

This **draft document** consolidates 63 Task Force recommendations receiving 60%+ support into **27** recommendations presented in 3 parts: General Observations; Efficiencies & Expenditure Reductions; and Revenues. Items that at least 50% of the Task Force opposed are listed in Part 4.

At the meeting on October 30, the Task Force will be asked for feedback on this document. Wording changes? Further prioritization of recommendations?

### **Part 1: General Observations and Policy Recommendations**<sup>1</sup>

As the Task Force considered specific efficiency and revenue ideas, we identified a number of general observations and policy recommendations. These are presented first as they provide some overall context to our more specific recommendations.

Consistent with our Task Force Charter, these recommendations are offered in two categories, distinguishable by type face font: (1) **Consensus Recommendations** received support from at least 80% of the Task Force members voting; and (2) *Additional Recommendations* received support from 60% to 79% of the Task Force members voting.

- A. It is paramount that the City remain a vital, livable community that continues to attract both businesses and residents.** Working to close the structural budget gap is fundamental to achieving this goal. **(1)**<sup>2</sup>
- B. We acknowledge and respect the important work of City employees. However, given that salaries and benefits now constitute 69% percent of the General Fund budget, the City's fiscal sustainability challenges cannot be resolved without addressing employee salaries and benefits.** Later in this report, we offer a number of ideas for controlling and reducing costs of salaries and benefits. **(2)**
- C. The City should undertake a long-term visioning process: what kind of city does Tacoma want to be in 10 years, in 20 years? How will we get there? As part of this, it will be important to determine what level of City services are truly affordable within the City's revenue stream.** **(4) (6)**
- D. Best Practices:**

*City departments should have an ongoing task of identifying and implementing "best practices" for their programs and activities. How have other agencies controlled costs with minimum impact on service levels? A key City-wide "best practice" we encourage is the ability to respond nimbly to changing circumstances. The City should promote a culture of adaptability: an ability to anticipate changes, identify trends and opportunities, and have the capacity and willingness to adapt quickly. (9) (11)*

<sup>1</sup> **Note to Task Force from Karen:** I am proposing moving item 3 from the ballot to the Revenues section, since it is quite specific and relates to Revenues, whereas most of the other ideas in this section are more general.

<sup>2</sup> Numbers in parentheticals indicate the row number for this item in the final ballot results.

*Other actions we recommend as “best practices” include:*

- a. **Savings from efficiencies should be re-captured and applied to address overall General Fund priorities (5)**
  - b. *Periodic “zero-base budget” exercises (10)*
  - c. *Be creative in finding budget solutions: for example, can zoning, land-use or building code changes help reduce crime and public safety costs? (8)*
  - d. *Consider the life-cycle of proposed investments: what projects implemented today will save money over time? (15)*
  - e. *Investigate public-private partnerships for effective delivery of public services (18)*
  - f. *Everyone is a part of the solution: we do not endorse a policy of equal across the board cuts, but we believe that all departments need to be a part of the effort to better align expenditures and revenues. (13)*
- E. *Benchmarking and Performance Measurements:*

*Benchmarking and performance measurement are powerful tools to help make operations more efficient. We commend the City for its work in these areas to date, and encourage continued development and use of these tools. It is important that the City and its Departments remain competitive with their peers: benchmarking and performance measures help calibrate these efforts. When costs or performance levels are shown to be out of alignment with peer agencies, this needs to be a focus of consideration. (7) (12) (16) (14)*

- F. *Act sooner rather than later:*

*As painful as the cuts from the last two budget cycles have been, the City has a very difficult path ahead. We believe savings from efficiencies and reductions taken now to reduce baseline expenditures will provide ongoing benefit, and help reduce pressure on future budgets. (17)*

## **Part 2: Efficiencies and Expenditure Reductions**

Overall, the Task Force reached consensus on more ideas for efficiency and expenditure reduction than we did on revenues ideas.

In this section, our recommendations are grouped according to **subject matter**. Again, the type-face font distinguishes between: (1) **Consensus Recommendations** that received support from at least 80% of the Task Force members voting, and (2) *Additional Recommendations*, that received support from 60% - 79% of the Task Force members voting.

The Task Force considered the importance of identifying both short-term and long-term recommendations. Based on an initial analysis by staff, most of the recommendations in this section cannot be fully implemented in the short-term (by the end of the 2015-16 biennium). That said, we think it is critical for the City to begin working on these recommendations now, wherever possible.

○ **Controlling and Reducing Costs of Employee Salaries, Health Care and Pension Benefits**

- G. Our primary recommendation in the area of efficiencies and expenditure reductions is that the City take steps to reduce both the growth rate and the overall cost burden associated with salaries, health care and pension benefits, for both union and non-union employees. Salaries and benefits comprise nearly 69% of General Fund expenditures in the 2013-14 budget. The historical growth rate of salaries, health care benefits, and pensions, each far outstrip the rate of growth in City revenues or inflation. Continuation of historical growth rates will mean a continued squeeze on City service levels, reserves, maintenance and other investments -- and make it extremely difficult for the City to close its structural budget gap. (24) (29) (30)(38)

We present our recommended strategies for controlling these costs, in items H through P below.

• **Examine Overall Compensation**

- H. All contractual commitments to employees (union or otherwise) need to be re-examined, and where appropriate re-negotiated in order to get the City on a sustainable compensation cost path. (28)
- I. *The City should conduct a new total compensation study. The 2008 Classification and Compensation Study for the City focused just on salaries. City benefit packages are an important consideration in designing salaries. (45)*

• **Salaries**

- J. The City should re-evaluate its current policy of paying employees at the 60<sup>th</sup> or 70<sup>th</sup> percentile of comparable public sector salaries. In the context of overall compensation packages, a 50<sup>th</sup> percentile policy may be more appropriate and still allow the City to attract high quality staff. This warrants further study (and would be a consideration in the total compensation study recommended at Item K). (54)
- K. *The City should continue its policy of seeking to cap growth in salaries from year-to-year should at inflation, using a regional Consumer Price Index. This should apply to both union and non-union employees. (44) (31) (32)*
- L. *We note significant overtime costs are being incurred: it is important that the City continue to examine where this is occurring and work to reduce these expenditures. (34)*

- **Health Care Benefits**

For at least the last 2 decades, health care costs *nationally* have been increasing at rates much faster than inflation. The City of Tacoma saw an 8% average annual rate of growth in health care costs between 2005 and 2015: City health care expenditures grew 72% in this period, from \$34.2 million to \$58.7 million a year.

**M. The City should immediately review its health care plans and benefits and take steps to better align these with plans generally available in the market, including private sector health plans. Health care provider contracts should continue to be competitively bid. Set a target expenditure level reduction for benefits and develop a plan to meet that target. (23) (27) (26)**

**N. The City should taking steps now to avoid the potential “Cadillac” health care penalty under the new federal Affordable Care Act. The penalties here are large--estimated at \$12 million a year beginning in 2018. The City should start scaling back benefits it provides employees so that the City’s taxpayers are not required to fund this sizable penalty in 5 years. (22)**

**O. Higher deductibles and higher contribution rates for individuals and families will likely be required as strategies to secure targeted savings. (41)(42)(43)**

**P. It is important that changes to benefits be applied across the board to all employee groups—represented and non-represented. (41), (42) (43) (39)**

- **Find Efficiencies in Delivery of Fire and Police Services**

The two largest General Fund Departments are fire and police. If the direct cost of these two operations, plus fire and police employee salaries, health care and pension benefits (for retirees and current employees) are combined, costs attributable to these functions consume about 65% of the General Fund expenditures in the 2013-2014 budget. It is important to acknowledge that about 6% of General Fund expenditures are for pension costs for retired firefighters and police—these are costs that in we understand cannot be changed.

**Q. Study Fire Department operations, and identify and implement strategies where operations can be changed to reduce costs without significantly impacting public safety. For example, can operational protocols be changed to reduce the number of staff or equipment used to respond to EMS and fire calls? Can money be saved by not sending fire engines to respond to EMS calls? Can the department save money by not responding to non-emergent calls (e.g., lock-outs)? The City should establish financial performance targets to provide incentives for the department not to spend its full budget, and use benchmarks to track costs per capita as compared to peer agencies. (25) (33) (36) (40) (47) (48)**

**R. The same search for operational efficiencies, benchmarking, performance and spending targets should be applied to the Police Department.(35) (37)**

○ **The search for efficiencies should be a continuing priority.**

S. *Our recommendations above are by no means exhaustive. By way of example, we offer three additional recommendations for possible additional efficiencies:*

- *The City should review the balance between staff employees and hiring contract employees in areas like the City Attorney’s office for possible savings. (46)*
- *Contract out facilities maintenance where possible if it can save money without sacrificing quality. (50)*
- *Seek out partnerships with near-by cities– University Place, Puyallup, Steilacoom, Lakewood, Federal Way – there may be economies of scale by joining forces in service delivery. (57)*

**Part 3: Revenues**

From the information provided to us, we understand that the City now deploys virtually every taxing source available to it under state law, although not always at the highest possible rates, and there are a variety of exemptions in place. We also understand that limits of state law and the City Charter mean that virtually any increase in these taxes must be submitted to the City’s voters.

The Task Force considered a variety of revenue increases and expansions. We also considered the value of selling some of the City’s more valuable (and visible) assets, such as the Tacoma Dome and Convention Center. While these proposals received some support from Task Force members, no such proposals reached the level of 60% or greater support we have chosen as the threshold for our recommendations. Instead, our recommendations below focus on the sale of non-essential assets, improving collection of existing taxes, and pursuing inter-governmental and other non-tax revenues.

Our recommendations are again presented by **subject matter**. **Consensus recommendations are in bold font** (items receiving at least 80% support from those voting) and *additional recommendations are in italics* (items receiving support from 60-79% of Task Force members voting).

In contrast to our Efficiency and Expenditure recommendations, the initial staff assessment is that nearly all the recommendations in this section can be at implemented at least in part in the short-term (by the end of the 2015-16 biennium).

○ **Revenues—Overall revenue management strategies**

**T. While revenue enhancements are needed, the Task Force does not believe the City can work its way out of the structural budget gap through new revenues alone. (92)**

**U. *The City should review current tax loopholes (exemptions and credits) and, where appropriate, reduce or close them in order to ensure tax policy is equitable (100). We do not offer any specific solutions here.***

- V. *We also endorse an idea we understand is now being considered by the City: to hire private companies to aggressively go after firms and businesses who are not paying B & O tax (and potentially other taxes).*

[TBD: On another matter of tax collection, now that Proposition 1 has passed increasing the gross receipts tax, ensure that it is imposed by Tacoma Power so that the intended street maintenance revenues are actually secured.]

○ **Sell non-essential, un-used and surplus assets**

- W. **We recognize that the City has an ongoing process and program of identifying and selling surplus properties. We encourage the City to strengthen its efforts to review and sell non-essential, un-used and surplus assets, where there is a demonstrable net benefit--considering potential net proceeds of sale, the real estate market, carrying costs, any debt burden that may be associated with individual properties, as well as the ability to return these properties to city tax rolls. We are not advocating a rush to sell these properties: market timing is critical. It is also important that proceeds of property sales not be applied to ongoing operations and maintenance: as these are one-time revenues, we believe these should be applied to buy down City debt where possible, or otherwise help rebuild reserve funds or support other one-time costs. (88) (89) (99)**

○ **Get more from existing assets**

- X. **The General Fund provides subsidy support to many enterprise assets –including but not limited to the Convention Center, Tacoma Dome, Cheney Stadium, Tacoma’s Mountain Line Rail Division, and City parking lots. We recommend the City re-evaluate its revenue targets for each of these assets and consider increasing them where possible to reduce the needed amount of ongoing General Fund subsidy. (3)**
- Y. **We applaud the current effort to sell naming rights for major facilities such as the Tacoma Dome and Convention Center. The City should also investigate the possibilities of selling advertising on other city properties, and even city vehicles. (90) (101)**
- Z. *We encourage the City to consider contracting out the maintenance of major facilities (the Dome, Convention Center, Cheney Stadium, Tacoma Rail, and Convention Center) to the private sector if it can provide the same or better service at less cost to the taxpayer. (103)*

○ **Pursue opportunities to recoup intergovernmental and other funds**

- AA. We identified a number of examples where there may be revenue to be gained from pursuing agreements with other jurisdictions and third parties. We expect this is not an exhaustive list:

- a. **Seek an expanded share of the recent countywide 911 sales tax increase to support the City's police and fire dispatch services. (91)**
- b. *Collect on insurance claims (currently going unclaimed) for emergency services – e.g. hazardous clean up from vehicle collisions. (93)*
- c. *Seek action in Olympia to resolve revenue sharing dilemmas with State over, among other things, Initiative 1183's liquor excise tax – which should provide more revenue to local governments under the newly instituted privatization of alcohol sales (94)*
- d. *Keep applying for Federal grants for the City police and fire departments (95)*
- e. *Examine service demands and resulting cost of providing services at the Port of Tacoma and reach agreement on equitable service charges, including for fire and police. We understand this is something that would need to be negotiated with the Port. (96)*

#### **Part 4: Ideas the Task Force Would NOT Recommend**

Task Force members offered, and then rated, over 140 different ideas for expenditures, efficiencies and revenue generation. In the course of that rating, there were a handful of ideas to which Task Force members registered strong opposition. We note these below, and would encourage the City not to pursue these ideas.

Ideas opposed by the Task Force:

- Reduce the City work week to 4-10's
- Revenue adds are not necessary
- Reduce contributions to reserves
- Do not tax citizens to raise revenue
- Promote a state income tax
- Ask taxpayers to donate property tax to specific items