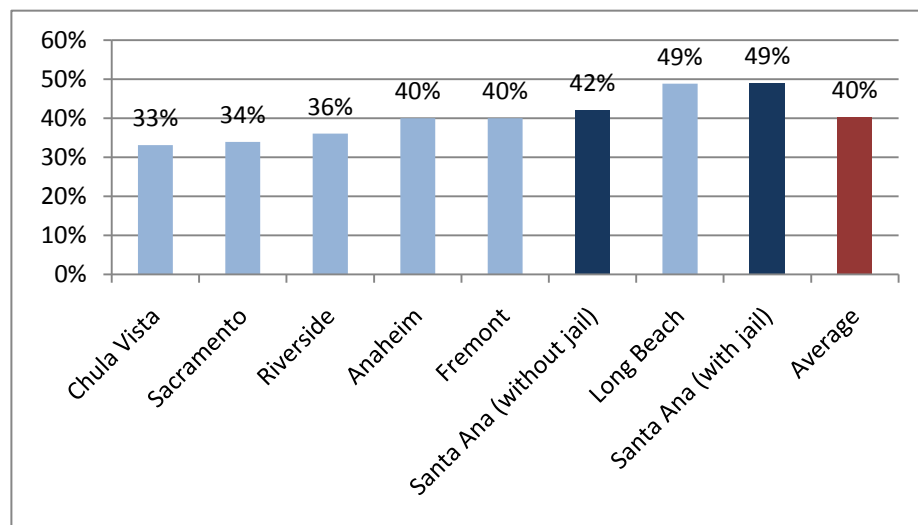


Figure 19 below compares each city's police department budget as a percentage of the city's total general fund budget. Santa Ana's police budget (without the jail included as well as with the jail included) is higher than the average.

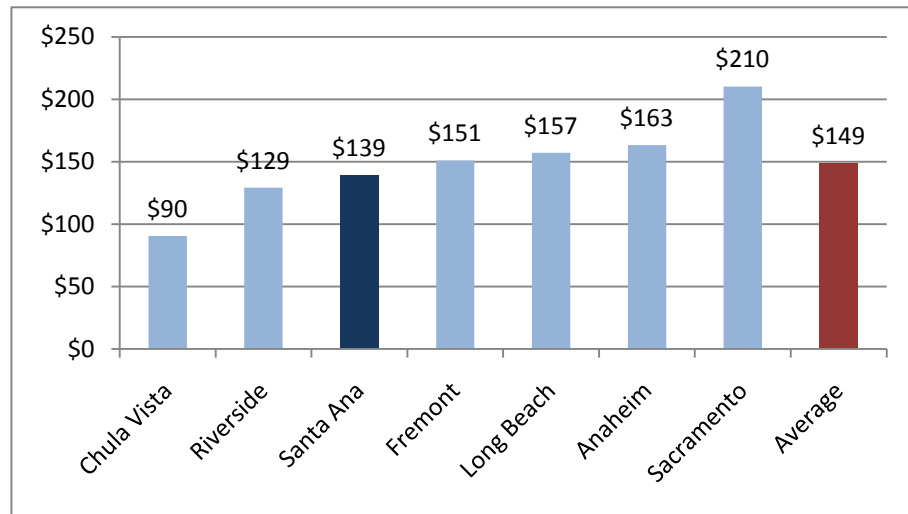
Figure 19. Police Budget as Percentage of Total General Fund



### Fire

Figure 20 compares fire department budgets per capita.

Figure 20. Fire Budget per Capita



Santa Ana's Fire Department budget per capita is lower than the peer average.

Figure 21 shows each peer city's full time equivalent fire department employees (FTE) per 1,000 population. The number of FTEs per 1,000 population in Santa Ana's Fire Department is slightly below the average. As stated above, absolute comparisons are not possible, given year-to-year fluctuations in costs that any one city may have. The following is shown only as a general point of comparison.

Figure 21. Fire Budget FTEs per 1,000 Population

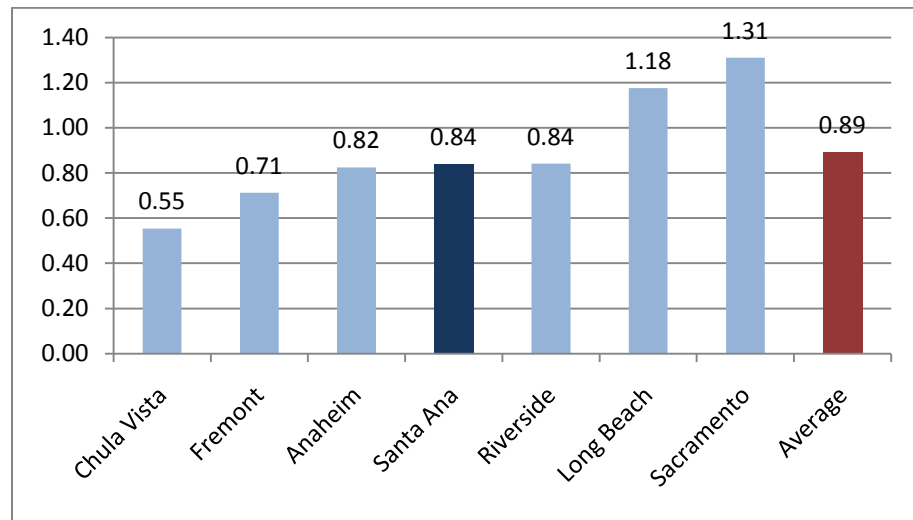
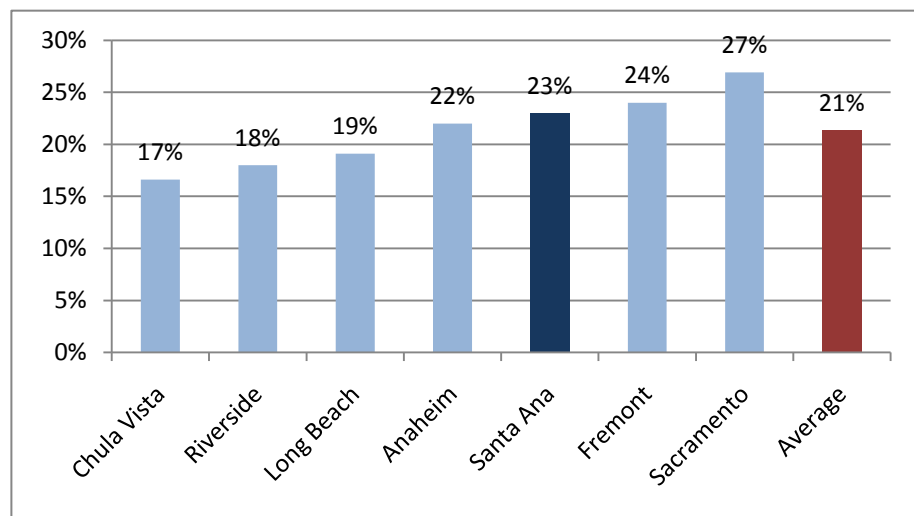


Figure 22 below, compares each city's fire department budget as a percentage of total general fund budget. As is shown below, Santa Ana's Fire Department makes up a slightly higher percentage of general fund budget compared with the peer agencies.

Figure 22. Fire Budget as Percentage of Total General Fund



### Public Safety as Percent of General Fund

After comparing police and fire departments to peer agencies separately, Management Partners compared public safety and non-public safety spending with peer cities. Figure 23 shows these comparisons. As can be seen below, compared with peer agencies, the City of Santa Ana has the smallest percentage of non-public safety spending.

Figure 23. Public Safety Budget as Percentage of General Fund

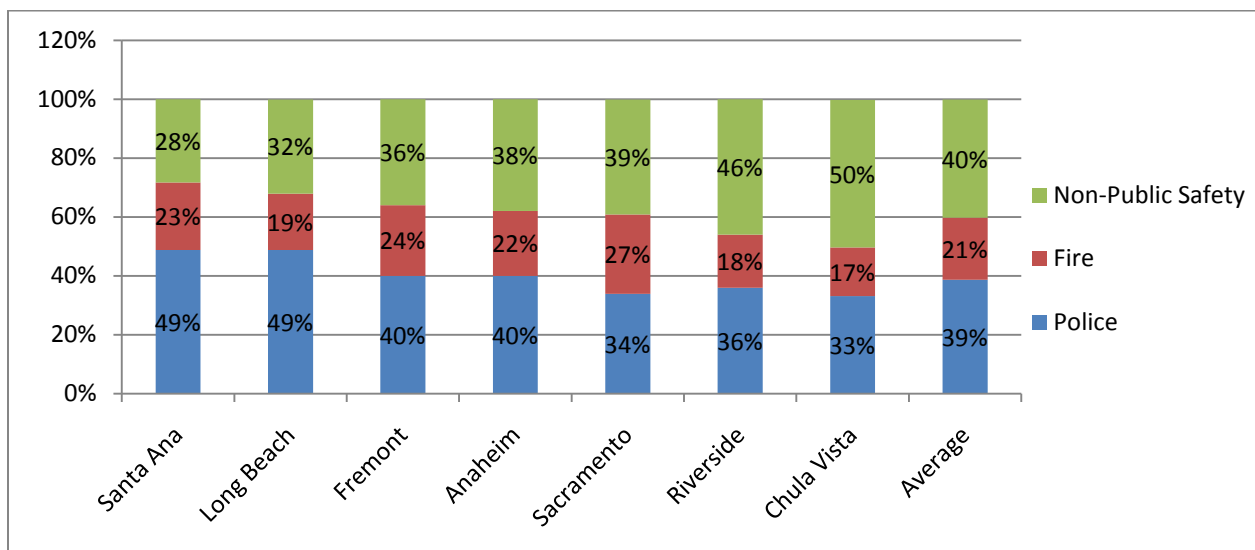
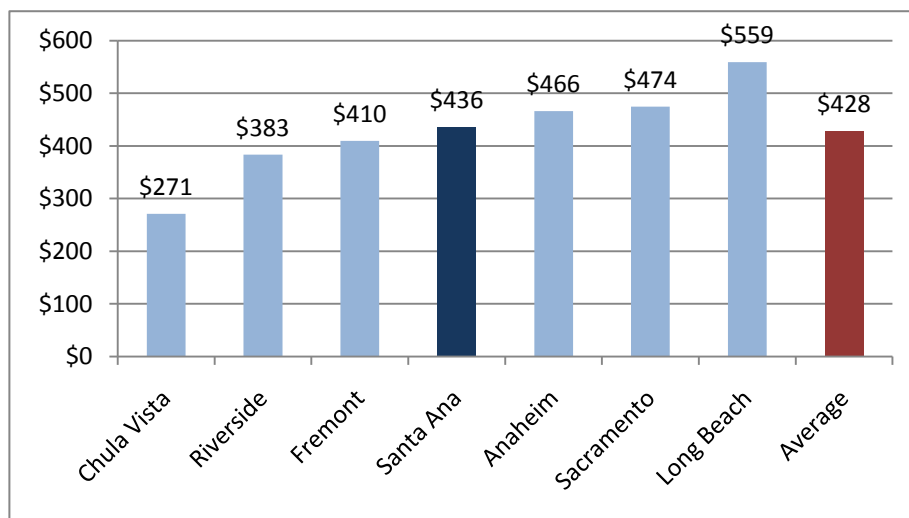


Figure 24 shows that Santa Ana is slightly above the peer average, when comparing public safety budgets per capita.

Figure 24. Public Safety Budget per Capita



## Budget Stabilization Alternatives

Eliminating the estimated deficit in FY 2011/12, FY 2012/13 and future years will require hard decisions. The City already has lean staffing in many areas, so reducing costs will not be a matter of determining what is not important. Rather, it can be assumed that every service and program provided is important to someone. Therefore, decisions will need to be made between numerous important services and interests. Given the size of the gap, revenue increases alone will not eliminate the deficit and put the City on stable financial footing. Therefore, as previously mentioned, a three-pronged approach including these components is suggested.

- New revenue
- Service delivery model changes
- Compensation changes

Each is described in this section of the report, with specific suggestions for consideration. Any public organization has a need to balance services to the community with employee compensation and benefits. Most of the budget balancing solutions will need to come through reducing personnel costs. The total number of personnel and the compensation cost drivers are no longer sustainable given the City's resource base.

The ideas presented here resulted from discussions with members of the City's Executive Management Team, analysis of costs, and viability of alternative methods of providing services. The focus is on delivering valued services to the public, so options represent the following principles were identified.

- Santa Ana desires to be a full-service city, which requires a range of services beyond public safety.
- What is most important is that valued services be delivered, not that they all be delivered by City employees when services can be provided less expensively by the private sector or another agency.
- The fundamentals of the municipal corporation must be maintained to properly manage the organization, and reduce risk and liability.

- Financial stability and sustainability is important to employees and to the City's ability to recruit and retain motivated, competent and capable individuals.

## **Revenue**

Opportunities exist to increase fees for a few services to match fees to costs of the service being provided, consistent with the City's policy of full cost recovery where possible. Sizeable revenue, however, would need to come from voter-approved tax increases. Both components are described in this report section.

Information about Santa Ana's revenues was previously gathered for benchmarking as part of an analysis of budget balancing strategies conducted by Management Partners for the City of Anaheim in late 2010. Peer jurisdictions examined for that study were Anaheim, Irvine, Long Beach, Riverside, Sacramento, San Jose and Santa Ana.

The benchmarking showed that Santa Ana's general fund revenues per capita were significantly below the median. On a per capita basis, all of Santa Ana's major revenue sources were below the median except for transient occupancy tax (which was at median) and business tax (which was higher than median). Santa Ana's sales tax was significantly below median, at \$103 per capita, compared with the median of \$135. Utility users taxes for Santa Ana totaled \$79 per capita, compared with the median of \$85. Because Santa Ana is below the market for such revenues, increasing utility users, sales, and other taxes should be considered.

## **Potential Tax Increases**

City staff have estimated the potential revenues associated with the following tax increases. All would require voter approval.

### **Utility User Tax**

Many cities charge a tax on utilities, ranging up to 9% (Los Angeles). Santa Ana currently charges 6%. Each 1% increase on utilities currently taxed (telephone, electric, water and gas) would yield approximately \$3.9 million annually. Each 1% on utilities not currently taxed (cable television, sanitary sewer service, sanitation, refuse collection) would yield approximately \$2.6 million per year.

Utility user taxes are paid by Santa Ana residents and businesses and are collected and remitted by the utility providers who serve them. In turn, the utility then remits the tax payments to the City.

Annual revenue in FY 2009/2010 from utility user taxes (electric, gas, water, land line phone, and cell phone) was \$26,153,203. The City has made annual revenue projections considering possible tax increases at 1% and 2%. Further, cable TV, sanitary sewer service, and refuse collection are currently not part of utility user tax. The City is considering modernizing and expanding the utility users tax to cover utilities not currently included. Revenue projections for both current and potentially new utility user taxes are shown in Table 11 below.

Table 11. Utility User Tax Revenue Projections

Utility Users Tax	Annual Revenue FY 2009/10	Projected Annual Revenue at current 6% level	Projected Annual Revenue with each 1% Increase	Projected Annual Revenue with a 2% Increase
Current: Electric, gas, water, phone	\$26,153,203	\$26,153,203	\$3,978,600	\$7,957,200
Potential: Cable TV, sanitary sewer service, sanitation fund, refuse collection		\$2,241,160	\$2,614,688	\$2,988,600
<b>Total Projected Utility User Tax</b>		<b>\$28,394,362</b>	<b>\$6,593,288</b>	<b>\$10,945,800</b>

Source: City of Santa Ana

Santa Ana projects that at 6%, monthly residential costs for the utility user tax are \$2.30 and monthly business costs are \$5.00. A utility user tax increase can only be voted on during a general election (a simple majority is needed), unless the City Council declares a fiscal emergency and puts the potential tax increase to a vote during a special election. It should be noted that costs for special elections are higher. For Santa Ana, a special election costs approximately \$300,000, three times the amount of the consolidated general municipal election (approximately \$100,000).

**Sales Tax**

The current sales tax rate in Santa Ana is 7.75%. Annual revenue for FY 2009/2010 was \$32,986,012; sales tax revenue for FY 2010/2011 is projected to be \$35,957,909. The City estimates that each 1% increase in sales tax would yield approximately \$21 million per year.

## **911 Communications Fee**

While often called a “fee” this potential revenue source is actually a tax requiring voter approval. A 911 communications fee would yield approximately \$10 million a year if each residence was charged \$3.08 per month and businesses were charged \$21.53 per month. The tax would be charged on most personal and business telephone lines and cell phones in the City. Some exemptions typically exist, mainly relating to customers on lifeline service and service to non-profit organizations and government offices.

The City of San Jose has this fee and estimates that approximately 90% of the phone accounts in their community are taxed. The justification for charging a fee to telephone subscribers is that only people who have telephones can call 911 for emergency services. As stated in the San Jose ordinance, “Subscribers to telephone service derive significant benefits from ongoing operation of the modernized integrated system installed at the San José Emergency Communications Center” in the form of more efficient dispatch of services to a 911 emergency request.

**Recommendation 7. Determine the City Council’s interest in asking the voters to approve new or increased taxes.** Once that is ascertained, develop an action plan and schedule to seek voter approval of new revenues.

## **Fee Increases**

A fee is a charge imposed on an individual for a service that the person chooses to receive. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead. Examples of city fees include water service, building permits, recreation classes, paramedic subscriptions, false alarms and development impact fees.

The City makes annual adjustments to fees and has instituted full cost recovery for development fees (with annual cost adjustments). Areas that may generate increased revenues for the City are related to utility franchises, the Santa Ana jail, paramedic subscription fees and false alarm fees.

## **Utility Franchise Fee**

City staff have identified a potential revenue source that would require state legislative action to revise the utility franchise fee paid to

municipalities in areas served by Southern California Edison (SCE). Inequity exists in what older communities such as Santa Ana receive from franchise agreements when compared with newer cities which have negotiated with SCE.

The Franchise Act of 1937 sets one-half of one percent as a minimum franchise fee charged. Because of the methods used by the California Public Utilities Commission to set and account for investor-owned utility rates, SCE blends the cost of all franchise fees across its entire rate base, regardless of the return to each respective city. As a result, every SCE customer is subject to a 0.84% franchise fee charge, regardless of whether the customer resides in a city that is being paid a 1% fee or a 0.5% fee.

Santa Ana receives only 0.5%, while some other, newer communities receive 1% franchise fee because of rates they negotiated with SCE. The result is that some cities are subsidizing others. Analysis should be conducted of the potential new revenue to the City if a legislative change was enacted. The potential of legislative change should be monitored, with Santa Ana advocating for change.

**Recommendation 8. Analyze the amount of additional revenue that would be received by the City if a change in the utility franchise fee allocation were implemented.**  
 Advocate for a change in legislation to correct the inequity of payments to cities of utility franchise fees.

**Jail**

Santa Ana sells jail space to several outside agencies as a way to recover a majority of the costs of operating the jail. The Police Department’s jail operation revenues and expenditures are shown in Table 12 below.

Table 12. Annual Jail Revenues and Expenditures

Year	Revenue	Expenditures	Net General Fund Cost
<b>FY 2007/08 (Actual)</b>	\$11,837,595	\$14,515,378	(\$2,677,783)
<b>FY 2008/09 (Actual)</b>	\$14,244,083	\$14,857,357	(\$613,274)
<b>FY 2009/10 (Actual)</b>	\$14,415,990	\$15,593,252	(\$1,177,262)
<b>FY 2010/11 (Projected)<sup>1</sup></b>	\$14,100,000	\$13,695,843	\$404,157

Source: Santa Ana Police Department Budget  
<sup>1</sup>Annual figures projected by Santa Ana Police Department

It should be noted that the budgeted expenditures do not include indirect costs associated with the jail operation, such as building maintenance, liability insurance, utilities, uniforms, employee parking, training and computer services. Such indirect costs are currently funded elsewhere in the Police Department's budget. The jail's fair share of these costs is estimated to be approximately \$1.8 million. This means that the general fund subsidy for jail operations is significantly greater than is currently being reflected in the City's budget document.

Given that the significant majority of the costs for this service are paid by outside sources through fees, it would be appropriate to establish an enterprise fund for the jail and remove it from the general fund. The City currently has seven enterprise funds:

- Water
- Parking
- Refuse Collections
- Transportation Center
- Sewer
- Sanitation
- Federal Clean Water Protection

At the same time that jail operations are established as an enterprise fund a detailed analysis of costs and fees should be undertaken. This will ensure that 100% of the direct and indirect costs of providing the service are recovered and will eliminate any general fund subsidy.

**Recommendation 9. Analyze jail operations and set rates to ensure that there is full cost recovery in the fees being charged to outside agencies.**

**Recommendation 10. Convert the jail operation to an enterprise fund with the goal of having it be self-supporting.**

### **Paramedic Subscription Fees**

Paramedic subscription programs function as a form of insurance in that subscribers are not responsible for paying out-of-pocket costs for emergency medical services (EMS) above what is covered through insurance, Medicare or Medi-Cal.

California cities that have paramedic subscription programs charge from \$36 to \$60 annually per household. The most common rate is \$48 per year. Some cities have varying rates for local businesses, convalescent homes,

and low-income residents (e.g., residents who qualify for low-income discounts on their city water bill). Revenues vary by city and can be evaluated in terms of market penetration; the ratio of subscribing households to the total number of households. Table 13 compares several cities' paramedic subscription programs (data are from 2009 and 2011).

Table 13. Comparison of Paramedic Subscription Programs

City	Number of Housing units	Membership Annual Revenue	Number of members	Market Penetration	Annual Fee
Arcadia*	20,304	\$160,000	11,000	54%	\$40
Buena Park*	24,280	\$400,000	13,000	54%	\$45
Corona*	45,485	\$1,050,516	23,244	51%	\$48
Anaheim*	101,791	\$1,710,000	38,980	38%	\$36
Fullerton*	47,044	\$815,000	16,981	36%	\$42
Anaheim**	101,791	\$1,206,000	33,500	33%	\$36
Huntington Beach*	78,007	\$1,426,000	23,600	30%	\$60
Huntington Beach**	78,007	\$1,300,000	23,000	29%	\$60
Orange*	44,319	\$650,000	10,896	25%	\$48
Westminster*	27,419	\$235,000	5,419	20%	\$42
Newport Beach*	42,711	\$297,600	6,200	15%	\$48
Alhambra*	30,216	\$100,000	3,744	12%	\$48
Monterey Park*	20,734	\$115,000	2,538	12%	\$50
Santa Ana**	73,174	\$154,362	7,344	10%	\$48
Burbank*	44,055	\$180,000	4,064	9%	\$48
Montclair*	9,677	\$24,250	674	7%	\$36

\* May 2009 data

\*\* 2010/11 data

The City charges a \$48 annual paramedic subscription fee, which is within the range charged by other cities. However, in FY 2009/10, the City collected only \$154,000, which is less than 50% of the anticipated revenue based on the number of subscribers. With 7,344 subscribers, the annual \$48 fee should equate to revenues of \$352,500. The overwhelming majority of paramedic subscriptions (approximately 6,500) are paid by residents as an \$8 per bill charge assessed through the City's bi-monthly utility bill. Other subscribers receive an annual statement and pay a lump sum.

According to City staff, the variance between the number of subscribers and revenues appears to be related to individuals inconsistently paying the subscription fee on their utility bills or opting out of the program without notifying the City. Allowing subscribers to opt in and out of the program at will not only affect revenues, it also creates additional work for staff and the City's billing agency who must reconcile whether an individual subscriber is "current" before issuing a bill for emergency medical services. Prohibiting subscribers from opting in or out of the program at will and improving management and oversight of the program would enhance the City's ability to recover associated revenues.

**Recommendation 11. Modify the paramedic subscription program to encourage existing subscribers to pay their fee so as to maximize revenue collection.**

Market penetration rates are related to how the programs were initially implemented: opt-in or opt-out. Both Anaheim and Huntington Beach launched paramedic subscription as an "opt out" program, meaning all residents were expected to pay unless they opted out of participation. A complaint and resulting court case caused these cities (as well as other Orange County cities having such programs) to convert to an "opt in" program in the early 1990s. The number of subscribers in Anaheim and Huntington Beach also dropped between 2009 and 2011, which can be attributed to an increase in residents opting out of the programs. Cities instituting their paramedic subscription programs as an "opt in" program may partially account for the lower number of subscribers.

Market penetration rates are also related to community demographics, population density, whether transport services are provided, and the amount of EMS fees. According to Firemed officials (a private firm that operates an EMS membership program throughout Oregon), communities with a high percent of residents over 60 years of age and those in rural areas have higher market penetration (i.e., number of members).

Assuming the City is able to address the revenue collection issue, increasing the annual subscription fee from \$48 to \$54 (an increase of \$0.50 per month) or \$60 (an additional \$1.00 per month) would increase revenues by about \$44,100 or \$88,100, respectively (based on the existing number of subscribers). Since many cities in the area have subscription fees of \$48. Management Partners does not recommend that Santa Ana increase the rate without ascertaining from subscribers whether increasing the fee could increase the number opting out of the program, thus reducing potential new revenues.

Santa Ana's market penetration rate is one of the lowest of the cities listed in Table 13 at about 10%. Increasing the market penetration through intensive and continual marketing efforts would increase revenues. Excluding the three cities with the highest and lowest market penetration in Table 13 yields an average market penetration rate of 25%. Paramedic subscription fees should be attractive to lower income residents who may not have health insurance. A 20% market penetration rate, combined with better program management to maximize revenue collection would generate total revenues of \$702,480, a net increase of \$548,480. Based on participation rates achieved in other cities this is a conservative estimate and an achievable goal.

**Recommendation 12. Develop a marketing program for paramedic subscriptions with a goal of increasing market penetration to at least 20% of households.** Develop marketing efforts to target those most likely to subscribe and plan a campaign that will be ongoing.

### **False Alarm Fees**

Responding to false alarms wastes Police Department resources. The Police Department estimates that on average 37.84 minutes are spent per alarm response, and almost half of total alarm calls were false alarms. Based on the fees currently charged and the costs of officers responding, it appears that the City is losing between \$50,000 and \$75,000 each year in lost response time that is not paid for by fees (based on performance for 2008 and 2009). All City costs (police response and administrative overhead) incurred by false alarms should be paid for by the alarm owner.

**Recommendation 13. Determine the fee level required to recover all City costs associated with false alarm response and increase fees accordingly.**

### **Asset Management**

Cities own many buildings and physical facilities such as parks, garages, and corporate yards. Asset management, the process of monitoring the inventory and leasing of these investments, can and should be considered as a cost reduction strategy.

The City of Santa Ana has an asset inventory now. It should develop a comprehensive asset management program, identify market rental rates and subsidies, and sell unneeded and under-performing properties. Over

the long term, an asset management program should integrate with maintenance and replacement schedules for the development of long-range capital improvement program funding needs.

The identification of surplus, unneeded properties that can be sold will result in one-time revenues and a reduction in ongoing maintenance costs. Market rate rents should be calculated and updated periodically for all City properties that are rented or leased. Market rental rates as well as the level of subsidy should also be identified for properties rented or provided to community and non-profit organizations and for economic development purposes. The subsidies should then be supported by the appropriate program and funding source. This will identify the true costs of such programs, allow them to be properly charged, and provide relief to the general fund.

**Recommendation 14. Develop a comprehensive asset management program, identify market rental rates and subsidies, and sell unneeded and under-performing properties.** Conduct an analysis of all property assets as part of the asset management program.

## ***Compensation and Benefits***

With personnel costs accounting for about 73% of the general fund, reducing them will be essential to bring spending in line with resources. Changes to compensation or benefits are subject to negotiation with bargaining units. High cost drivers are noted in this section for possible negotiations.

### **Pension Costs**

Pension reform is being much discussed at the state and local levels because costs are increasing at rapid rates significantly beyond increases in revenue and are no longer affordable to most public agencies. In Santa Ana, City-paid pension costs have grown from 7.9% of the general fund in FY 2006/07 to 9.8% in the upcoming FY 2011/12 budget. Costs are projected to grow to 12.2% in FY 2013/14.

Pension costs are a combination of an “employer” and “employee” share. PERS sets the employer share for each agency depending on actuarial assumptions. For Santa Ana, the employer share is 28.8% of compensation for public safety employees and 18.373% for non-safety employees. Those levels will grow to 36.6% for safety and 19.3% for non-safety in FY 2013/14. The employee share is set by PERS at 9% for public

safety and 8% for non-safety, although agencies and their employees can negotiate a higher cost distribution between the agency and employees than the “employee” shares set by PERS.

The City’s expenditures in the general fund would be reduced by approximately \$4.5 million if employees were to pay the full employee share (9% for safety, 8% for non-safety). The budgeted cost of PERS to be paid by the City in FY 2011/12 is \$18.9 million. Given the high cost of the employer share of the pension and the very attractive pension benefits provided by the City, asking employees to pay the full PERS employee share is equitable and an approach successfully applied in a number of California local governments, including the cities of Fremont and Mountain View. Several Orange County cities, such as Fullerton and Newport Beach, have been negotiating to have staff pay the full employee share as a budget reduction strategy.

**Recommendation 15. Negotiate payment of the full employee share of PERS costs at 9% for public safety and 8% for non-safety.**

Two-tier retirement benefits also are being negotiated in a number of cities, including several in Orange County. Savings are based on workforce turnover and thus initial cost reductions are modest. However, the savings to the city in the long term are significant. The current retirement benefits are a relatively recent change, occurring during the early 2000s. Thus returning to the pre-enhanced level would save the City money in the long term.

**Recommendation 16. Negotiate a two-tier retirement benefit, returning to the benefit levels in place prior to the existing benefits.** Doing so would mean new safety employees would be hired with a benefit level of 2% at 50 and non-safety employees would be hired with a benefit of 2% at 55.

### **Premium Pay**

As noted earlier in this report, Santa Ana has 67 different types of premium pays that cost \$9,231,089. The average amount received by a POA employee was \$10,555, with 499 employees within the POA actually receiving premium pays. The average for 2010 for an employee in the FBA was \$16,350, with 201 employees receiving such pays. See Attachment B for the complete listing of premium pays.

Premium pays should reflect a documented business need and should be considered when making salary comparisons to establish appropriate compensation levels. If a premium pay is received by virtually all employees in a classification, and the City determines it serves an important business need, it should be added to base compensation to properly reflect it as such.

Additional strategies for reducing premium pay costs include eliminating premium pays for new employees where there is no documented business need for providing the extra compensation, and negotiating the elimination of such special pays for existing employees. Examples of premium pay where there may be no business need include dictation pay (given current technology) and the above-mentioned senior pay for police and fire employees, particularly if compensation surveys determine that it is not necessary to achieve market level compensation and if recruitment and retention are not issues. Reducing the total amount of premium pay costs by 25% would generate approximately \$2.3 million in savings.

**Recommendation 17. Renegotiate labor contracts to provide only those premium pays required for sound business purposes and eliminate premium pay for employees who are not performing the work on a regular basis.** Negotiate with employee associations to reduce the amount of premium pays provided.

### **Overtime Calculations**

Public safety MOUs currently dictate that an employee's leave time is counted as time worked and contributes toward calculating overtime. If the FBA and POA MOUs are amended to pay overtime based on the Fair Labor Standards Act (FLSA), then only *actual* time worked would count towards calculating overtime. In other words, the City has negotiated to pay for more overtime costs than is legally required.

The City sampled 20 public safety employees (ten in police and ten in fire), to estimate the cost of paying overtime based on FLSA compared with pay based on language in the MOUs. For employees in each department, FLSA work schedules were used (9 days/172 hours for fire and 28 days/162.5 hours for police).

In FY 2009/10, the Santa Ana Fire Department incurred over \$7.1 million in overtime costs, while the Police Department incurred over \$3.7 million. The City estimates that if FLSA work schedules are used to calculate

overtime, then the Fire Department could save 23.4% of overtime costs, and the Police Department could save 22.2% of overtime costs. This would result in over \$2.5 million in annual overtime cost savings. Estimated savings are summarized in Table 14 below.

Table 14. Public Safety General Fund Overtime Costs

Department	Actual FY 2009-2010 General Fund Overtime Cost	Estimated Savings	Potential General Fund Overtime Cost Savings
Fire	\$7,121,678	23.4%	\$1,666,473
Police	\$3,755,653	22.2%	\$833,755
<b>Total</b>	<b>\$10,877,331</b>	<b>N/A</b>	<b>\$2,500,228</b>

**Recommendation 18. Calculate overtime using the FLSA-approved methodology, which excludes leave time as time worked.**

**Health Benefits**

The City provides health insurance coverage for employees, which cost \$13.7 million in FY 2010/11. The amount paid varies by bargaining unit. This cost could be reduced by negotiating to have employees pay a larger share of the premium. The City also pays varying amounts for retiree health benefits, depending on bargaining unit. The overall City cost for these benefits is budgeted at \$1.2 million for FY 2011/12. This could be reduced by negotiating lower City contribution levels. Some cities are reducing or eliminating City-paid retiree health insurance entirely. For instance, both Sunnyvale and Anaheim have recently scaled back retiree health benefits. Further analysis is required to determine the appropriate level of City benefit for the various groups.

**Recommendation 19. Analyze employee and retiree health benefits to determine the appropriate level of contribution by all parties.**

**Take Home Vehicles**

The City provides vehicles for approximately 30 employees to drive to and from work and respond to calls when off duty. The estimated annual cost in FY 2010/11 was \$200,348, excluding fuel consumption costs. The City has not calculated the actual mileage driven for commuting purposes, nor for call-outs. If an average of 25 miles per day were assumed for commuting purposes, it would mean 750 miles per day for

the 30 individuals with take-home vehicles. At 20 miles per gallon costing \$3.00 to \$4.00 per gallon, fuel would cost the City \$112 to \$150 per day. That equates to \$20,000 to \$35,000 per year in fuel charges. Actual costs could be higher if the number of miles driven or fuel costs are higher. Conservatively, this benefit costs the City \$225,000 a year.

There are no clear records on the actual number of times employees responded to calls while off duty and the provision of vehicles is largely a benefit rather than a necessity for meeting an identified business need. The City could reduce these expenses by reimbursing employees for mileage when they are called out for official City business. Doing so would eliminate the practice of paying for the cost of commuting to and from home in their City vehicles (which is not generally available to most employees) and would reduce costs associated with vehicle maintenance and replacement. Provisions for approximately 15 of these take home vehicles are included in MOUs and therefore, are subject to negotiation. For estimating purposes, if 75% of the take home vehicles were eliminated and replaced with mileage paid for call-outs, the total cost would be reduced to about \$60,000 (for a savings of at least \$165,000).

**Recommendation 20. Provide vehicles only to those individuals who are responding to City business after hours on a regular basis and to those who must have access to specialized equipment when called out.**

Require employees to pay fuel costs for commuting to and from home, not including callouts, and require individuals with vehicles to report the number of callouts monthly.

Analyze the costs and benefits of providing take home vehicles compared with mileage reimbursement.

## **Salary-Step Increases**

Traditional civil service salary schedules with an average of five or six steps in the range were developed before the onset of widespread collective bargaining and were intended to provide an opportunity to reward employees annually for their performance and for the growth of their experience and productivity as they become more effective on the job. The increases are often known as merit increases, although they are virtually automatic.

The majority of Santa Ana's salary schedules have only five or six steps. Consequently, it only takes three and a half to four years for the average Santa Ana employee to get to the top step. During this period the employee is typically awarded a step increase, plus cost of living

adjustments negotiated by their bargaining group. Because of this practice, new employees have sometimes received raises of between eight and nine percent annually in the first few years of their position. Most employees at the City are at the top of their salary range.

The executive manager (EM), mid-manager (MM) and two fire management classifications are on a 15-step salary schedule, with approximately 2.5% between each step. Employees may advance up to three steps per year based on evaluated performance. These management classifications (excluding the EM position) are scheduled to be increased to 16 steps in FY 2012/13 and to 17 steps in FY 2013/14, through the addition of steps at the top of the range. It should be noted that adding steps to the top of the range (as opposed to the bottom) has the effect of increasing the City's costs instead of decreasing them.

A 10 to 15 step range for administrative manager and non-management employees would reduce the City's costs and could spread the opportunity for performance increases over six to nine years rather than the current three and a half to four years. Such a change in the salary schedule would need to be negotiated with each of the City's bargaining units and would be considered by both sides as part of the total compensation package during negotiations.

**Recommendation 21. Implement a 10 to 15 step range to spread out merit (performance) increases over six to nine years rather than the current three and a half to four years.**

### **Market-Based Hiring**

The success of City services and the perception of the quality of those services by Santa Ana residents depend on the City's ability to attract and retain the best and most productive employees possible. Consequently, the City's compensation policy should be to offer total compensation at the level that allows the organization to attract and keep quality employees. If the City underpays, it will not be able to attract and keep employees. Conversely, if it overpays, it is spending resources on salaries and benefits that could be invested elsewhere.

The most common method used to evaluate position in the market is a survey of the total compensation for various job classifications of other comparable cities. This provides a benchmark of Santa Ana's total compensation compared with the public sector market. Using market-based hiring, if there is high turnover in a particular classification (i.e.,

greater than 10%) and there are very few qualified applicants when the City recruits, the City should consider increasing the salary range for the classification. Conversely, if turnover is low and there are large numbers of qualified applicants during recruitment, the City should consider lowering the salary range. However, this is not common practice in the public sector, primarily because it is common for salary range limits to be incorporated into negotiated labor agreements, which limits management's ability to adjust salaries commensurate with market changes.

**Recommendation 22. Conduct an analysis of recruitments completed during the past five years to ascertain positions for which large numbers of qualified applicants apply and reduce entry-level compensation for these positions.**

### ***Fire Department Cost Savings***

Significantly reducing Fire Department costs requires changes to staffing models, as well as the compensation items noted in the Financial Analysis section above. The department recently changed staffing in one area by eliminating a fully-staffed hazardous materials response (hazmat) unit, making hazmat duties collateral with other assignments.

Other methods of reducing costs that could be considered include civilianizing positions that do not require sworn firefighters to do the work, closing stations, "browning out" stations when there are not enough personnel on duty to staff the stations without overtime, reducing the number of trucks, or changing the emergency medical services delivery model.

Before discussing the specifics of service delivery in Santa Ana, some background on fire staffing industry concepts is helpful. In general fire departments are designed to respond to two primary types of incidents, fires and emergency medical conditions. In both types of incidents the speed of response and the ability to perform critical tasks once on scene are critical parameters. Both the necessary speed of response and the ability to perform critical tasks once on scene have been extensively studied, and have led to the development of industry standards aimed at providing for an effective and safe response.

In developing targets for response time researchers have primarily modeled fire behavior in structures and cardiac survival rates. With respect to fires, the industry generally tries to provide an effective

response before a fire reaches a critical “flashover” point. Once this point is reached combustible materials simultaneously ignite, safe rescue is problematic, the fire is much more difficult to extinguish and structural failure can occur. While there are many variables, it is typically estimated that flashover can occur within 6.5 to 10 minutes of ignition. To prevent this from occurring firefighters must take action such as “fast attack” with portable extinguishers, venting and accomplish search and rescue during this time. In order to provide time for this intervention most fire departments try to design response so that initial responders are on site within four minutes 80% to 90% of the time.

Staffing a fire requires that responders be able to safely accomplish the tasks aimed at life safety, preventing “flashover” or if necessary preventing a full structure fire from spreading to other structures. OSHA requires that except in exigent circumstances involving safeguarding a life, two people should be available to rescue a two-person crew inside a burning structure, which means a four-person initial response to a structure fire is usually a service delivery design consideration. Extensive research has been done with regard to three-, four- and five-person engine staffing configurations. This has led to conclusions that having more staffing results in faster accomplishment of performance objectives and that additional staffing is most useful in dense higher risk occupancies (like multi-story apartments) and less pronounced for less dense single family occupancies. Effective response to full structure fires (which are a small subset of all fire calls) requires even more staffing, which is typically estimated at between 12 and 15 people.

With respect to emergency medical call response timing, cardiac arrest survivability has been extensively studied. For example, research in King County, Washington (Seattle) determined that if a cardiac arrest patient obtained a BLS (basic life safety CPR and defibrillation) response in four minutes and an ALS (advanced life support drugs and telemetry to a hospital) response in another four minutes, the patient had a 43% survival rate. However if the BLS/ALS response times were doubled the survival rate was just 6%. Based on this analysis fire department responses often use the same “four minute” rule with respect to EMS and fire responses.

To address staffing levels the National Fire Protection Association (NFPA) drafted guidelines for fire/rescue service delivery for career fire departments. The title is *Standard for the Organization and Deployment of Fire Suppression Operations, Emergency Medical Operations and Special Operations to the Public by Career Fire Departments* (2001 Edition). The

standard is commonly known as NFPA 1710, and it has dominated debate about staffing levels since its adoption. The facts about NFPA 1710 with respect to fire apparatus staffing are as follows:

1. All the standards are recommended guidelines not law
2. Travel times should be four minutes or less 90%percent of the time for fire calls and for delivery of BLS services on emergency medical calls
3. Initial fire staffing should be four firefighters
4. An ALS response should include two paramedics and two EMTs
5. An initial structure fire response is defined as 12 to 15 people

NFPA 1710 does not specify that all responders arrive on the same engine apparatus and specifically recognizes that there are various ways to achieve satisfactory response. For example, the City of Sunnyvale uses a system in which two firefighters respond with an engine and are met by two other public safety officers assigned to police patrol, but also trained as firefighters. Similarly NFPA 1710 does not specify minimum departmental staffing levels or specify that staffing levels cannot vary based on workload or other factors.

Current budget realities are requiring more active management of these expensive resources and determination of staffing levels based on variations in workload and demand.

### **Minimum Staffing**

The FBA MOU requires a specific number of personnel to be on duty on a 24 hour, 7 day a week basis. This means that staffing is not based on actual workload, but rather is based on assumptions regarding staffing needs for a response to particular types of incidents, irrespective of the frequency of such incidents.

Analysis of responses in 2010 by unit shows there are times when the costs of full staffing may not be justified by the benefits derived. For instance, from midnight to 9 a.m., there are, on average, less than two calls per hour for the entire City. Additionally, there is great variation in the number of responses by fully staffed unit. Engine 9 had only 977 responses in 2010 while Engine 5 had 2,285 responses. Truck 4 had only 340 responses and Truck 5 had 994 responses in 2010.

Fire and building codes have successfully reduced fires throughout the state and nation, reducing demand for firefighting. The staffing model has largely remained the same, however, at a high cost not matched to workload. To be able to provide services efficiently and effectively based

on community needs, local governments will need the flexibility to raise and lower staffing based on demand. Currently, the City of Santa Ana’s policymakers do not have the authority to match staffing to workload, since staffing in the Fire Department has been placed in the MOU, requiring any change to be agreed to by the union.

Management Partners believes that consideration should be given to eliminating the current fixed staffing model. This analysis and a recommendation are discussed below.

### Current Levels, Requirements, and Workloads

Before the current Santa Ana Fire memorandum of understanding, the total daily staffing requirement level was at 66. Under the current MOU, the daily staffing requirement is 63. After the current MOU expires (June 30, 2012), the minimum daily staffing requirement will be 64.

The MOU also required that in 2007/08 when suppression staffing declined to a level of 198 permanent employees, the City would hire to a staffing level of 204 permanent employees. For 2010/12, this provision was changed so that when the suppression staff drops to 189 or less, the City may hire additional staff but no more than a total staffing level of 195. For 2012/14, if staffing drops to 192 or less, the City may hire up to 198.

Table 15 shows the annual responses for 2010 by unit.

Table 15. Annual Response Report for 2010 by Unit

Unit	Responses	Unit	Responses	Unit	Responses
Engine 5	2,285	Truck 5	994	SAM 5	3,360
Engine 1	2,227	Truck 6	567	SAM 1	3,226
Engine 3	1,964	Squad 1	481	SAM 4	2,759
Engine 8	1,931	Truck 1	479	SAM 3	2,399
Engine 7	1,742	Truck 4	340	SAM 7	2,287
Engine 4	1,440	HazMat	185	SAM 8	1,932
Engine 10	1,436	SATP	299	SAM 31	42
Engine 2	1,418	Air/Light	8	SAPIO	93
Engine 6	1,316	B/C 1	325		
Engine 9	977	B/C 2	3		

Table 16 shows the calls for service by hour of the day for a four-month period. This table provides a perspective on the variation of call volume by time of day.

The lowest call volume is between the hours of 3 a.m. and 6 a.m. where there is less than one call per hour on average on a citywide basis. The average on an hourly basis per day is 1.84 calls. The highest number of calls on a citywide basis is between 6 p.m. to 7 p.m., with 2.88 calls during that period on a citywide basis. From midnight to 9 a.m. there are less than two calls per hour for the entire city.

*Table 16. Calls for Service by Hour of the Day (January 1, 2011 through April 30, 2011)*

Hour of the day	Total Calls for Service	Average daily calls
00:00-00:59	144	1.20
01:00-01:59	143	1.19
02:00-02:59	129	1.08
03:00-03:59	105	0.88
04:00-04:59	99	0.83
05:00-05:59	102	0.85
06:00-06:59	156	1.30
07:00-07:59	201	1.68
08:00-08:59	237	1.98
09:00-09:59	323	2.69
10:00-10:59	282	2.35
11:00-11:59	311	2.59
12:00-12:59	257	2.14
13:00-13:59	309	2.58
14:00-14:59	301	2.51
15:00-15:59	258	2.15
16:00-16:59	295	2.46
17:00-17:59	239	1.99
18:00-18:59	345	2.88
19:00-19:59	236	1.97
20:00-20:59	207	1.73
21:00-21:59	240	2.00
22:00-22:59	201	1.68
23:00-23:59	166	1.38
<b>TOTAL*</b>	<b>5,286</b>	<b>1.84</b>

\*Total calls do not include 1,245 CFS that were not categorized by time of day.

Although the data in Tables 15 and 16 indicate times or units with lower workloads and indicate potential savings, further analysis is needed to determine how to accomplish those savings.

### *Staffing Alternatives*

There are several methods of reducing fire costs and all involve changes to the staffing levels. These methods include:

- Changing staffing levels on apparatus;
- Station closures (temporary or permanent) based on call volume;
- Reduction in number of trucks or other apparatus (and associated staffing) based on low call volume; or
- Changes in the EMS delivery model.

One approach is to reduce the regular staffing on fire engines. Santa Ana is staffing engines with a crew of four, trucks with three, and medic units with two. Fire departments are moving to more flexible staffing models and many are using three-person crews for engines and trucks. Changes in EMS delivery models also provide savings (see discussion below). Palo Alto, Fremont and Milpitas are three examples of cities using three-person crews. San Jose is reducing the crews on trucks and implementing flexible brown-outs. Sunnyvale uses what they call a “public safety” model of combined police and fire. They staff apparatus with two-person crews and augment the staffing with public safety personnel assigned to police when there are fires or other emergencies requiring larger crews.

Management Partners recommends that the City have the flexibility to make decisions to not back-fill a vacancy (e.g., “soft” staffing for vacation or other leave) with overtime based on the workload.

**Recommendation 23. Initiate negotiations with the Fire Benevolent Association to enable the City to make policy level decisions to match staffing to workload.**

**Recommendation 24. Eliminate automatic overtime to maintain any staffing level not determined by the City to be required.**

Closing stations is another option for matching workload to staffing and to reduce costs. Some stations are closed permanently and others are closed for a period of time, reflecting low call volume. Temporary closures are sometimes referred to as “brown-outs.”

Similarly, truck companies can be eliminated to save costs when call volume is low. The apparatus are still available for use by fire personnel when there is a fire or other emergency need requiring a ladder truck.

Given that there are times of the day when calls for service drop below one per hour for the entire City, and that demand varies by station, station brown-outs can be made to coincide with low periods of service demand. Several cities are considering or have implemented rolling brown-outs and close stations on a rotating basis, including:

- Philadelphia
- Boston
- Los Angeles
- Palo Alto
- San Diego

Another form of brown-outs is the use of “soft” staffing. Soft staffing is used in temporary situations by not fully staffing an apparatus when a firefighter is on leave. For example, in a station with an engine and a truck, a firefighter on leave would not be back-filled filled with overtime.

**Recommendation 25. Develop and implement a flexible brown-out schedule for engine and truck companies that matches staffing to workload demand rather than the existing constant staffing model.**

### **Alternative Emergency Medical Service Delivery Model**

Different models of emergency medical service delivery that work well in other cities would save money for the City. For instance, the City of Huntington Beach hires hourly contract emergency medical technicians (EMTs) to staff rescue ambulances and provides advanced life support through paramedic engine companies.

A recent analysis conducted by Management Partners for the City of Glendale indicated that switching from paramedic-driven ambulances to hourly EMTs and converting engine companies to four-person paramedic engines would improve ALS coverage throughout the City, and save between \$2 million and \$2.5 million per year through the reduction of 21 sworn firefighter positions.

Glendale responded to over 13,000 EMS calls for service in 2010, which is the same as Santa Ana’s budget estimate of 13,000 for 2010/11. The basic concept behind the service delivery modification for Glendale was to respond to emergency medical services calls with fire engine companies

staffed with at least two certified paramedics (a total of four sworn staff), instead of an engine and rescue ambulance staffed with a total of six sworn personnel. Rather than being staffed with paramedics, the City's rescue ambulances would be staffed with non-sworn emergency medical technicians to provide basic life support and transport services.

Changing to this model would likely save Santa Ana approximately \$3.5 to \$4 million a year through the reduction of approximately 30 firefighter positions.

In addition, most other municipal fire departments in Orange County as well as the Orange County Fire Authority, use private companies to provide ambulance transport. Other than the City of Orange, which recently embarked on an RFP process to privatize ambulance transport services, only Santa Ana and Huntington Beach provide this service directly. Santa Ana could determine whether this option provides further cost savings by initiating an RFP process for ambulance transport.

**Recommendation 26. Change the emergency medical service delivery system to use non-sworn EMTs or a private ambulance company rather than sworn personnel for basic life support and transport services.** Develop a business plan for implementation.

### **Consolidated Fire Dispatch**

Years ago, fire dispatch services were provided by individual cities and their fire departments. With technology advancements, many cities have consolidated dispatch services by forming joint powers authorities or contracting with regional dispatch services. Fire dispatch (like a call taking function) is particularly subject to economies of scale, where larger operations are more cost efficient than small. There are many examples of large fire dispatch operations that operate efficiently, two of which are in Orange County. One is the Orange County Fire Authority (OCFA) and the other is MetroNet (Metro Cities Fire Authority). Santa Ana could be served by either one of those, or by the Santa Ana Police Department. These alternatives are described below.

MetroNet serves seven cities: Anaheim, Fountain Valley, Fullerton, Garden Grove, Huntington Beach, Newport Beach, and Orange. OCFA provides dispatch and full fire services to 22 cities and unincorporated areas of the county. MetroNet charges member cities based on the ratio of calls for service (excluding duplicate calls and non-response calls). OCFA provides full fire department services and dispatch is included in the

costs. MetroNet and OCFA dispatch cost per call for service (CFS) are similar.

Table 17 shows the comparison between their calls for service and Santa Ana's.

*Table 17. Comparison of Cost per Call For Service*

Fire Dispatch	CFS	Expenditures	Cost per CFS
Santa Ana	17,678	\$1,485,785	\$84.05
MetroNet	84,483	\$4,587,049	\$54.30
OCFA	83,441	\$4,314,869	\$51.71

Table 18 below shows the cost savings for Santa Ana using the CFS rates for OCFA, MetroNet and the average of the two. These three examples show that Santa Ana would pay the other agencies over \$900,000 per year and would save over \$500,000 per year. First-year savings would be reduced by any technology changes required. These estimates also assume that MetroNet and OCFA could absorb the added CFS within the estimated costs for Santa Ana.

*Table 18. Savings for Santa Ana at MetroNet and OCFA Rates*

	Santa Ana CFS	Cost per CFS	Estimated Cost	Savings
OCFA	17,678	\$51.71	\$914,129	\$571,656
MetroNet	17,678	\$54.30	\$959,915	\$525,870
<b>Average</b>	17,678	\$53.00	\$936,934	\$548,851

The third alternative is to combine Santa Ana fire dispatch with Santa Ana police dispatch. Fire dispatch currently operates a 24/7 schedule, but if relocated to police dispatch the coverage could be reduced with police dispatchers handling calls during late night hours. Savings would also come from reductions in supervisory and some dispatcher staffing. Fire management of dispatch has other functions assigned and could not be reduced. Reducing three or four FTEs from fire dispatch and having police dispatch handle fire calls during slow periods would save from \$375,000 to \$500,000. First-year transition costs were estimated in December 2009 by the Fire Department at about \$400,000 for technology and \$105,000 for training.

Whether combining fire dispatch with police dispatch could approach the potential 35% savings of MetroNet or OCFA would require a more detailed analysis. Combining fire dispatch with police dispatch or contracting with MetroNet or OCFA will produce savings for the City. First year savings may require technology transition costs, but overall, savings of from a conservative estimate of \$350,000 to an optimistic \$500,000 annually could be realized, with some transition costs required in the first year.

**Recommendation 27. Obtain proposals from MetroNet and OCFA for fire dispatch services, including any technology costs and evaluate the costs and benefits of the proposals compared with moving to the Santa Ana Police Department dispatch.**

### **Civilianization**

Some of the work currently performed by staff captains could be performed by non-sworn personnel at a lower cost. For example, one staff captain is responsible for EMS training requirements at an annual cost of approximately \$204,000, not including overtime. This function is sometimes performed by civilian nurse educators in other agencies.

Two staff captains are assigned to facilities and equipment maintenance of at an annual cost of approximately \$408,000, not including overtime. Some functions of the administrative staff captain also could be performed by non-sworn personnel, such as grants management, project coordination and public outreach.

Management Partners compared current costs for staff captain functions with comparable civilian job classifications provided by the City's Personnel Services Department. Table 19 shows a comparison of costs associated with sworn and civilian positions for each staff captain function.

Table 19. Comparison of Costs Between Staff Captain and Civilian Positions

Function	Sworn Classification	Total Cost <sup>1</sup>	Civilian Classification	Total Cost	Cost Differential
Administration	Captain	\$208,000	Principal Management Analyst	\$149,082	\$58,918
EMS Training	Captain	\$208,000	Fire Training Coordinator	\$121,313	\$86,687
Facilities Maintenance	Captain	\$208,000	Sr. Management Analyst	\$129,672	\$78,328
Equipment Maintenance	Captain	\$208,000	Fleet Equipment Supervisor	\$132,008	\$75,992
<b>Total</b>		<b>\$832,000</b>		<b>\$532,075</b>	<b>\$299,925</b>

<sup>1</sup>Amounts do not include overtime costs

Table 19 shows that by civilianizing the administrative, EMS training, facilities maintenance and equipment maintenance staff captain positions, the City would save at least \$300,000, in the form of reduced salary and premium pay, not to mention costs associated with overtime.

One of the benefits of having sworn personnel in staff captain positions is to provide training in the administrative areas of a fire department. The need to provide training for promotional purposes into management positions is an important one, but is one that can be met through other, less expensive means. Although this report does not address management training and development, Management Partners recognizes the need for management training for all City personnel, including those in the Fire Department, and suggests that training be provided by the City to meet current and future staff development needs.

**Recommendation 28. Convert four staff captain positions into non-sworn positions and return sworn personnel from these positions to emergency response operations.**

### Information Technology Contract

The Fire Department has contracted with an outside vendor for IT services since 2006. The current annual cost is \$192,000. Since these ongoing services are needed, it would be less expensive to use a civilian employee. Annual savings of about \$45,000 could be expected by bringing this position in house. For efficiency purposes, the staff person should be part of a centralized IT operation within the City, even if dedicated full-time to the Fire Department.

According to the contract, the consultant provides network and desktop maintenance and support, application software development, and is available 24 hours a day, 365 days per year for critical call service issues. The annual contract cost for services in FY 2010/11 is \$192,000. Additionally, the service contract stipulates a 5% annual cost increase.

Santa Ana has estimated the cost that the City would incur if the Fire Department replaced the IT consulting agreement with a permanent City employee. Table 20 below compares costs between a City employee (at both the systems support analyst and systems administrator levels), compared with continuing the current consulting agreement.

Table 20. IT Support Cost Comparisons

Support	Annual Cost
Systems Support Analyst	\$107,265 to 138,252
Systems Administrator	\$84,130 to \$107,265
Consulting Agreement	\$192,000

The above estimated costs for in-house IT support is strictly an annual cost and does not include future PERS costs or future retiree medical costs that the City would incur.

**Recommendation 29. Examine existing IT staff within the City to determine whether capacity and skill exist to perform the work now being done by a private contractor. If it is determined that capacity does not exist, create a position and bring it in house.**

### Regionalization and Service Sharing

Fire departments across the country are moving towards a regionalized approach to providing fire protection and emergency medical services to reduce costs to individual cities and to improve fire service delivery. The Orange County Fire Authority (OCFA) is a local example of a regional fire service covering 22 cities plus unincorporated county areas. Regionalization can be accomplished through contracts for service (e.g., contracting with a county fire department) or by a joint powers authority. As a local example, the Orange County Fire Authority recently developed a proposal to provide fire and emergency services for the City of Costa Mesa. The three options proposed would save Costa Mesa from \$2.1 million to \$3.7 million annually.

Regionalization can range from complete consolidation of fire departments to service sharing of one or more functions. Under a service sharing model, typically one city provides the services to others on a contractual basis.

Examples of service sharing opportunities between fire departments include fire dispatch, training, specialized response units (such as urban search and rescue and hazmat), and equipment use. Through regionalization, fire stations that may be near stations in other communities can be eliminated, along with their associated staffing and facility costs. Other benefits of regionalization and service sharing include:

- Responses are coordinated across city lines including back-up for those responses.
- Support functions such as dispatch and communications are coordinated. This eliminates duplication, increases efficiency, and saves money.
- Joint purchasing leads to savings. Firefighters use the same protective clothing for larger purchase orders and quantity discounts
- Specialized fire fighting and rescue teams, vehicles, and equipment are shared. No single community can afford to keep enough firefighters on hand to respond to every specialized emergency. Urban search and rescue (USAR) and Hazmat vehicles and equipment can be shared rather than each city having its own.
- Non-emergency resources such as training facilities, health centers, and other support systems can be shared to reduce expense and standardize programs.
- Stations and equipment can be consolidated. Stations can be located more strategically instead of being redundant, e.g. stations within a mile of each other in adjacent cities can be relocated or browned-out.
- Training and other specialized facilities and equipment can be centralized and shared.
- Web-based video conference training can be shared. For example, the Rancho Santa Fe Fire Protection District based in San Diego County operates a multi-jurisdictional interactive video training system developed by the Tandberg Company that connects 61 different locations. This also enables staff to remain in their stations for the training.

- Entry-level firefighter examinations can be consolidated. This reduces recruitment and selection costs.

Mutual aid and automatic aid agreements throughout the county now provide a solid foundation for a regional approach to fire service delivery. The existing relationships between fire agencies can be expanded to achieve significant economies of scale in management, administration, training, and all aspects of operations. The Orange County Fire Authority could be the vehicle to accomplish expanded regionalization, or there could be sub-regional fire agencies created by consolidating several existing departments.

**Recommendation 30. Initiate discussions with Orange County Fire Authority and other fire departments in the area about a regionalized approach.** If successful, this could create economies of scale by eliminating redundant programs and costs.

### ***Police Department Cost Savings***

To substantially reduce costs in the Police Department, the City will need to reduce staffing as well as negotiate reductions in compensation. Other options are to outsource animal services, regionalize specialized police services, and pursue full cost recovery of fees for services to outside agencies. The Police Department does not have a “constant staffing” model like the Fire Department. Rather, staffing is determined based on workload and available resources.

#### **Animal Control**

The County of Orange provides animal control services to 17 cities as well as unincorporated county areas, and provides shelter services to Santa Ana. There have been discussions with the county about expanding services to include field and licensing services, resulting in a formal cost estimate dated July 14, 2010.

Management Partners analyzed the cost estimate as well as current City costs for animal control services. Table 21 summarizes the results of this analysis.

Table 21. Comparison of City Animal Control Costs with County Cost Estimate

	City Revenues and Costs <sup>1</sup>	Orange County Estimate <sup>2</sup>
<b>Dog Licensing Revenues</b>	\$657,925	\$679,807
<b>Costs for Field Services and Licensing</b>	\$640,721	\$998,328
<b>Supervision Costs</b>	\$88,713	
<b>Patrol Response Costs</b>	\$122,125	
<b>Canvassing Contractor Costs</b>	\$64,070	
<b>City and Department Overhead (11.7%)</b>	\$107,129	
<b>Costs for Shelter Services</b>	\$697,341	\$697,341
<b>Total Costs</b>	\$1,720,099	\$1,695,669
<b>Net Costs for Services</b>	<b>\$1,062,174</b>	<b>\$1,015,862</b>

<sup>1</sup>Based on FY 2009-2010 actual revenues and expenditures

<sup>2</sup>Dog licensing revenues include impound fees but do not include revenues from quarantine services, barking dog investigations or business inspections. Costs include a full-time canvasser dedicated to Santa Ana.

Our review of the cost estimate and current City costs indicates that contracting with Orange County for these services would result in annual savings of at least \$50,000 per year, and possibly higher due to the county's greater ability to capture licensing and associated revenues. The county's cost estimate includes a full-time licensing canvasser dedicated to Santa Ana.

The City of Anaheim, which contracts with Orange County for animal control and has a population similar to Santa Ana, has a 45% licensing compliance rate, compared to Santa Ana's 12%. The county's licensing efforts generate more than \$1.1 million per year for Anaheim to offset their animal control costs.

More importantly, contracting with the county would relieve patrol officers of having to respond to animal-related calls for service when the City's animal control staff are off duty (i.e., on Saturdays and graveyard shifts). Patrol officers responded to more than 1,700 animal calls for service during calendar year 2010. Assuming each call lasts about one hour, this equates to about one FTE position that could be responding to higher priority emergency calls.

**Recommendation 31. Contract with the County of Orange for all animal control services.** Develop a detailed implementation plan.

## Background Investigations

The Police Department conducts background investigations each year for civilian employees, dispatchers and police officers. The number of background investigations varies, ranging from 108 to 155 in fiscal years 2007/08 through 2009/10. In the first 10 months of FY 2010/11, 43 investigations had been performed.

The cost per background investigation has varied significantly over the past three years, depending on the number of personnel assigned, from a low of \$2,631 in FY 2010/11 to a high of \$10,418 in FY 2008/09. Currently, one full-time correctional supervisor and two part-time retired police officers are performing the background investigations, which is a reduction in staffing from prior years.

Costs for conducting background investigations using in-house staff from FY 2008/09 through the first 10 months of FY 2010/11 are shown in Table 22 below.

Table 22. Background Investigation Costs, Using In-House Staff

Fiscal Year	Assignment Title	Total Comp	Number of Background Investigations	In-House Cost per Background Investigation	Total In-House Cost
<b>2010-2011</b> <b>(July-Apr)</b>	Correctional Supervisor	\$98,443.05	43	\$2,631	\$113,137
	Retired Officer	\$8,928.77			
	Retired Officer	\$5,765.32			
<b>2009-2010</b>	Correctional Supervisor	\$131,691.06	108	\$3,448	\$372,344
	Police Officer	\$84,723.30			
	Police Officer	\$155,929.75			
<b>2008-2009</b>	Correctional Supervisor	\$120,592.05	155	\$10,418	\$1,614,842
	Police Officer	\$168,923.28			
	Correctional Supervisor	\$120,066.38			
	Police Officer	\$180,021.03			
	Police Officer	\$166,875.24			
	Police Officer	\$176,191.73			
	Police Officer	\$188,251.99			
	Police Officer	\$150,646.74			
	Police Officer	\$160,734.00			
	Police Officer	\$182,539.82			
<b>2007-2008</b>	Police Officer	\$246,064.06	117	\$3,904	\$456,748
	Police Officer	\$210,684.42			

RCS Investigations, a private background investigation company, also performs work as needed. This company charges \$1,500 per police officer background investigation, \$1,250 for dispatcher investigations and \$950 for civilian-titled background investigations. Even compared to the lowest cost of \$2,631, the cost per background check with the outside vendor is lower, although in-house assistance is still needed for access to the National Criminal Instant Background Check System (NCIS). However, if retired police officers were to conduct the investigations without a full-time staff person assigned, costs between conducting background investigations in-house and using a private vendor may be more comparable. By using retired police officers on a part-time basis, by using a private contractor, or by using a combination of the two and assigning the function to an existing supervisor as a collateral duty, the City would save at least \$130,000 a year (which is the approximate cost of a Correctional Supervisor).

Management Partners compared the City’s total cost for conducting background investigations in-house as shown above compared with hiring a contractor. Management Partners used the highest cost per background investigation (\$1,500) to calculate total contractor costs, as shown in Table 23 below.

*Table 23. Background Investigation Costs, Using Vendor*

Fiscal Year	Number of Background Investigations	Total In-House Cost	Total Contractor Cost
2010-2011	43	\$113,137	\$64,500
2009-2010	108	\$372,344	\$162,000
2008-2009	155	\$1,614,842	\$232,500
2007-2008	117	\$456,748	\$175,500
<b>Total</b>		<b>\$2,557,071</b>	<b>\$634,500</b>

Over the past four fiscal years, Santa Ana could have saved over \$1.9 million by contracting background investigations, rather than using in-house staff.

**Recommendation 32. Conduct all background investigations using private vendors or retired police officers and eliminate all full-time staffing for background investigations.** Assign supervision of the function to an existing supervisor as a collateral duty.

## **Sharing of Public Safety Administrative Services**

Deputy chiefs, staff captains and an accounting assistant in the Fire Department have had to assume a variety of analytical, budget, internal human resources and other administrative functions as non-sworn staffing has been reduced. To further improve efficiency and effectiveness and to provide capacity for handling the administrative services within the Fire Department, the City may consider establishing a “public safety administration” division within the Police Department and expanding the responsibilities for personnel performing administrative functions to include those for the Fire Department.

**Recommendation 33. Analyze the feasibility and potential cost savings of consolidating fire and police administrative functions related to budget, accounting and internal human resources under a singular Public Safety Administration Division within the Police Department.**

## **Civilianization of Police Training**

Training is an important function within the Police Department. It is currently carried out by sworn personnel. Significant savings could occur by using retired police officers on a part-time basis to conduct training programs and eliminating four full time sworn positions from this function. Santa Ana could save an estimated \$475,000 annually through this change if the four-full time positions were eliminated.

**Recommendation 34. Utilize retired police officers as trainers and eliminate full-time sworn personnel from this operation.**

## **Regionalization of Specialized Police Services**

The Santa Ana Police Department has already regionalized its helicopter and narcotics units and both are working effectively for the City. Other opportunities for regionalization exist, including the following.

### **Strike Force**

Santa Ana has a special weapons and tactics (SWAT) unit with highly-trained part-time and full-time members performing specialized services. The Strike Force is equipped with specialized firearms and equipment. Its specialized role makes training essential.

Ongoing training is essential for the members of these units given that the skills needed are perishable and the potential liability facing cities from actions taken by police departments, and particularly SWAT units. The Strike Force is staffed with a total of ten full-time officers.

- 1 Sergeant
- 2 Corporals
- 7 Operators

The Santa Ana Police Department estimates that about 25% of the Strike Force team’s duty time is dedicated to training (which includes the ten hours of tactical training that each Strike Force detective receives each week).

The team’s duties include tactical operations (hostage rescue, barricaded suspects, high-risk search warrants, civil unrest); career criminal and violent offender suppression; dignitary protections; and gang and narcotics enforcement.

Workload measures for the Strike Force are summarized in Table 24 below by calendar year.

*Table 24. Strike Force Workload Measures*

	2007	2008	2009	2010	2011 (1st Qtr)
Arrest - Felony	676	511	429	589	160
Arrest - Misdemeanor	321	319	319	564	131
Parole Arrests	222	155	152	172	54
Probation Arrests	Not Recorded	Not Recorded	Not Recorded	60	35
Gang Arrests	Not Recorded	Not Recorded	Not Recorded	317 May-Dec	118
Weapons Seized - Firearms	46	31	33	8	7
Weapons Seized - Other	8	7	8	43	9
Narcotics Seized	2,056 grams	656 grams	3,152 grams	894 grams	1,651 grams 800 plants
Tactical Deployments	Not Recorded	40	30	46	27

*Source: Santa Ana Police Department*

The Police Department estimates the annual costs at \$1.74 million for salaries, benefits and vehicles. Orange County is home to several sub-regional SWAT teams. A partnership model, such as Santa Ana has for narcotics enforcement, could save the City significant dollars. Savings would come from reducing the number of Santa Ana personnel assigned

to the operation, creating economies of scale, and reducing the number of Santa Ana officers requiring ongoing SWAT training. By doing this, the Police Department can maintain this important service but reduce the costs of providing it. An analysis of SWAT costs in Glendale, Burbank and Pasadena indicated those cities will conservatively save \$700,000 to \$1 million a year between the three cities by creating a combined tri-cities SWAT team.

Because SWAT teams are expensive to create and maintain, while the incidents they respond to are infrequent and unscheduled, finding a balance between maintaining officer productivity and SWAT capacity is a challenge. Regionalization of this important police expertise and capacity would reduce costs through being able to reduce the number of officers assigned in Santa Ana and the participating cities. Advantages of a regionalized SWAT team would include the following.

*Training.* Significant time now spent on training would be saved that could be allocated to other police assignments. By having fewer total members of the Santa Ana Police Department dedicated to SWAT, there would be significant savings in time now spent on training that could be allocated to other police assignments.

*Expanded Workload Capacity.* The City would benefit from one large SWAT team by eliminating their current individual SWAT teams. This would allow some SWAT officers to return to other duties within the Police Department on a full-time basis and not be required to maintain the high level of training required. Thus, it would free capacity for other workload.

*Reduced Costs for Supplies.* One regional SWAT team would reduce the number of weapons, ammunition, and equipment needed by each police agency.

*Shared Expertise.* Tactics and expertise would be shared between agencies more than currently exists.

*Improved Effectiveness at Large Incidents.* Major critical incidents that require large numbers of personnel and equipment could be handled better and more efficiently by a large SWAT team.

Several factors should be considered in forming a regional SWAT team.

*Level of Need.* Some cities may have a greater need for a tactical team than others, due to higher calls for service and gang population. As a result, these cities might spend a

disproportionate share of its time and resources in other cities. Over time costs could be shared based on time allocated in each jurisdiction.

*Variance in Tactics.* SWAT tactics vary from agency to agency. Defining one set of tactics that all departments agree to would be necessary. Many regional SWAT teams have solved this challenge.

*Differing Community Standards.* Communities often help define the methods and tactics used by the local SWAT team. Santa Ana and its neighboring cities are different from each other and such differences may influence SWAT approaches. Again, joint standards will have to be developed to meet this challenge.

*Limits to Flexibility.* There is at least a perception that stand-alone SWAT teams tend to be more flexible than regional teams.

**Recommendation 35. Ascertain interest by other police departments in creating a regional SWAT operation to share economies of scale with other agencies and reduce total costs.** Create a business plan to implement a regional team if sufficient regional interest exists.

## Other Specialized Services

There are a variety of specialized services which lend themselves to regionalization because of the level of expertise and specialization required. Particularly in times of severe budget constraints, as is the case in Santa Ana, looking for ways to provide these specialized services at lower cost is prudent. Creating efficiencies through service sharing with other police agencies can help free up resources for other core police functions.

Examples of specialized services that could be shared and/or consolidated, resulting in cost savings and increased efficiency to Santa Ana and the participating agencies include:

- Computer forensics
- Identity theft investigations
- Fraud investigations
- Crime analysis
- Arson investigations
- Officer involved shootings

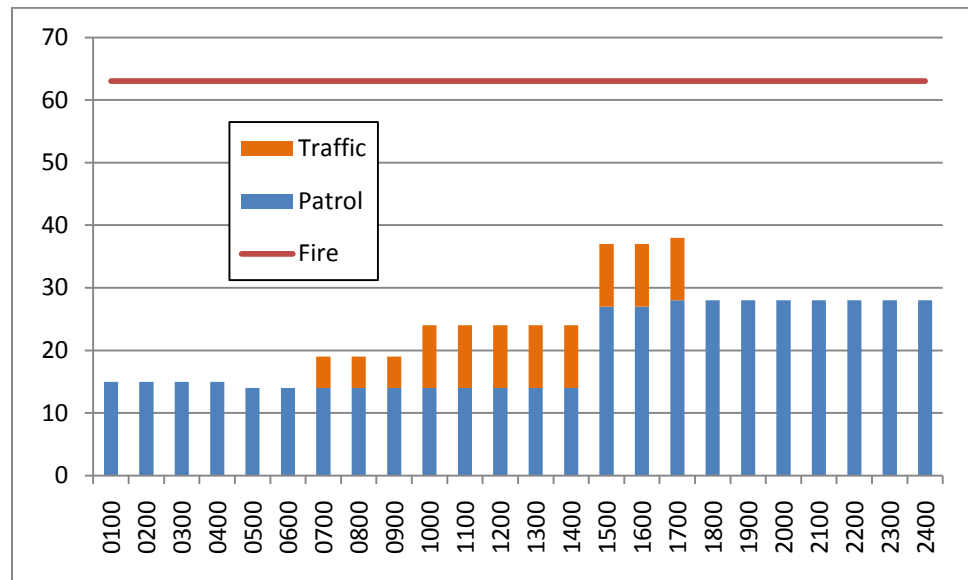
**Recommendation 36. Ascertain the interest by other police departments in creating regional models for delivering specialized services.**

***Comparison of Police and Fire Staffing Levels***

During initial interviews for this study, Management Partners heard questions and concerns about the differences between staffing levels in police and fire. The concern was that there are far fewer police officers available to respond to calls at any given time than firefighters, even though demand for both police and fire varies. The approach to staffing is quite different between police and fire which drives staffing levels and is not directly comparable. The FBA requires minimum staffing levels, which is not the case in the MOU with the POA.

Police departments staff at a base level and then add staff for times when demand for services increases. Santa Ana does this in the Police Department by assigning more staff during hours with greater need. In order to illustrate the differences in staffing, Wednesday was selected by the Police Department as a sample day. As can be seen in Figure 25, on-duty police staffing is lower throughout the day than is fire staffing. Police staffing varies by time of day while fire staffing remains constant throughout the day, regardless of variations in call volume. Fire staffing includes captains, engineers, and firefighters according to the current minimum staffing requirement of the MOU. Police staffing is for patrol and traffic.

Figure 25. Comparison of Daily Police and Fire Staffing Levels<sup>1</sup> by Hour of the Day (Wednesdays)



<sup>1</sup>Minimum fire staffing was 63 on-duty personnel through June 30, 2012 and increased to 64 effective July 1, 2011.

In conclusion, police and fire staffing varies based on different demands and staffing approaches. The services provided are quite different and are not directly comparable.

### Non-Safety Departments

The City of Santa Ana has made significant changes in staffing levels and service delivery models in non-safety departments. For example, park maintenance and graffiti removal have been outsourced, and the library has been merged with parks and recreation. Additional opportunities remain to achieve cost reductions through outsourcing and consolidation of departments or functions. This section of the report describes some of the alternatives available.

### Outsourcing and Managed Competition

Obtaining services through other public or private parties is one way to achieve economies of scale and reduce costs. Outsourcing can be combined with internal analysis and cost reductions to be competitive with outside providers. The term “managed competition” refers to the process of having city departments or divisions compete with outside service providers (contractors) for the same work.

## Managed Competition Program

Managed competition has been used by some cities for the past 15 years. This is a way to ensure that city operations are as efficient and cost-effective as other providers. If a city department can compete and provide service at a lower cost, it can win the ability to perform the work. Managed competition programs result in proposals from private companies and city employees. The programs usually have a provision that the private companies must attain a 10% to 15% savings over city employee proposals for a service to be outsourced. Other cities and the county can be included in the managed competition process.

Examples of cities with formal managed competition programs are San Diego and San Mateo, California; Charlotte, North Carolina; and Phoenix, Arizona. About 20% of San Diego County's budget is devoted to outsourced services, but from 1996 to 2006, 13 of 17 competitions for public work were awarded to County work crews. In 1995, Indianapolis conducted a managed competition for fleet maintenance and city staff won the competition with changes that saved 21% of the fleet maintenance costs.

**Recommendation 37. Develop and implement a formal managed competition framework.** Through managed competition create an opportunity for in-house services to compete with outside providers by lowering the cost structure.

## Fleet Maintenance

Santa Ana has an in-house fleet maintenance operation and outsources specialized items, such as vehicle bodywork. The City is currently evaluating its costs and practices and creating a business plan for efficient operations. The County of Orange has indicated that have availability to provide fleet maintenance services to cities and there are private firms that provide that service as well.

The Santa Ana fleet has 850 vehicles (rolling stock) and 40 miscellaneous equipment units. The adopted fleet maintenance budget for 2010/11 is \$7,408,195 plus \$2,000,000 budgeted for equipment replacement. There are several types of analyses which can identify specific ways to reduce fleet costs, including:

- Fleet Utilization Analysis – Are there surplus units in the fleet?
- Fleet Breakeven Analysis – Is it better to own, rent, or lease units?

- Fleet Replacement Analysis – When is the best time to replace a unit and how much will replacements cost each year?
- Fleet Maintenance Alternatives – Is it less expensive to outsource fleet maintenance?

### **Fleet Utilization Analysis**

Over time, municipalities inevitably acquire vehicles and equipment that are not essential to their operations, causing the fleet to expand. This “fleet creep” typically goes undetected as years pass. Many factors contribute to this, including keeping vehicles/equipment that have been replaced by newer units; adding “free” surplus equipment or grant-obtained vehicles to the fleet; and reassigning high-use units to low-use applications.

A utilization analysis identifies underutilized units and those that are not being used as intended and offers alternative methods of providing transportation and heavy equipment. By reducing the fleet, Santa Ana will achieve cost savings and benefits from both the one-time sale of surplus vehicles and savings from ongoing operating, maintenance and depreciation costs that are no longer necessary. It has been Management Partners’ experience that a utilization analysis can reduce the size of the fleet and realize savings of 10% to 15% of fleet maintenance, operations, and capital costs.

### **Fleet Breakeven Analysis**

A breakeven analysis identifies the criteria by which a city can determine whether it is more economical to own, rent, lease or reimburse employees for personal use of their vehicles. For city-owned vehicles, the analysis identifies criteria to determine whether a vehicle should be assigned to an employee, department pool, or centralized motor pool. A breakeven analysis also evaluates the need for take-home vehicles compared with reimbursing employees for use of their personal vehicles.

With annual fleet operations costs of \$7,400,000, a 10% savings would be \$740,000. The amount of savings depends on how recent the City has analyzed fleet unit usage, regularly sells underutilized units, and has an economical mix of owned, rented, and leased units.

### **Fleet Replacement Analysis**

An effective fleet replacement program has three components: 1) a replacement planning process that projects when each vehicle and piece of equipment should be replaced; 2) a financing and funding process that ensures that money is available to purchase a replacement asset when the desired replacement date is reached; and 3) procedures to identify which vehicles to actually replace each year with available resources.

Savings from a fleet replacement analysis will accrue by assuring that sufficient funds are allocated annually and units are kept for the optimum time to maximize their economic efficiency and resale value. Including a fleet replacement analysis when conducting other fleet analyses will save on consultant contract costs as much of the fleet information is required in these analyses.

**Recommendation 38. Conduct three types of analysis to ascertain specific ways to reduce costs on an on-going basis in fleet maintenance: 1) fleet utilization analysis, 2) breakeven analysis and 3) fleet replacement analysis.**

Make changes to reduce costs in the fleet and practices based on the analyses.

### **Outsourcing Fleet Maintenance**

Cities, including Santa Ana, routinely contract for specialized fleet maintenance services such as tire replacement, body work, and specialized services. As mentioned previously, the County of Orange has indicated that they are available to provide fleet maintenance services to cities. Outsourcing fleet maintenance to the County or a private firm is an option that Santa Ana could pursue.

To ascertain whether costs and service levels are competitive with either the county or outside vendors, a managed competition process could be undertaken. The suggested savings goal would be at least 15%, or approximately \$1,100,000 for Santa Ana. The portion of this amount that would reflect savings in the general fund needs to be calculated since fleet maintenance serves other funds. An estimate of 75% is being used for this report, which would mean a savings of \$825,000 to the general fund.

**Recommendation 39. Conduct a managed competition for fleet maintenance and encourage City employees to develop their own proposal.** Invite the County of Orange

and other vendors to participate to the managed competition.

### Library Services

The City of Santa Ana operates a library with two branches. Santa Ana has made recent reductions in the library by merging with the Parks and Recreation Department and reducing library administrative staffing.

The County of Orange Library System may be an option for providing library services to Santa Ana. The level of service would likely not be the same as is currently enjoyed by the Santa Ana community because there are programs being provided by the Santa Ana library that would not be provided under the County system.

Table 25 compares the Santa Ana library with the Orange County and Ventura County library systems and provides a perspective on costs and other factors.

Table 25. Comparison of Santa Ana, Orange County, and Ventura County Library Data

	Orange County Public Libraries	Ventura County Library	Santa Ana
Population served	1,551,555	441,679	324,528
Number of branches	33	13	2
Operating expense*	\$41,627,688	\$10,728,547	\$2,880,720
Hours open per week	1,694	431	87
Hours open per year**	88,062	22,412	4,524
Cost per capita	\$26.83	\$24.29	\$8.88
Cost per branch	\$1,261,445	\$825,273	\$1,440,360
Average hours per branch	51.3	33.2	43.5
Cost per hour of operation	\$473	\$479	\$637

\*Santa Ana operation costs do not include the library share of general administrative costs in the Parks and Recreation Department

\*\*Does not exclude holiday closures which would be approximately the same for all libraries

Cost per capita is typically used as a comparison and Santa Ana has a very low cost per capita (\$8.88) compared with the two county systems (\$26.83 and \$24.29). However, cost per capita is a measure of the amount of library services provided to the residents and it is not a measure of cost efficiency. Cost per branch depends on the size of the branch and the

number of hours a branch is open and is therefore not a useful comparison without extensive comparative data.

Santa Ana's main library is open 60 hours per week and the Newhope Library is open 27 hours per week. Table 25 shows the total open hours per year per library system (does not exclude holiday closures) and the cost per hour of operation.

Santa Ana's annual cost per hour of operation is \$637. Orange County's cost is \$473 and Ventura County's cost is \$479. Santa Ana's cost per hour is 34% higher than the average of the two counties. Using Orange County's cost per hour (\$473) and Santa Ana's annual hours (4,524), Santa Ana's annual cost would be about \$2,138,000 or a savings of about \$742,000. Neighboring cities such as Irvine, Costa Mesa, Garden Grove and Tustin use the Orange County system with satisfactory results.

**Recommendation 40. Request a proposal from Orange County Library for the provision of library services in Santa Ana.** Identify which current services are provided by library staff compared with recreation staff and which services could be provided under contract with Orange County.

### **Santa Ana Zoo**

Management of zoos in cities has been moving to a privatization model for many years. Cities often contract zoo management and operations with non-profit organizations. For example, the Oakland Zoo has been operated by the East Bay Zoological Society since 1982 and receives 15% of its operating budget from the City of Oakland and the East Bay Regional Park District. Capital improvement funds are typically obtained through private donations, grants and local revenue measures.

Zoos are regional attractions that lend themselves to regional funding and support. There are consulting firms that can assist cities with privatizing zoos, aquariums and museums. City staff provided information about zoo privatization. Several zoos that have recently completed privatization are:

- Dallas Zoo
- Tulsa Zoo
- Houston Zoo
- Woodland Park Zoo
- Kansas City Zoo

Two zoos that are currently in the process of privatization are:

- John Ball Zoo (Grand Rapids, Michigan)
- Los Angeles Zoo

Several other zoos considering privatization are listed below.

- Reid Park Zoo (Tucson, Arizona)
- Milwaukee County Zoo (Milwaukee, Wisconsin)
- Little Rock Zoo (Little Rock, Arkansas)
- Mesker Park Zoo (Evansville, Indiana)
- Louisville Zoo (Louisville, Kentucky)
- North Carolina Zoo (Asheboro, North Carolina)

A successful model for privatization of a City service is the Bowers Museum. In the 1980s the City created a non-profit organization to operate the Bowers Museum to manage the City's costs and to enable the museum to solicit private donations at a much higher level than had been the case as a City department. The FY 2011/12 general fund budget for the zoo is \$1,585,145 with about half that recovered through zoo admission fees. The net general fund budget for the zoo is about \$760,000. It is unknown what the savings would be by privatizing the zoo; however, a 50% savings would be about \$380,000.

**Recommendation 41. Engage a consulting firm to identify options and an appropriate process for privatizing the Santa Ana Zoo.**

### **Street Sweeping**

The City provides residential and commercial street sweeping using City crews. There are private providers who provide this service in other cities. The City could conduct a managed competition process to determine whether costs could be lowered to the point of being competitive with those of private companies. The FY 2011/12 budget for roadway cleaning is \$4,314,920 and a 15% savings through a managed competition would be about \$650,000.

City staff has analyzed the savings from outsourcing street sweeping. They estimate a three-year net savings of about \$250,000 by outsourcing the residential portion of the program. The savings would accrue to the City's sanitation fund and would not directly benefit the general fund. However, the sanitation fund revenues are not keeping pace with expenditures. As with fleet maintenance, a managed competition would

enable City staff to respond with a proposal could produce actual savings.

**Recommendation 42. Conduct managed competition processes for both residential and commercial street sweeping.** Encourage staff to propose cost-saving reductions and efficiencies. Request proposals from private providers for both residential and commercial street sweeping, with separate costing of residential and commercial services to enable the City to ascertain whether one or both of the services should be outsourced.

To reduce costs further, the City should also consider reducing the level of street sweeping service by reducing the number of days street sweeping is provided. The reduced level of service can be incorporated into a request for proposals. Currently, in the downtown, sweeping is performed by City crews seven nights a week, compared to once per week for other arterial streets and roads and residential areas. The City may be able to save costs by immediately reducing the number of street sweeping nights in the downtown.

**Workers’ Compensation Administration**

The City has 12 full-time equivalent employees (FTEs) fully or partially charged to the workers’ compensation program fund. With about 700 active cases, the three senior workers’ compensation claims examiners have a caseload of about 200 active cases each. The senior workers’ compensation claims assistant has a caseload of about 100 active cases. Over the last three years, the total workers’ compensation budget has increased 45% as shown in Table 26.

*Table 26. Worker Compensation Actual and Adopted Expenditures for FY 2008/09 to FY 2010/11*

Expenses	Actual FY 2008/09	Actual FY 2009/10	Adopted FY 2010/11
Personnel	\$838,942	\$1,010,667	\$1,172,490
Contractual	\$619,197	\$815,495	\$1,114,915
Commodities	\$23,933	\$22,941	\$28,000
Fixed Charges (includes Benefits Payments)	\$4,987,723	\$5,254,378	\$7,035,275
Capital	\$4,063	\$3,524	\$18,000
<b>Total</b>	<b>\$6,473,858</b>	<b>\$7,107,005</b>	<b>\$9,368,680</b>

The City provides in-house administration for workers' compensation. The City of Santa Ana used third-party administrators (TPA) prior to 1991, but brought services in-house after experiencing escalating costs and poor audit results.

Approximately 34 counties and 120 cities currently use a third-party administrator for such services. This may be an avenue of cost savings for Santa Ana. The FY 2010/11 administrative budget for workers' compensation is approximately \$1.2 million. A 15% savings would be approximately \$183,000. Actual savings from a third-party administrator would be determined through a request for proposals process.

The City of Pasadena has recently issued an RFP for TPA services. They received 13 proposals with costs ranging from about \$270,000 to over \$1,000,000 with most in the \$500,000 to \$700,000 range. The caseloads ranged from 140 to 180 active cases per examiner with an average of 161 active cases per examiner. These proposals are below the current caseload of 200 active cases per examiner for Santa Ana and also below the current personnel costs of \$1.1 million in Santa Ana.

Successful use of TPAs depends on the development of specifications for the RFP review process and careful review of proposals and references. In addition to the normal requirements in an RFP for a TPA, the RFP review process should include provisions to assure that:

- Caseloads per examiner are total caseloads for all of their clients
- Customized reports can be provided
- There are no conflicts of interest with their vendors
- They describe how they calculate total case-load per employee

In addition, the RFP process should include contacting the current clients of respondents and evaluating their experience with their TPA and any deficiencies they have found.

**Recommendation 43. Request proposals from third-party administrators and compare the costs and services received with in-house administration.** Include detailed review of proposers' clients and their experience with their TPA.

## Stores

The Stores and Property Unit issues 76,000 items to various departments annually. Many cities have improved efficiency by contracting with office supply retail outlets, as Santa Ana has done. The City of San Jose

eliminated their central warehouse. If Santa Ana does this, the City could save about \$190,000 (this is net of indirect and corporation yard rental costs which would be shifted to other functions). There may be other opportunities for direct ordering and delivery that will reduce the need for central stores services by changing how those services are offered.

**Recommendation 44. Analyze the types and quantities of items handled by the Stores and Property Unit to determine if direct ordering and delivery options exist.** If warranted, issue a request for proposals to reduce on-site inventory and improve cost efficiencies.

### **Parking Meter and Control Services**

The City of Santa Ana provides parking meters and enforcement in the downtown area. Currently parking control and enforcement is provided by the Police Department. Meter revenues are collected by staff in the Community Development Agency. Although Management Partners did not conduct a specific analysis of the potential to reduce costs or increase revenues by outsourcing these services, we note that other agencies have done so.

In March 2011 the City of Newport Beach approved an agreement with a private vendor to take over parking meter operations and enforcement. The arrangement facilitates the replacement of Newport Beach's parking meters with modern versions that accept credit cards and payment by phone, which could increase revenues by as much as \$1.7 million. Santa Ana could explore the potential to reduce costs and increase revenues through an RFP process for parking meter operations and enforcement.

**Recommendation 45. Issue a request for proposals for parking meter and enforcement services.** Analyze the results on the basis of net benefit to the City.

### **Departmental Consolidation**

Santa Ana has already experienced economies of scale in management and administration through the merger of the library with the Parks, Recreation and Community Services Agency. Similar economies of scale could be achieved by merging Planning and Building with Community Development, to create a single Development Services Department. Such a merger would save a minimum of \$200,000 annually by reducing one executive management position and consolidating administrative functions. There are a number of specific programs and activities within

both departments that should be carefully evaluated as to how merger should occur. It is possible that some programs or services could be merged with other departments. Detailed evaluation of alternatives will be needed to determine the precise configuration of merged departments. Additionally, with the significant changes underway in the Community Development Agency due to adoption of the State's FY 2011/12 budget, there will necessarily be changes to programs and capacity, all of which will need to be taking into consideration in any merger with other City departments.

**Recommendation 46. Merge the Planning and Building Agency with the Community Development Agency.**

## Implementation and Change Management

The alternatives presented in this report are difficult and there are no easy choices. Most of the options identified represent fundamental changes in the number of employees and in compensation. The nature of Santa Ana's financial challenge is such that small changes will not create financial stability. During the past few years, the City has been creative, employee associations have been forthcoming with various levels of compensation reductions and deferrals, and fund balance has been used.

**At this point, structural changes in service delivery models and compensation are needed to bring the City to financial health.**

Unfortunately, the economy will not grow the City out of its budget problem. Time is of the essence due to the growing costs and the inadequacy of reserves and other one-time methods to balance the budget. Those have been depleted.

Reducing costs does not happen without work. Therefore, given the urgency of the need to make structural changes, staff will need to be assigned to this task, setting aside other work. To enable staff to focus on this task, other new initiatives should be deferred.

Additional analysis will be required to confirm transition costs and policies, practices or procedures that will need to be modified as a result of implementation. Implementing the recommendations in this report will require hard work as well as time. Taking any of the concepts to reality will not be instantaneous.

### ***Phasing Schedule***

The following phasing schedule is suggested as a starting point for the City's discussions. We suggest a goal of \$20 million in reductions in on-going costs by the end of FY 2011/12. This is based on a projected deficit of \$15 - 20 million for FY 2011/12, with other resources at risk, and a deficit of \$18 - 23 million in FY 2012/13. In order to avoid financial challenges associated with lack of reserves for required cash flow, time is of the essence for making reductions.

- *Compensation reductions:* Effective by third quarter of FY 2011/12
- *Service delivery model changes:* Effective in third and fourth quarters of FY 2011/12
- *Fee increases:* Effective by third quarter of FY 2011/12
- *Tax measures on the ballot:* November 2012 (with new revenues beginning January 2013)

### Labor Negotiations and Meet and Confer

Given the need to negotiate reductions in compensation (including increase in employee payments of PERS costs), and minimum staffing in the Fire Department, negotiations should be engaged immediately. Multi-year agreements are in place with a variety of ending dates, staffing requirements and no-layoff provisions, as shown in Table 27. As a result of these restrictions, the City will need to ask employees for their cooperation in reopening contracts.

Table 27. MOU Expiration Dates and Re-Opener Language Related to Costs

Bargaining Unit	MOU Expiration Date	Reopener Language Related to Costs	Layoff Restrictions
<b>FBA</b>	6/30/2014	PERS contributions ; min. daily staffing – changes only by mutual agreement	Constant staffing restricts layoffs
<b>FMA</b>	6/30/2014	PERS contributions	No restrictions
<b>POA</b>	6/30/2013	PERS contributions	No layoffs through 6/30/12
<b>PMA</b>	6/30/2013	PERS contributions; retirement health savings program	No restrictions
<b>SEIU</b>	6/30/2013	PERS contributions; furloughs	No layoffs through 12/31/11
<b>SAMA</b>	6/30/2014	None related to costs	No restrictions
<b>CASA</b>	6/30/2012	Method of calculating overtime	No restrictions

Additionally, meet and confer discussions should be initiated on the impact of potential outsourcing.

## **Requests for Proposals**

The following services are recommended for outsourcing. Each of these will require some type of request for proposals so that the potential providers (which would be public agencies in many cases) understand the services desired. Staff will need to be assigned to prepare and manage these processes. That means that their lower priority work will need to be set aside so that these critical tasks can be performed.

Among the requests for proposals that should be prepared immediately are the following:

- Fire dispatch
- Fleet maintenance and management
- Library operations
- Street sweeping
- Animal services
- Santa Ana Zoo
- Workers' compensation administration
- Ambulance transport
- Parking meter operations and enforcement

## ***Communications and Transparency***

City management will need to take steps to communicate openly and candidly and engage managers, employees and unions about the City's financial position and the options available to create financial stability. Employees and managers may well have other ideas to offer that should be analyzed and considered. The best thinking of everyone in the organization will be needed to make the necessary fundamental changes. The City has competent and capable employees who are committed to providing valued services to the Santa Ana community and who are proud of the professions they represent. Engaging City staff in the next phases of the budget stabilization process will be important to the long-term health of the organization.

Communicating early, transparently and frequently about proposed changes, as well as why the changes are important (i.e., their relevance to financial sustainability) is an essential part of effective change management. Openness, engagement and a spirit of teamwork will be critical for the City to emerge from what will be a very difficult phase of changing some fundamental elements within the organization. Because so many of the recommendations have the potential to directly impact staff, the Project Steering Committee and Executive Management Team

should create an internal communication and engagement plan, as well as a plan for communicating whether proposed changes will impact the public and if so, how. In addition to creating the plan the Executive Management Team should determine how to staff and support it, and make sure it is effectively implemented.

**Recommendation 47. Create an internal and external communications and engagement plan.** Temporarily reassign positions within the City to provide analytical support for implementing a budget stabilization plan and a communications plan. Add two to three analytical positions to the budget for immediate and ongoing analytical support.

## Conclusion

Santa Ana, like many other cities and counties, has been grappling with an unprecedented decrease in revenues while experiencing cost increases. As our peer comparisons make clear, Santa Ana entered this challenge with a distinct disadvantage in that it has lower levels of discretionary revenue and the resultant lower levels of operational expenditures than other similar cities. Nevertheless the City has taken steps to reduce costs over the last several years because it has been forced to do so by declining revenues. In this effort, employee associations have been forthcoming with some compensation changes, yet costs continue to be much more than can be afforded by the City. The revenue forecast shows that significantly lower costs will be required for the foreseeable future.

In preparing this report Management Partners interviewed all City Council members and senior executive staff. All expressed that people in a community expect clean streets, nice parks, libraries and cultural amenities, well-maintained neighborhoods and housing, in addition to fundamental safety services. The challenge to the City will be to identify what it can afford and how that relates to the type of community services it wants to provide. Management Partners has approached this analysis with the understanding that all current City services are important and that service reductions should be pursued as a last resort, only after efforts to reduce costs, optimize service delivery and improve revenue performance have been taken.

While it is difficult for policymakers and executives to consider such topics as reductions in employee compensation, changes in the way services have been traditionally delivered (which also impacts employees) and revenue increases, there are strong justifications for each area to be on the table for discussion. The fact remains that, in spite of the actions taken to date, Santa Ana's financial situation is tenuous at best. Costs per employee in Santa Ana have increased over the last several years and are not currently affordable.

While the service delivery changes suggested in this report are likely to be resisted because of the changes involved in personnel, the suggestions

are not radical and are being used successfully in other similar jurisdictions. Additionally, because other local government agencies are also looking for ways to reduce costs in response to financial challenges, there is greater opportunity to discuss and implement regionalized or shared services than before.

Finally when it comes to revenues, the analysis indicates that Santa Ana receives a lower level of revenue than other similar cities, so revenue augmentation should also be on the table. However, options to increase revenues significant enough to provide ongoing budget stabilization are limited, cannot be implemented without voter approval, and will take time to be realized even if approved.

In order to achieve financial sustainability and avert a financial crisis, Santa Ana will need to take bold, decisive action to implement changes in its cost structure. The recommendations in this report will assist the City in realigning annual revenues with annual expenditures and setting the path toward financial sustainability. Achieving financial health beyond stability will require a partnership of the City Council, staff and community.

## **Attachment A: List of Recommendations**

- Recommendation 1.** Adopt a comprehensive set of budget principles to provide a meaningful and easy to understand framework for maintaining financial discipline.
- Recommendation 2.** Initiate significant immediate changes to the expenditure and revenue base, with major reductions in spending taking effect in FY 2011/12 increasing into FY 2012/13.
- Recommendation 3.** Engage a pension actuary to provide estimates of PERS rates for fiscal years 2014/15 and 2015/16.
- Recommendation 4.** Develop an integrated five-year capital program that includes likely general fund requirements for major building repairs, information technology replacement, park maintenance and other major capital maintenance items.
- Recommendation 5.** Establish a reserve policy adopted by the City Council.
- Recommendation 6.** Conduct an analysis of each internal service fund to determine funding requirements for the services and equipment paid for out of each of those funds and create a five-year forecast for each ISF.
- Recommendation 7.** Determine the City Council's interest in asking the voters to approve new or increased taxes.
- Recommendation 8.** Analyze the amount of additional revenue that would be received by the City if a change in the utility franchise fee allocation were implemented.
- Recommendation 9.** Analyze jail operations and set rates to ensure that there is full cost recovery in the fees being charged to outside agencies.
- Recommendation 10.** Convert the jail operation to an enterprise fund with the goal of having it be self-supporting.
- Recommendation 11.** Modify the paramedic subscription program to encourage existing subscribers to pay their fee so as to maximize revenue collection.
- Recommendation 12.** Develop a marketing program for paramedic subscriptions with a goal of increasing market penetration to at least 20% of households.
- Recommendation 13.** Determine the fee level required to recover all City costs associated with false alarm response and increase fees accordingly.
- Recommendation 14.** Develop a comprehensive asset management program, identify market rental rates and subsidies, and sell unneeded and under-performing properties.
- Recommendation 15.** Negotiate payment of the full employee share of PERS costs at 9% for public safety and 8% for non-safety.
- Recommendation 16.** Negotiate a two-tier retirement benefit, returning to the benefit levels in place prior to the existing benefits.
- Recommendation 17.** Renegotiate labor contracts to provide only those premium pays required for sound business purposes and eliminate premium pay for employees who are not performing the work on a regular basis.

**Recommendation 18.** Calculate overtime using the FLSA-approved methodology, which excludes leave time as time worked.

**Recommendation 19.** Analyze employee and retiree health benefits to determine the appropriate level of contribution by all parties.

**Recommendation 20.** Provide vehicles only to those individuals who are responding to City business after hours on a regular basis and to those who must have access to specialized equipment when called out.

**Recommendation 21.** Implement a 10 to 15 step range to spread out merit (performance) increases over six to nine years rather than the current three and a half to four years.

**Recommendation 22.** Conduct an analysis of recruitments completed during the past five years to ascertain positions for which large numbers of qualified applicants apply and reduce entry-level compensation for these positions.

**Recommendation 23.** Initiate negotiations with the Fire Benevolent Association to enable the City to make policy level decisions to match staffing to workload.

**Recommendation 24.** Eliminate automatic overtime to maintain any staffing level not determined by the City to be required.

**Recommendation 25.** Develop and implement a flexible brown-out schedule for engine and truck companies that matches staffing to workload demand rather than the existing constant staffing model.

**Recommendation 26.** Change the emergency medical service delivery system to use non-sworn EMTs or a private ambulance company rather than sworn personnel for basic life support and transport services.

**Recommendation 27.** Obtain proposals from MetroNet and OCFA for fire dispatch services, including any technology costs and evaluate the costs and benefits of the proposals compared with moving to the Santa Ana Police Department dispatch.

**Recommendation 28.** Convert four staff captain positions into non-sworn positions and return sworn personnel from these positions to emergency response operations.

**Recommendation 29.** Examine existing IT staff within the City to determine whether capacity and skill exist to perform the work now being done by a private contractor.

**Recommendation 30.** Initiate discussions with Orange County Fire Authority and other fire departments in the area about a regionalized approach.

**Recommendation 31.** Contract with the County of Orange for all animal control services. Develop a detailed implementation plan.

**Recommendation 32.** Conduct all background investigations using private vendors or retired police officers and eliminate all full-time staffing for background investigations. Assign supervision of the function to an existing supervisor as a collateral duty.

**Recommendation 33.** Analyze the feasibility and potential cost savings of consolidating fire and police administrative functions related to budget, accounting and internal human

resources under a singular Public Safety Administration Division within the Police Department.

**Recommendation 34.** Utilize retired police officers as trainers and eliminate full-time sworn personnel from this operation.

**Recommendation 35.** Ascertain interest by other police departments in creating a regional SWAT operation to share economies of scale with other agencies and reduce total costs.

**Recommendation 36.** Ascertain the interest by other police departments in creating regional models for delivering specialized services.

**Recommendation 37.** Develop and implement a formal managed competition framework.

**Recommendation 38.** Conduct three types of analysis to ascertain specific ways to reduce costs on an on-going basis in fleet maintenance: 1) fleet utilization analysis, 2) breakeven analysis and 3) fleet replacement analysis.

**Recommendation 39.** Conduct a managed competition for fleet maintenance and encourage City employees to develop their own proposal..

**Recommendation 40.** Request a proposal from Orange County Library to provide library services in Santa Ana.

**Recommendation 41.** Engage a consulting firm to identify options and an appropriate process for privatizing the Santa Ana Zoo.

**Recommendation 42.** Conduct managed competition processes for both residential and commercial street sweeping.

**Recommendation 43.** Request proposals from third-party administrators and compare the costs and services received with in-house administration.

**Recommendation 44.** Analyze the types and quantities of items handled by the Stores and Property Unit to determine if direct ordering and delivery options exist.

**Recommendation 45.** Issue a request for proposals for parking meter and enforcement services.

**Recommendation 46.** Merge the Planning and Building Agency with the Community Development Agency.

**Recommendation 47.** Create an internal and external communications and engagement plan.

## Attachment B: Premium Pay Summary List

Type of Premium Pay	Total Dollars Paid in Calendar Year 2010	Number of Employees Receiving Pay Type	Average Dollars Received in CY 2010	Bargaining Unit
Senior Fire Personnel	2,036,476.29	179	11,377	FBA
National Fire Academy	11,328.00	1	11,328	FBA
Coordinator	11,280.00	1	11,280	FBA
Paramedic Duty	489,832.50	52	9,420	FBA
Network Systems Specialist	7,716.00	1	7,716	FBA
Registered Nurse	15,048.00	2	7,524	FBA
Non Paramedic	7,332.00	1	7,332	FBA
Education (FBA)	35,561.21	5	7,112	FBA
Non-Suppression Duty	82,192.89	14	5,871	FBA
California Fire Officer	28,865.65	5	5,773	FBA
Arson Investigation Pay	4,824.00	1	4,824	FBA
Shift Investigator	13,776.00	3	4,592	FBA
Technical Truck	220,882.92	55	4,016	FBA
Hazardous Materials	249,117.00	65	3,833	FBA
SCBA (Self-contained Breathing Apparatus) Officer	11,380.50	3	3,794	FBA
California Chief Officer	10,681.83	3	3,561	FBA
Promotional Adjustment	1,564.00	1	1,564	FBA
FBI National Academy	36,976.00	5	7,395	PMA
Senior Management Institute for Police	13,510.00	4	3,378	PMA
West Point Leader	25,443.00	8	3,180	PMA
Advanced Leadership Program	25,493.00	9	2,833	PMA
California Commander College	6,684.00	1	6,684	PMA
Senior Pay	3,045,564.42	264	11,536	POA
K9 Premium	24,552.00	6	4,092	POA
Education (POA)	143,940.67	57	2,525	POA
Shift Overlap	170,802.31	88	1,941	POA
Motor Officer	48,422.47	25	1,937	POA
Internal Affairs	9,443.00	5	1,889	POA
Fingerprint Analyst	3,720.00	2	1,860	POA
Tenprint AFIS Technician	3,720.00	2	1,860	POA

Type of Premium Pay	Total Dollars Paid in Calendar Year 2010	Number of Employees Receiving Pay Type	Average Dollars Received in CY 2010	Bargaining Unit
Field Training Officer	100,616.46	56	1,797	POA
Detective Investigator	229,013.76	130	1,762	POA
Assistant Team Leader	136,092.91	81	1,680	POA
Corporal Lead	18,065.78	15	1,204	POA
Upgrade	17,083.39	20	854	POA
Shift Differential	282,235.28	110	2,566	POA, SEIU
Registered Engineer	80,840.50	14	5,774	SEIU
Third In Command	3,632.00	1	3,632	SEIU
Non-Residential Energy Checker	2,835.00	1	2,835	SEIU
Residential Energy Checker	8,050.50	3	2,684	SEIU
Plan Examiner	5,353.00	2	2,677	SEIU
Building Inspector	2,063.00	1	2,063	SEIU
Code Enforcement Officer	2,063.00	1	2,063	SEIU
Mechanical Inspector	9,977.00	5	1,995	SEIU
Combination Inspector	5,851.00	3	1,950	SEIU
Combination Dwelling Inspector	9,712.00	5	1,942	SEIU
Property Maintenance Inspector	9,683.00	5	1,937	SEIU
SCACEO (Statewide CA Association of Code Enforcement Officers) Intermed/Advanced Certification	9,683.00	5	1,937	SEIU
Electric Inspector	11,594.50	6	1,932	SEIU
Plumbing Inspector	13,500.00	7	1,929	SEIU
Penal Code 832	23,110.00	12	1,926	SEIU
Zoning Inspector	13,471.00	7	1,924	SEIU
Basic Certification	21,047.00	11	1,913	SEIU
Access Usability	3,814.50	2	1,907	SEIU
C27 Landscape Contractors License	1,894.00	1	1,894	SEIU
Certified Arborist	1,714.00	1	1,714	SEIU
Driver	6,994.34	5	1,399	SEIU
Reinforced Concrete	1,249.00	1	1,249	SEIU
Two Way Radio	4,836.56	5	967	SEIU
Fire Mechanic I	1,833.45	2	917	SEIU
Fire Mechanic II	1,456.00	2	728	SEIU

Type of Premium Pay	Total Dollars Paid in Calendar Year 2010	Number of Employees Receiving Pay Type	Average Dollars Received in CY 2010	Bargaining Unit
Notary Public	4,340.00	10	434	SEIU
Emergency Technician I	145.00	1	145	SEIU
Dictation	1,800.00	3	600	SEIU, UC
Lead Pay	61,968.18	23	2,694	Various
Bilingual Pay	1,327,341.58	845	1,571	Various
Structural Engineer	-	-		
<b>TOTAL</b>	<b>9,231,089.35</b>			