



# A Strategic Fiscal and Management Plan for the City of Memphis, FY2015-FY2019

*Prepared for the City of Memphis*

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# Introduction and Overview

## Introduction

Like other local governments, Memphis faces a series of challenges that is the result of both structural and cyclical issues. The combination of growing costs of compensation and stagnant or declining revenue is not unique to Memphis. Many of these problems have developed over a series of years – in some cases, decades. In the face of these challenges, the traditional approach to budgeting that looks at problems and solutions one year at a time is inadequate to meet the goal of fiscal sustainability.

The Government Finance Officers Association (GFOA) has recognized that multi-year financial plans are a best practice. A multi-year plan provides “a comprehensive and systematic management tool designed to help organizations assess the current environment, anticipate and respond appropriately to changes in the environment, envision the future, increase effectiveness, develop commitment to the organization’s mission and achieve consensus on strategies and objectives for achieving that mission.” The GFOA also suggests that “all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals.”<sup>1</sup>

City leadership – Mayor Wharton and members of the City Council – have been clear that they seek more than just a plan to balance budgets. After all, a balanced budget is necessary – but it does not guarantee that a city will meet the larger goals of economic prosperity and overall quality of life. Thus, the City sought a long term fiscal plan that set a course for fiscal sustainability that would also complement and promote other efforts to achieve larger policy goals that were also being pursued by City government.

It is also important to understand that the development of a multi-year financial plan is not a static process. Plans are not one-time reports or studies. Instead, the intent of a multi-year financial planning process is for the City to regularly update and adjust the plan as assumptions, goals and strategies change.

In March 2012, the City of Memphis engaged Public Financial Management, Inc. (PFM) and a team of local sub-consultants – Rick Masson Consulting, V. Lynn Evans, CPA and Community Capital, LLC – to work with the City in developing a multi-year strategic fiscal and management plan.<sup>2</sup>

During the course of the development of the plan, City leadership recognized that it was essential to involve both civic and business leaders in the process and to clearly establish ownership of the plan and its recommended initiatives by division directors and others within City government who would be charged with its implementation. In late 2012, the Mayor appointed a 10-member Executive Committee to work with and advise on the plan and its contents. Six subcommittees – including administration officials, members of the City Council and business and civic leaders – were convened to focus on the issues of Public Safety, Compensation and Benefits, High Performing Government, Strategic Investments, Economic Development and Revenue Enhancement.

The development of the multi-year financial plan coincided with the development of the City’s FY2014 budget. A draft of this plan was developed in February 2013. To avoid the risk of confusion between the two processes, the City decided to temporarily suspend development of the multi-year financial plan

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<sup>1</sup> Recommended Budget Practice on the Establishment of Strategic Plans (2005). Government Finance Officers Association.

<sup>2</sup> Throughout the document, the PFM team is referred to simply as PFM.

process until completion of the FY2014 budget. Upon completion of the FY2014 budget, the City resumed development of the multi-year financial plan.

The delay had the significant benefit of ensuring that the five year plan reflected the most up-to-date assumptions related to the City's revenue and expenditures as a baseline for forecasts – including steps taken by the City to close projected budget gaps in FY2014. It also allowed the City to increase public input into the plan. In March, the Mayor and members of the Council conducted public meetings on the plan in every Council district. In November, the City commissioned a detailed survey of residents' opinions on the budget.

With a new baseline – based on the adopted FY2014 budget – and the benefit of significant public input, in Summer and Fall 2013, Mayor Wharton and other leaders within the Administration revisited the analysis and recommendations outlined in the draft February 2013 plan and designated a series of high impact initiatives as priorities for adoption and implementation. These priorities include:

- Pension and OPEB Reforms
- Cost savings/efficiency measures for public safety
- Development of a Growth Plan embracing major City projects
- Create a grants office (to seek grants, not merely manage grants)
- Centralize Revenue Collection and Revenue Strategy Development, including hiring a Revenue Officer
- Review all fines, fees and collections in order to increase revenues
- Review all capital projects (including annual CIP and ad hoc projects through a common analytical and policy framework)
- Conduct debt burden and capacity analysis and restructure debt where appropriate
- Implement key performance indicators (KPIs) throughout City government
- Complete conversion to zero based budgeting
- Immediate review of public safety operations in light of zero based budgeting
- Consolidate back office functions and dispatching for Fire and Police Divisions
- Create Financial Advisory Board
- Review joint service opportunities with Shelby County, MHA, MLGW and others
- Implement 311 throughout City government with accompanying performance management component
- Full implementation of Comptroller's mandates with respect to rebuilding reserves and debt service funds
- Define core services for Police, Fire and Solid Waste
- Increase false alarm fees
- Complete facilities and space study
- Develop a strategic plan for parks and golf courses
- Develop and implement the "Blueprint for Prosperity" program

- Review all PILOTs and PILOT policy so as to create a more efficient, effective and equitable system of generating revenue while promoting growth in sectors of the local economy
- Review policies of car allowances, fleet management (across all divisions and fund) and reduce the total fleet (in particular the number of take home cars)
- Find alternatives to EMS/emergency room transports
- Review all employee benefits including the DROP program, holidays and establishing a sick leave pool/bank.

Based on these priorities, PFM worked to re-draft this financial plan to highlight those initiatives that best aligned with these high-impact and high priority areas.<sup>3</sup>

As noted above, multi-year financial plans require regular review and updates. As a result, this plan – like all such plans – is a work in progress. The analysis within clearly describes the fiscal challenges facing Memphis. It prescribes a series of initiatives – really a series of choices – for how the City can best meet those challenges while still pursuing the goals of quality of life and economic prosperity.

We expect that from now until the presentation and adoption of the FY2015 budget in April there will be substantial debate and discussion as to the choices that will be made this year and into the future. While this is the starting point for discussion, the plan ultimately adopted and incorporated into the FY2015 budget may differ from this document. Some initiatives may be rejected in favor of others, and ultimately, the plan will be just that – a plan subject to regular updates, review and monitoring.

Still, in developing a five year plan that looks honestly at the challenges and opportunities before it, Memphis takes an important step toward creating the foundation of good governance needed to address the larger issues that affect quality of life in Memphis.

## **Fiscal Sustainability and the Road to Economic Prosperity**

Fiscal sustainability and economic prosperity are inextricably linked. For cities to be economically competitive, they require strong, functional local governments to support conditions essential to economic growth. In the mid-2000s, the Center for Excellence in Government commissioned a series of surveys of city residents across the United States that asked what factors were most important to economic development. One factor was consistently among the most highly rated – effective local government that is free of corruption. In fact, effective local government was ranked as more important than low taxes in several cities.

At the same time, economic development is critical to fiscal sustainability. No local government can consistently provide quality public service and maintain balanced budgets in the face of economic stagnation or decline. While local government has an obligation to act as an effective steward of taxpayer dollars, it is usually not possible to rely solely upon efficiency, increased revenue rates or collection as a means of balancing budgets for long periods of time. Eventually, the combination of declining service and ever increasing tax rates will drive businesses and residents to leave.

Thus, local governments cannot choose efficiency over revenue collection or revenue collection over growth – they must simultaneously maximize the efficient operation of government, collect enough revenue to maintain quality of life and make strategic investments to grow the tax base.

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<sup>3</sup> As a result, for each area of review, the Plan contains an analysis of current conditions – the analysis used in the February 2013 draft plan -- and continues with those initiatives that best align with the high impact areas. Other proposed initiatives that were part of the February 2013 draft plan are contained in an appendix.

Today's fiscal challenge to the City of Memphis reflects declines in its property tax base due to reassessment, growing costs related to employee health care and pension costs and the need to provide adequate investments in infrastructure. Together, these factors drive projected deficits during the coming five years. Over the long term, Memphis must also carefully weigh the appropriate levels of staff dedicated to public safety. On a per capita basis, Memphis has had more police officers and more firefighters than benchmark jurisdictions and these two divisions – Police and Fire – drive the City's overall budget. Thus, fiscal sustainability will require changes in worker compensation and benefits, the funding of debt and staffing in the police and fire departments.

Memphis faces an economic challenge as well. At the regional level, between 2002 and 2011, Memphis lost nearly 18,000 jobs. Over the last fifty years, the City's population has grown at less than one-third the rate of growth of the rest of Shelby County and the state as a whole, and a significant percentage of population growth has come only through annexation.

Memphis has a lower per capita income and higher poverty rate than other Tennessee cities. Both are directly attributable to the relatively low rate of education attainment among its residents. As of 2010, 22.5 percent of Memphians had a college degree – compared to 28 percent nationally and 22.9 percent statewide. Lower educational attainment leads to lower income and higher poverty.

Economic prosperity will require increased opportunity – through education and employment – for all Memphians and the ability to retain and attract residents with the skills needed to compete in a 21<sup>st</sup> Century workplace.

## Changing the City's Business Model

During the next five years, Memphis must take steps to change the way that it does business in order to achieve short term fiscal balance and sustainable long term growth. If nothing else, this plan seeks to drive a discussion and debate over just what services the City of Memphis should provide – and how these services should be provided – over the next five years. **Ultimately, Memphis needs to pay for the government that it chooses to provide.**

In Memphis, there is frequent discussion about “core services,” which are generally defined to include public safety (police and fire), sanitation and maintenance of infrastructure. These services are viewed as the basics. Still, there is wide recognition that investments in neighborhood quality of life through amenities such as parks and libraries, as well as code enforcement, and economic development are as important as core services in achieving the “city of choice” sought by City leaders. Even though the City is no longer directly involved in the funding of public education, City leaders also clearly recognize that investments in youth development and school readiness are critical to growing educational attainment that is essential for economic competitiveness.

There are some lines of business that the City might be able to leave altogether. However, the reality is that a City government that just focuses on a limited number of core services may achieve some level of short term fiscal sustainability, but will be hard pressed to meet the complementary goal of economic growth necessary to long-term fiscal sustainability.

Clearly though, not all services need to be provided at the same level. A financial plan – like all budget documents – is ultimately about choices. A local government must provide policing, but it can choose what types of services its police agency will provide and the level of effort in providing them. For example, not all police agencies provide a police officer in response to every call, and not every call is responded to with the same level of priority. These choices about level of service can drive financial impact.

Moreover, level of service need not be uniform across an entire city. Some parts of a city may demand higher levels of service than others. Equal distribution of every service provided by a local government is not necessarily equitable.

Finally, there are choices to be made about how a service is provided. Some services currently provided by sworn police officers might alternatively be provided by civilians. Some services provided by City employees might be provided as well, and at a lower cost, by the private sector – just as some services currently privatized might be provided more efficiently through reverse privatization.

Thus, what service is provided, the level at which it is provided and the method by which it is provided are all choices that go to the business model of local government.

It is clear, however, that whatever choices are made regarding the services to be provided, local government must pay for the full cost of providing those services. Often, local governments seek to avoid difficult choices by deferring costs or relying on non-recurring revenues. This “kick the can down the road” approach defines an unsustainable approach to local government finance.

## A Different Approach

In offering choices to redefine the City’s business model, this draft plan attempts to present a different approach to thinking about the way that the City of Memphis operates and delivers services.

The best measure of efficiency and effectiveness is meeting desired outcomes at the lowest possible cost. Outputs are more important than inputs, but outcomes are far more important than both. Utilization – whether measured by the number of people going to libraries or riding MATA – is more important than capacity – the number of hours a library is open or whether a bus route is served. Reducing the number of crimes or the number of fires in a city is more important than how that outcome is achieved. As a result, a “prevention first” approach is often more important than a focus solely on response.

The recommended initiatives in this draft plan focus on this outcome based approach in several ways:

- In the area of public safety, we recommend a series of steps designed to maximize the productivity of both the Fire and Police Divisions that would allow them to provide current service levels – and, more importantly, achieve improved outcomes – at a lower cost. And, in the case of both divisions, we recommend a greater focus on prevention, whether by reducing the likelihood of crime, preventing fires or reducing demand for EMS services through early intervention.
- Across City government, we recommend initiatives designed to focus more on aligning service level with actual demand. In other words, we believe that City government can be both more efficient and effective by being more customer-focused. At the same time, we believe that changes in how services are delivered can maintain service quality while reducing cost.
- Many of our recommendations focus on reducing the cost of service delivery by reforming compensation and benefits for City employees. These reforms are not designed to punish City employees, nor are they designed to limit the ability of local government to attract and retain a qualified workforce. The City, however, can change total compensation for its workers in a way that is consistent with norms in the private sector and in other local governments and reduce service cost.
- We recommend that investments in physical capital need to be more strategic. A focus on outcomes – or return on investment – will allow for better use of limited resources. Moreover, we identify important opportunities for greater coordination and collaboration.

- While the City should take every step possible to maximize efficiency first, we recognize that to balance budgets in the short term the City may require additional revenue beyond what is likely to be generated by economic growth. We recommend a series of steps to improve collection of existing revenues as well as to develop new revenue sources.

# Baseline Budget Forecast

## Overview

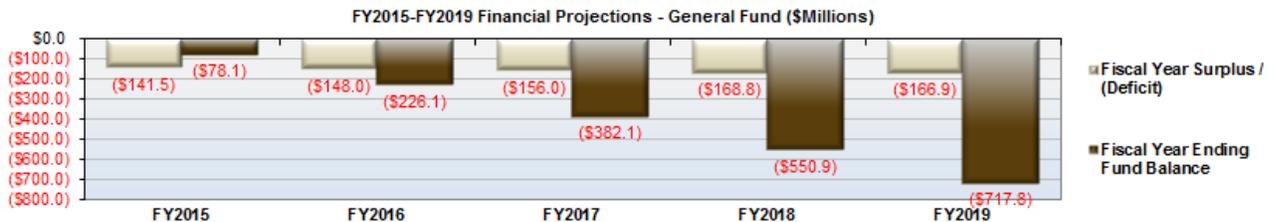
A critical first step in the multi-year financial planning process is the development of a baseline financial forecast. The baseline forecast represents the financial trajectory of the City based on projected economic trends and the financial impact of known future events. The baseline forecast is intended to show the financial position that the City can expect to be in if no corrective action is taken. As part of the development of this multi-year financial plan, PFM worked closely with the City’s leadership as well as key external stakeholders to develop a baseline financial forecast.

PFM drew from a number of existing resources available to the City. These included reports prepared by the City’s external actuaries, PricewaterhouseCoopers; economic and revenue forecasting analyses performed by the Sparks Bureau of Business and Economic Research at the University of Memphis; and consultation with the City’s benefits consultant, Mercer. This forecast was also informed by several discussions with members of the City’s financial and human resources management teams as well as interviews with numerous division directors. Guided by information from all of the sources mentioned above as well as professional experience within the firm, PFM developed a set of assumptions about the growth or decline in major revenue and expenditure items over the five-year period.

The baseline financial forecast for the City of Memphis indicates that without any corrective action, the City will face significant financial challenges in the coming fiscal year these challenges are exacerbated in future years by the impact of market forces and long-term liabilities. As illustrated in the chart below, based on PFM’s forecast, the City can expect to see a budget gap of **\$142 million** in FY2015, which will grow to a deficit of **\$167 million** by the last year of the five-year forecast. The forecasted FY2015 operating deficit of more than 22 percent of General Fund revenues would result in the rapid depletion of the City’s available fund balance reserves.

The City’s projected growth in employee benefit costs—especially retirement benefits—and pension are two of the major forces driving this challenging financial situation for the City. The scale of the budget gap makes a strong case for strategic planning around opportunities for revenue enhancement and expenditure reduction in order to achieve structural balance. The City will need to plan not just for FY2015, but also for long-term sustainability. It will be important to identify the most appropriate actions to take to reduce long-term liabilities and align future costs with anticipated available resources so that structural balance can be maintained.

**Baseline Five-Year Financial Forecast - General Fund (\$ millions)**



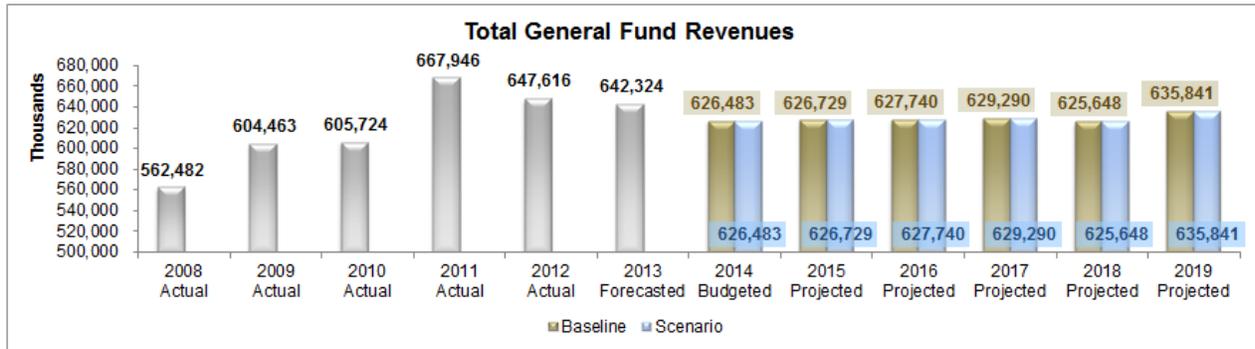
## Baseline Financial Forecast - FY2014 Adopted Budget & FY2015-FY2019 Forecast

<i>Fiscal Year Ending:</i>	2013	2014	2015	2016	2017	2018	2019
<b>Baseline Forecast</b>	<b>Forecasted</b>	<b>Budgeted</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<a href="#">Back to Navigation Index</a>							
<b>General Fund Revenues</b>							
Local Taxes	420,355,671	421,128,469	417,747,989	415,166,787	412,908,352	405,215,620	411,104,323
State Taxes	55,770,000	55,885,000	58,782,300	61,857,125	65,120,594	68,584,525	72,261,481
Licenses and Permits	10,777,220	10,669,033	10,649,633	10,630,272	10,610,349	10,591,665	10,572,420
Fines and Forfeitures	14,316,908	16,369,010	16,811,810	16,703,342	16,635,369	16,602,742	16,602,742
Charges for Services	30,737,140	30,873,813	31,074,813	31,176,318	31,176,318	31,176,318	31,176,318
Use of Money and Property	348,842	349,000	349,000	349,000	349,000	349,000	349,000
Federal Grants	917,197	117,197	117,197	117,197	117,197	117,197	117,197
State Grants	1,848,231	1,848,231	1,848,231	1,848,231	1,848,231	1,848,231	1,848,231
Intergovernmental Revenues	4,130,060	3,680,060	3,684,698	3,689,423	3,694,239	3,699,146	3,704,146
Other Revenues	8,202,204	12,849,754	12,849,754	12,849,754	12,849,754	12,849,754	12,849,754
Transfers In	71,313,897	72,113,000	72,813,346	73,352,938	73,979,308	74,613,406	75,255,324
Contributed from Fund Balance	22,406,740	0	0	0	0	0	0
<b>Total General Fund Revenues</b>	<b>642,324,110</b>	<b>626,482,567</b>	<b>626,728,771</b>	<b>627,740,387</b>	<b>629,289,910</b>	<b>625,647,604</b>	<b>635,840,936</b>
<b>General Fund Expenditures</b>							
Personnel Services	428,770,780	420,472,764	541,457,058	542,775,856	546,028,584	548,157,754	549,382,352
Materials and Supplies	122,810,556	103,745,435	111,381,366	113,048,380	114,747,067	116,478,029	118,241,879
Capital Outlay	205,817	427,250	427,250	427,250	427,250	427,250	427,250
Grants and Subsidies	58,326,813	71,175,225	30,025,125	34,935,526	100,073,929	105,340,526	110,653,344
Inventory	199,016	342,839	342,839	342,839	342,839	342,839	342,839
Investment Fees	19,940	0	0	0	0	0	0
Service Charges	63,350	59,656	59,656	59,656	59,656	59,656	59,656
Transfers Out	62,639,331	11,179,369	11,499,433	11,059,533	10,535,256	10,536,281	10,532,181
Transfers to Other Governments	0	0	0	0	0	0	0
Depreciation on Own Funds	0	0	0	0	0	0	0
Misc Expense	88,685	0	0	0	0	0	0
Contributed to Fund Balance	0	13,080,029	13,080,029	13,080,029	13,080,029	13,080,029	13,080,029
Other	4,783	0	0	0	0	0	0
<b>Total General Fund Expenditures</b>	<b>673,729,071</b>	<b>626,482,567</b>	<b>768,272,756</b>	<b>775,729,069</b>	<b>785,294,610</b>	<b>794,422,364</b>	<b>802,720,130</b>
<b>Fiscal Year Surplus / (Deficit)</b>	<b>(31,404,961)</b>	<b>0</b>	<b>(141,543,985)</b>	<b>(147,988,682)</b>	<b>(156,004,700)</b>	<b>(168,774,760)</b>	<b>(166,879,194)</b>
<b>Fiscal Year Ending Fund Balance</b>	<b>63,405,721</b>	<b>63,405,721</b>	<b>(78,138,264)</b>	<b>(226,126,346)</b>	<b>(382,131,645)</b>	<b>(550,306,405)</b>	<b>(717,785,599)</b>

Full details on the assumptions that drive the baseline financial forecast are outlined in the sections that follow.

### Revenues

The basis for PFM's multiyear baseline forecast is the adopted FY2014 budget. Assumptions on revenue growth or decline are applied to each revenue category in the FY2014 budget to generate the multiyear revenue forecast. As illustrated in the chart below, total General Fund revenues are projected to increase slightly in each year through FY2017. In FY2018, revenues are forecasted to dip slightly before rebounding in FY2019. The specific assumptions driving this forecast are outlined below:



### Local Taxes

- Ad Valorem Taxes – Current:** PFM forecasts that baseline property tax revenues will decline from FY2015 to FY2018 and will begin to rebound in FY2019. This forecast is based on the following assumptions:
  - Property Values:* Based on appraised value forecasts from Chandler Reports, property values are assumed to decline through FY2017 and rebound in FY2018 due to the 2017 reappraisal.

#### Forecasted Change in Property Values

Tax Year 2014 Fiscal Year 2015	Tax Year 2015 Fiscal Year 2016	Tax Year 2016 Fiscal Year 2017	Tax Year 2017 Fiscal Year 2018	Tax Year 2018 Fiscal Year 2019
-2.42%	-1.60%	-1.47%	8.17%	2.10%

Source: Chandler Reports

- Annexations:* The baseline forecast includes the 2014 annexation of South Cordova, with the addition of these properties positively impacting property tax revenues, and assumes the anticipated 2015 annexation of the Southwind Windyke community is not included in the baseline forecast; however, as a new value becomes available it may be included in the projections, with the addition of these properties positively impacting property tax revenues. Also not included in the baseline forecast is the potential for additional costs resulting from annexation. Though difficult to quantify with precision, the risk of additional service provision costs offsetting new tax revenue should be considered.
- Tax Rates:* Tax rates are 3.4000 per \$100 of assessed value in FY2014 and remain flat through FY2017, followed by a reduction in FY2018 to 2.8751 due to the projected value increase with reappraisal. These assumptions represent the “take-no-action” scenario for the purpose of developing a true baseline forecast. When property values increase, a flat tax rate would mean that the City is collecting more taxes than it did in the prior year. In order to maintain a flat tax rate in FY2018, when values are projected to increase, the City would need to advertise a tax increase and proactively adopt the prior year’s rate.

The baseline forecast also assumes that, starting in FY2014, as the City will no longer bear a financial responsibility to support the Memphis City Schools each year, the 10 cent tax levy previously allocated to schools, will instead be allocated to the General Fund.

**Baseline Tax Rate Assumption**

	TY2013 FY2014	TY2014 FY2015	TY2015 FY2016	TY2016 FY2017	TY2017 FY2018	TY2018 FY2019
General Fund	2.4874	2.4874	2.4874	2.4874	2.2110	2.2110
Schools Fund	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Debt Service Fund	0.9093	0.9093	0.9093	0.9093	0.6612	0.6612
Capital PayGo	0.0033	0.0033	0.0033	0.0033	0.0029	0.0029
<b>TOTAL</b>	<b>3.4000</b>	<b>3.4000</b>	<b>3.4000</b>	<b>3.4000</b>	<b>2.8751</b>	<b>2.8751</b>

- *Collection Rate:* The baseline forecast assumes a 94.0 percent current year collection rate for property taxes in each year of the forecast.
- The combination of these assumptions results in a General Fund property tax revenue forecast of \$238 million in FY2015, declining gradually to \$222 million in FY2018 before experiencing an increase in FY2019 to \$227 million.

**General Fund Property Tax Revenue Forecast**

Tax Year 2014 Fiscal Year 2015	Tax Year 2015 Fiscal Year 2016	Tax Year 2016 Fiscal Year 2017	Tax Year 2017 Fiscal Year 2018	Tax Year 2018 Fiscal Year 2019
\$238,363,477	\$234,561,349	\$231,109,625	\$222,212,239	\$226,878,696

- **Ad Valorem Taxes – Delinquent:** Delinquent property tax collections are forecasted to decrease by 1.0 percent each year. The Finance Division has taken action in recent years to improve delinquent property tax collections. Specific efforts include engaging a third party collection agency and implementing delinquent tax sales. The improvement in delinquent collections is expected to reduce the amount of delinquent property taxes available to collect in future years. Revenue from interest and penalties on delinquent property taxes are expected to decline by 1.0 percent each year as well for the same reason.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Prior Year Property Tax/Tax Sale	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Property Tax Interest and Penalties	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%

- **Local Sales Tax, Beer Sales Tax, Gross Receipts Business Tax, State Appointment TVA:** Revenue from the City's local option sales tax, the beer sales tax, the growth receipts business tax and the local share of revenue from TVA is assumed to grow slightly each year. This forecast is based on the trend analysis performed by the University of Memphis.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Local Option Sales Tax	0.6%	0.6%	0.6%	0.6%	0.6%
Beer Sales Tax	1.7%	1.7%	1.6%	1.6%	1.6%
Gross Receipts Business Tax	1.9%	1.9%	1.7%	1.7%	1.7%
State Appointment TVA	2.9%	2.9%	2.8%	2.7%	2.7%

- **Other Local Tax Revenue:** All other revenues categorized as Local Taxes are forecasted to remain flat over the five-year period.

### State Taxes

- **State Sales Tax and State Income Tax (Hall Tax):** State sales tax revenue and state income tax revenue are both projected to grow in each year of the forecast. These growth assumptions are based on forecasts developed by the University of Memphis in early 2013.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
State Sales Tax	1.3%	1.3%	1.3%	1.3%	1.3%
State Income Tax	6.3%	6.3%	6.3%	6.3%	6.3%

- **Other State Tax Revenue:** All other state revenues are forecasted to remain flat over the five- year period.

### Licenses & Permits

- **Auto Registration Fees:** Auto registration fees comprise the largest portion of the City's license and permit revenue category. These revenues are forecasted by the University of Memphis to decline slightly each year.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Auto Registration Fees	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%

- **Other License and Permit Revenue:** All other license and permit revenues are forecasted to remain flat over the five-year period.

### Fines and Forfeitures

- **Court Fees:** Court fees are forecasted to experience no growth between FY2014 to FY2015.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Court Fees	0.0%	0.0%	0.0%	0.0%	0.0%

- **Court Costs:** Revenue from court charges is expected to remain flat in each year of the forecast.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Court Costs	0.0%	0.0%	0.0%	0.0%	0.0%

- **Fines and Forfeitures:** Revenue in this category is primarily driven by fines from red light cameras. The City saw significant increases in fine revenue in FY2010 and in FY2011 when red light cameras were first implemented. FY2012, however, showed a reduction in revenue as the fine began to impact behavior. This forecast assumes that

fine revenue will continue to decline through FY2018, and then level out.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Fines and Forfeitures	-8.0%	-6.0%	-4.0%	-2.0%	0.0%

- **Other Fine and Forfeiture Revenue:** All other revenues in this category are forecasted to remain flat over the five-year period.

### Charges for Services

- **Ambulance Services:** Revenue from ambulance services has been increasing in recent years. The City's financial management team attributes this increase to adjusted rates as well as improved collections achieved through engaging a provider to handle collection of this revenue. This forecast assumes that revenue from this source will continue to increase in the coming years, but will stabilize by FY2017.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Ambulance Services	1.0%	0.5%	0.0%	0.0%	0.0%

- **Fleet/Mobile Fees:** This revenue category was budgeted at a significantly higher level in FY2013 than historical collection levels. However, the FY2014 adopted budget does not include any revenue from this source, causing out-year projections to remain non-existent.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Fleet/Mobile Fees	0.0%	0.0%	0.0%	0.0%	0.0%

- **Other Charges for Services:** Other charges for services are forecasted to remain flat over the five-year period.

### Transfers In

- **MLGW PILOT:** The MLGW PILOT represents the City's largest transfer into the General Fund and the third largest source of revenue budgeted for FY2014. Revenue from the MLGW PILOT is assumed to grow slightly each year based on forecasts developed by the University of Memphis. These forecasts are in line with a separate forecast produced by the financial management team at MLGW.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
MLGW PILOT	1.4%	1.3%	1.2%	1.2%	1.2%

- **State Street Aid Fund Transfer:** The transfer to the General Fund from the State Street Aid Fund is determined by the total amount of revenue allocated to that fund each year by the State. Based on the forecasts developed by the University of Memphis, State Street Aid is assumed to decline slightly in each year of the five-year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Transfer In-State Street Aid Fund	-0.2%	-1.0%	-1.1%	-1.1%	-1.1%

- **Sewer PILOT and Sewer Fund Transfer:** The transfer from the Sewer Fund and the Sewer PILOT are assumed to remain flat over the five-year period.

### Other Revenue Sources

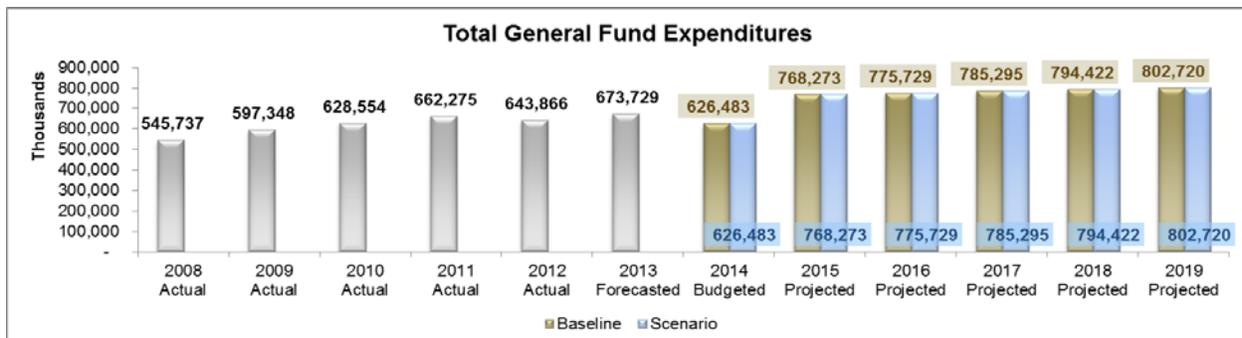
- **Use of Money & Property:** The baseline forecast assumes that the revenue from investments will remain flat in each year.
- **Grants:** The forecast also assumes that grant revenues in the General Fund will remain flat.
- **Intergovernmental Revenue:** Intergovernmental revenue is driven by revenue from the Airport to reimburse the cost of service provision by the Fire Division at the Airport. This revenue is projected to increase slightly as the cost of service provision increases each year. Other intergovernmental revenues are forecasted to remain flat.
- **Other Revenues:** All other General Fund revenues are projected to remain flat over the five-year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
International Airport	0.1%	0.1%	0.1%	0.1%	0.1%

- **Other Revenues:** All other General Fund revenues are projected to remain flat over the five-year period.

### Expenditures

Like the baseline revenue forecast, PFM’s baseline expenditure forecast for the five-year period is based on the adopted FY2014 budget. Assumptions on expenditure growth or decline are applied to each expenditure category in the FY2014 budget to generate the multiyear forecast. As illustrated in the chart below, total General Fund expenditures are projected to increase significantly in FY2015 and increase slightly each year thereafter due in large part to growth in employee benefit costs and debt service costs. The specific assumptions driving this forecast are outlined below.



## Personnel Costs

Underlying all personnel cost forecasts is the assumption that the size of the City's workforce will remain the same over the five-year period. The projected growth in personnel costs is the result of assumed increases in per employee costs.

- **Employee Earnings:** Full-time salaries, part-time salaries and other elements of paid compensation, such as overtime and shift differential, are assumed to remain flat over the five-year period.
- **Health Benefits:** Based on historical trends in health care cost growth nationally, the baseline forecast assumes that the cost of health benefit will grow by 5.4% annually.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Health Insurance	5.4%	5.4%	5.4%	5.4%	5.4%

- **Pension:** The main driver of the dramatic increase that is forecasted in personnel costs is the cost of the City's retirement benefits. The FY2014 budgeted pension expenditure represents the City's current policy of contributing 6 percent of payroll to the pension fund each year. Based on the most recent actuarial valuation report prepared by the City's external actuaries, the annual required contribution (ARC) to the pension fund for FY2014 is about five times as large as the budgeted pension expenditure. Actuarial forecasts also suggest that the ARC will continue to grow in each year of the forecast period. PFM's baseline forecast assumes that the pension expenditure in FY2015 and each year thereafter will be equal to the actuarially determined ARC. The rationale for this assumption is the understanding that the ARC represents the true cost of the future benefit promised for current service. Assuming no direct action is taken to reduce the total pension liability or to defer costs to the future, the ARC represents the annual baseline cost for this benefit.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Pension Funding	437.2%	-0.6%	1.3%	-0.1%	-1.4%

- **Other Post-Employment Benefits:** The FY2014 budget for other post-employment benefits (OPEB) represents the City's contribution to the OPEB trust fund. As with the pension fund, the City's contributions have been well below the OPEB ARC. Specifically with regard to OPEB funding, the City should be commended for funding the OPEB trust even at a level below the ARC. Since the implementation of GASB 45, many governments have continued to fund retiree health costs on a purely pay-as-you-go basis, and there are virtually no governments that fully fund the OPEB ARC. Nonetheless, the baseline forecast includes the full ARC cost as this represents the true cost of service provision and reflects the current impact of the future liability created by promised benefits. The baseline forecast assumes that the OPEB contribution level will be increased to the level required to fully fund the OPEB ARC.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
OPEB Funding	830.9%	-0.5%	-0.5%	-0.3%	0.2%

- **Other Personnel Costs:** Other personnel costs, which include payroll taxes, disability insurance, unemployment and other personnel related expenditures, are projected to

remain flat over the five-year period.

### Materials and Supplies

- **Professional Services:** Generally, professional services budgeted at more than \$500,000 for FY2014 are forecasted to grow each year at 1.9 percent to account for normal inflation. Professional services budgeted at less than \$500,000 are assumed to remain flat over the five- year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Professional Services	1.9%	1.9%	1.9%	1.9%	1.9%

- **Materials and Supplies:** Generally, materials and supplies budgeted at more than \$500,00for FY2014 are forecasted to grow each year at 1.9 percent to account for normal inflation. Materials and supplies budgeted at less than \$500,000 are assumed to remain flat over the five-year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Materials and Supplies	1.9%	1.9%	1.9%	1.9%	1.9%

- **Utilities and Sewer Fees:** Generally, materials and supplies budgeted at more than \$500,00for FY2014 are forecasted to grow each year at 1.9 percent to account for normal inflation. Materials and supplies budgeted at less than \$500,000 are assumed to remain flat over the five-year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Utilities and Sewer Fees	1.9%	1.9%	1.9%	1.9%	1.9%

- **Other Personnel Costs:** Other personnel costs, which include payroll taxes, disability insurance, unemployment and other personnel related expenditures, are projected to remain flat over the five-year period.
- **Lawsuits:** The budget for lawsuits is forecasted to remain flat for the five-year period. The budget for claims is assumed to remain flat for the five-year period as well.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Lawsuits	0.0%	0.0%	0.0%	0.0%	0.0%

- **Asset Amortization Payment, Rent and Claims:** Asset amortization payments, rent costs and claims costs are forecasted to remain flat each year.

### Grants and Subsidies

- **Pensioner’s Insurance:** The budget for pensioner’s insurance represents the City’s contribution to the pay-as-you-go cost of retiree health benefits. The contribution budgeted in FY2013 was approximately \$20 million below the required amount. As a one-time source of budget relief, funds from the OPEB reserve fund were used to offset the pay-as-you-go cost for FY2013. The adopted FY2014 budget is consistent with pre-FY2013 funding. However, the baseline forecast assumes that the full pay-as-you-go amount is budgeted in

the FY2015 General Fund and that this cost increases annually, consistent with 100 percent funding.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
OPEB Pay-Go	67.8%	10.1%	9.6%	9.0%	8.3%

- **MATA:** The City's contribution to the Memphis Area Transit Authority (MATA) is assumed to remain flat over the five-year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
MATA	0.0%	0.0%	0.0%	0.0%	0.0%

- **EDGE:** The City has a contractual obligation to contribute \$7.5 million in seed funding to the Memphis and Shelby County Economic Development Growth Engine (EDGE). The FY2013 budget for this contribution was forecasted to be \$4.6 million. Adopted FY2014 allocates \$2.1 million. The baseline forecast assumes that the remaining \$0.8 million will be contributed in FY2015 and that there will be no contribution for the remaining four years of the forecast.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
EDGE	-38.0%	0.0%	0.0%	0.0%	0.0%

- **Other Grants and Subsidies:** All other grants and subsidies are assumed to remain constant over the five-year period.

### Transfers Out

- **Transfer to Memphis City Schools:** Beginning in FY2014, the City transferred the financial obligation to support the Memphis City Schools to Shelby County. The FY2014 budget for this transfer was reduced to zero and is reflected through the entire five-year period.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Transfer Out – MCS Tax Fund	0.0%	0.0%	0.0%	0.0%	0.0%

- **Transfer to Debt Service Fund:** The transfer from the General Fund to the Debt Service Fund is based on the shortfall between revenues and expenditures in the Debt Service Fund. Due to anticipated new debt issuances to finance capital improvement projects and to refinance existing short-term debt, debt service costs are projected to outpace available revenues. The General Fund subsidy of debt service costs is forecasted to grow from \$4.7 million in FY2014 to approximately \$4.8 million in FY2015. The transfer is expected to decrease each year after that.

	FY2015 Projected	FY2016 Projected	FY2017 Projected	FY2018 Projected	FY2019 Projected
Transfer Out – Debt Service Fund	7.1%	-9.1%	-12.0%	0.0%	-0.1%

- **Other Transfers Out:** Other transfers out of the General Fund, including a transfer to the CRA Fund and small transfers to the Miscellaneous Grants Fund and the Unemployment Fund are projected to remain flat over the five-year period

## Overview of Analysis and Initiatives

In Summer and Fall 2013, the City revisited the analysis and recommendations outlined in the draft February 2013 draft plan and designated a series of high impact initiatives as priorities for adoption and implementation. The initiatives from the February 2013 draft plan that fit within these newly established high impact initiatives are presented in the following sections of the report. The initiatives are organized to address potential opportunities for revenue enhancements, changes to employee compensation and benefits, new strategies for addressing public safety, opportunities to improve service delivery efficiency and effectiveness, and creating a strategic framework for making infrastructure and development decisions. The table that follows identifies those initiatives from the February 2013 draft plan – and now part of the final plan – that align with the high priority areas. Additionally, a number of other initiatives that PFM developed as part of the February 2013 draft plan that do not directly relate to one or more high priority areas are presented in an appendix at the end of this report.

It is important to note that to ensure timely production of this plan, the City chose not to revisit the analysis that was contained in the February 2013 draft plan. As a result, the baseline for analysis in many of the initiatives will either be FY2012 actual revenue or expenditures or FY2013 adopted budget figures. Projected savings and revenue are based on those baseline numbers – not the adopted FY2014 budget. Thus, in some cases, projections – particularly those that involve savings or costs related to personnel – are really estimates that will require further revision upon adoption.

**Crosswalk of Identified Mayoral High Priorities (Summer/Fall 2013) and PFM Report Initiatives (Winter 2013)**

Mayoral High-Priority List	Report Initiative	Initiative Title	Mayoral Priority Contained in Report
<b>PFM Initiatives Addressing Updated Mayoral Priorities</b>			
Centralize Revenue Collection and Revenue Strategy Development (hire Revenue Officer)	RE01	Centralize Revenue Collection and Revenue Strategy Development	✓
Review all fines, fees and collections in order to increase revenues	RE02	Review All Fines and Fees In Order to Increase Revenue	✓
Pension and OPEB Reforms	CB01	Implement Pension Reforms	✓
	CB02	Review Pension Investment Strategies and Practices	✓
	CB03	Implement OPEB Reforms	✓
Review of all employee benefits including the DROP program, holidays and establishing a sick leave pool/bank	CB04	Review Employee Health Benefits	✓
	CB05	Review Employee Incentive Pay and Longevity Pay	✓
	CB06	Review Employee Holidays	✓
	CB07	Review Employee Sick Leave	✓
Define core services for Police, Fire and Solid Waste; Develop and implement cost savings/efficiency measures for public safety	PS01	Explore Cost Savings Measures for the Police Division	✓
	PS02	Explore Cost Savings Measures for the Fire Division	✓
	PS03	Perform Fire Division Workload Demand and Deployment Analysis	✓
Consolidate back office functions and dispatching for Fire and Police Divisions	PS04	Consolidate Back Office Functions for Police and Fire Divisions	✓
Immediate review of public safety operations in light of zero based budgeting	PS05	Create Comprehensive Crime Reduction Plan	✓
Find alternatives to EMS/emergency room transports	PS06	Explore Alternatives for EMS	✓
Increase false alarm fees	PS07	Increase False Alarm Fees <sup>4</sup>	✓
Complete conversion to zero based budgeting; Implement 311 throughout city government with accompanying performance management component; Implement KPI's throughout city government	HPG01	Use Performance Management to Achieve Budget Savings	✓

<sup>4</sup> In July 2010, Memphis City Council passed an ordinance to increase fees and fines for false alarms. The increase in fines does not match the scenario described by PFM in its initiative, but it is an attempt to deter false alarms that waste valuable public safety resources. Based on news report as of December 12, 2013, it was unclear whether the County Commission had also approved the change, a requirement for the change to be implemented. Based on the steps taken by the City in this area, the initiative is presented in Appendix A rather than with the other initiatives related to Public Safety.

Mayoral High Priority List	Report Initiative	Initiative Title	Mayoral Priority Contained in Report
<b>PFM Initiatives Addressing Updated Mayoral Priorities</b>			
Complete conversion to zero based budgeting	HPG02	Budget Process Improvement	✓
Create Financial Advisory Board	HPG03	Create a Financial Advisory Board	✓
Create a grants office (to seek grants, not merely manage grants)	HPG04	Create a Grants Management Office	✓
Review all fines, fees and collections in order to increase revenues	HPG05	Improve Efficiency of Court Clerk Operations	✓
Complete facilities and space study	HPG06	Complete a Facilities and Space Study	✓
Review policies of car allowances, fleet management (across all divisions and fund) and reduce the total fleet (in particular the number of take home cars);	HPG07	Review Fleet Management Policies	✓
Define core services for Police, Fire and Solid Waste	HPG08	Implement Full Pay-As-You-Throw Program	✓
Review joint service opportunities with Shelby County, MHA, MLGW and others	HPG09	Explore Joint Service Opportunities	✓
Develop a strategic plan for parks and golf courses	HPG10	Explore Public Private Partnerships for Park Facilities and Golf Courses	✓
Review all capital projects (including annual CIP and ad hoc projects) through a common analytical and policy framework	SI01	Review CIP Policy and Analysis Framework	✓
Develop and have Council formally adopt a Growth Plan embracing major city projects	SI02	Develop a Comprehensive Development Plan	✓
Review all PILOTs and PILOT policy so as to create a more efficient, effective and equitable system of generating revenue while promoting growth in sectors of the local economy	SI03	Create a Unified Economic Development Budget	✓
<b>Mayoral Priorities Not Addressed in PFM Report</b>			
Full implementation of Comptroller's mandates with respect to rebuilding reserves and debt service funds	N/A		
Conduct debt burden and capacity analysis; restructure debt where appropriate	N/A		
Develop and implement the "Blueprint for Prosperity" program	N/A		

# Revenue Enhancement

## Overview

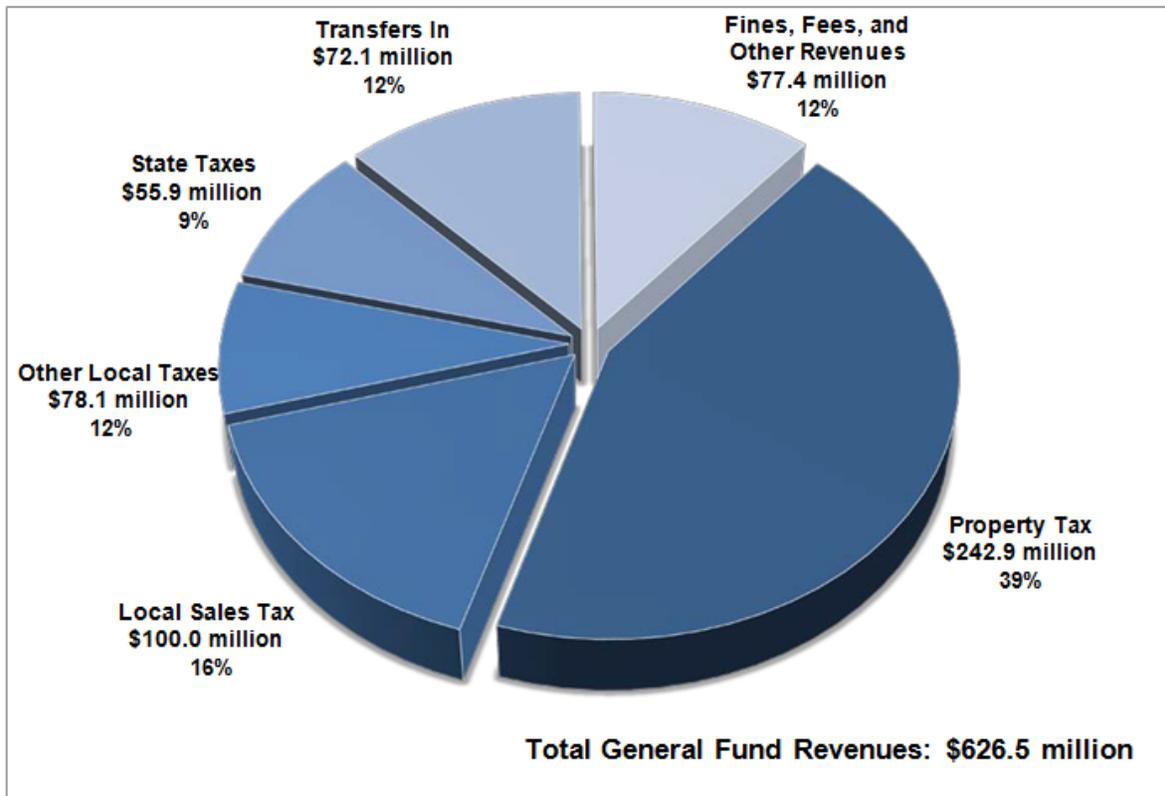
Given the scale of the financial challenges facing the City, it is not likely that long-term structural balance can be achieved solely through expenditure reductions. Thus, it will be important for the City to focus not just on opportunities for expenditure reduction but also on opportunities to enhance revenues.

In FY2014, property taxes were budgeted at approximately 39 percent of total General Fund revenues. The total local tax category, including property tax, local sales tax and a number of other local taxes comprised 67 percent of General Fund revenues.

The next largest category of revenues budgeted in FY2014 was operating transfers to the General Fund. The \$72.1 million in operating transfers is driven by \$52.1 million in PILOT revenue from MLGW and \$14.8 million in gas tax revenue from the State Street Aid Fund. State taxes, inclusive of the \$44.4 million in state sales tax revenue and \$7.7 million in state income tax revenue, comprised 9 percent of the General Fund revenues.

All remaining revenue sources, including fines, fees, licenses and permits and other miscellaneous sources of revenue came to approximately 12 percent of total revenues budgeted in the General Fund.

**FY2014 Budgeted General Fund Revenues by Category**



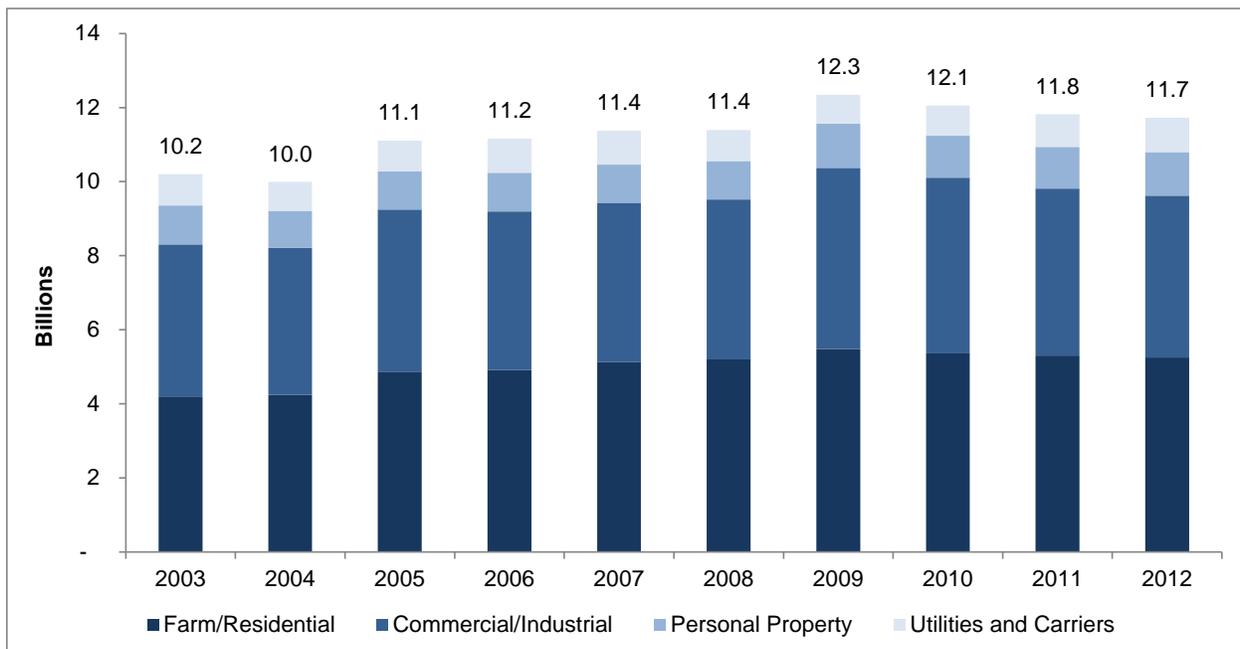
## Local Taxes

At 67 percent of total General Fund revenues, local taxes have been the City's largest source of revenue. The drivers of this revenue category are the property tax, budgeted at \$242.9 million in FY2014, and the local sales tax, budgeted at \$100.0 million in FY2014.

**Property Tax:** Since the 2009 reappraisal, the City has seen its assessed property values decline gradually each year. PFM's baseline forecast assumes that property tax revenue will decline each year through FY2018 due to lower property values with the 2013 reappraisal as well as future appeals on appraised values. The baseline forecast assumes that, although the assessed value increases 8.2 percent in FY2018 due to the reappraisal in FY2017, the tax rate falls from 3.4 percent to 2.8 percent without adoption of a flat tax rate. This results in decreased property tax revenue in FY2018. Property tax revenues begin to rebound in FY2019.

The City has already annexed South Cordova and put in motion the annexation of the Southwind Windyke community, but the anticipated value that will be added to the tax rolls is only a fraction of the value that is forecasted to be lost each year. Further, the annexation of these communities has the potential to create offsetting increases in service provision costs.

### Historical Trend in Assessed Property Values – FY2003-FY2012



Source: City of Memphis 2012 CAFR

The City of Memphis had the highest 2012 city property tax rate in Tennessee. At the same time, Shelby County had the second highest county property tax rate in the State. In total, residents of Memphis pay a higher combined tax rate than any other property tax payers across the State.

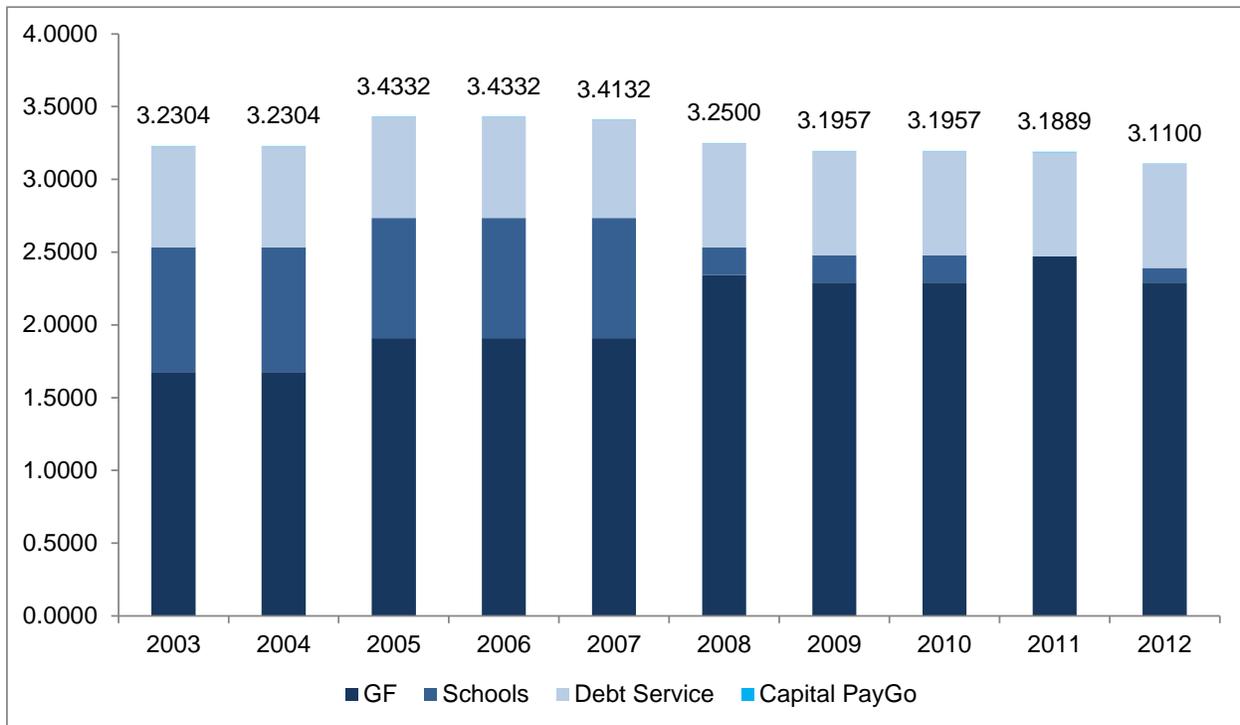
### Comparative Property Tax Rates (City and Combined City/County Rates)

Top 5 City Property Tax Rates 2012	
City	Rate
1. Memphis	3.1100
2. Humboldt	3.0400
3. Knoxville	2.4600
4. Oak Ridge	2.3900
5. Tullahoma	2.3100

Top 5 Combined Property Tax Rates 2012	
City	Rate
1. Memphis	7.1300
2. Bartlett	5.5500
3. Germantown	5.5450
4. Collierville	5.4900
5. Millington	5.2900

Still, in 2012, the City property tax rate was at its lowest at any point in a decade.

### Historical Trend in City Property Tax Rates



Source: City of Memphis 2012 CAFR

The chart above illustrates that over time, the proportion of the tax rate allocated to the Memphis City Schools has declined significantly. Beginning in FY2014, the County will take over the City's financial responsibility to support the school district. PFM's forecast assumes that the 10 cent tax levied in FY2013 to support the schools will instead be allocated to the General Fund.

**Local Sales Tax:** A 2.25 percent local sales tax is the second largest source of revenue for the City of Memphis. The sales tax rate was last increased in FY1984. Compared to benchmark jurisdictions, Memphis currently has the second highest local sales tax rate and the second highest total combined sales tax rate. This rate is consistent, however, with all of the other in-state benchmarks. Based on an analysis performed by the University of Memphis, PFM's baseline forecast assumes slight growth in local sales tax revenue each year.

## Comparative Sales Tax Rates

City	State	City Sales Tax	County, State or Other Sales Tax	Total Combined Sales Tax
Atlanta	GA	1.000%	7.000%	8.000%
Baltimore	MD	0.000%	6.000%	6.000%
Birmingham	AL	3.000%	6.000%	9.000%
Boston	MA	0.000%	6.250%	6.250%
Chattanooga	TN	2.250%	7.000%	9.250%
Knoxville	TN	2.250%	7.000%	9.250%
Nashville	TN	2.250%	7.000%	9.250%
New Orleans	LA	0.000%	9.000%	9.000%
Seattle	WA	0.000%	9.500%	9.500%
St. Louis	MO	3.350%	4.891%	8.241%
<b>Memphis</b>	<b>TN</b>	<b>2.250%</b>	<b>7.000%</b>	<b>9.250%</b>

*Other Local Taxes:* The other major drivers of the local tax revenue category are the beer sales tax, budgeted at \$16.2 million, the gross receipts business tax, budgeted at \$10.1 million, the City's share of revenue from the TVA, budgeted at \$7.7 million and cable television franchise fees, budgeted at \$4.4 million in FY2013.

### State Taxes

Together, revenues categorized as state taxes comprised 8.9 percent of all General Fund revenues budgeted for FY2013. This category of revenues is driven by \$44.0 million in state sales tax revenue and \$7.6 million in state income tax revenue.

*State Sales Tax:* The State sales tax rate is currently 7.0 percent. Of the 7.0 percent tax that is levied, 1.0 percent goes to the State's General Fund. A portion of the remaining 6.0 percent is set aside for education, while another portion is allocated to the municipalities within the State on a per capita basis. Based on forecasts from the University of Memphis, State sales tax revenue is expected to increase over the coming five-year period.

*State Income Tax:* While Tennessee has no tax on income from wages, there is a State tax on income from dividends and interest on investments. Also referred to as the Hall Tax, this tax is collected by the State with a share of the total revenue being distributed to municipalities based on residence of the taxpayers. The University of Memphis forecasts that revenue from the State income tax will grow in each year of the five-year period.

### License and Permits

License and permit revenue accounts for 1.7 percent of FY2013 budgeted General Fund revenues, with the vast majority of this revenue (90.8 percent) coming from auto registration fees. The City's fee for registering a privately-owned passenger vehicle is \$30 annually. This is generally in line with, though slightly higher, than rates charged in other parts of Shelby County. The economists at the University of Memphis forecast a slight reduction in this revenue source over the five-year period.

## Comparative Auto Registration Fees in Shelby County

Municipality	City Vehicle Registration Fee
Bartlett	\$25
Collierville	\$27
Germantown	\$25
Millington	\$25
<b>Memphis</b>	<b>\$30</b>

### Fines and Forfeitures

Fines and forfeitures accounted for 2.4 percent of General Fund budgeted revenues in FY2013. This revenue category is driven by various fines and related administrative fees charged by the Clerk of Courts. With an outstanding receivable of almost \$16 million at the end of FY2012, collection of outstanding fees and fines is a challenge for the City. Also included in this revenue category is fine revenue from the City's red-light cameras. PFM's baseline forecast projects that the City will see declines in revenue from fines and forfeitures in each year.

### Charges for Services

Charges for services represented 5.1 percent of total budgeted General Fund revenue for FY2013. This category includes fees for services charged by various City divisions, such as ambulance fees charged by the Fire Division, admissions and facility rental fees charged by the Parks and Neighborhoods Division, and wrecker and vehicle storage fees charged by the Police Division. The largest revenue source in this category is revenue from ambulance fees. Budgeted at \$18.7 million in FY2013, ambulance fees accounted for 58.8 percent of General Fund service charges. Collection of ambulance fee revenue has also been a challenge for the City. The City has seen some improvement in the collection rate, however, with the transition to a new third party collection vendor in 2011. Overall, revenue from charges for services is forecasted to be relatively flat over the five-year period.

### Operating Transfers

Transfers in to the General Fund from other City funds comprise a substantial portion of available General Fund revenues. In FY2013, transfers from other funds accounted for 12.1 percent of total budgeted General Fund revenues. The largest portion of this revenue is the annual payment from Memphis Light Gas and Water (MLGW), the City's light, gas and water utility. The utility makes an in-lieu-of-tax payment to the City's General Fund each year based on specific PILOT formulas mandated by state law. In FY2013, the City budgeted \$54.7 million from the MLGW PILOT. This amount is forecasted to increase in each year of the forecast.

The next largest transfer to the General Fund comes from the City's State Street Aid Fund. State gas tax revenue is allocated to the City's State Street Aid Fund. This revenue is then transferred from the State Street Aid fund to the General Fund and the Debt Service Fund. The transfer to the General Fund budgeted for FY2013 was \$15.4 million. Based on the forecasts developed by the University of Memphis, gas tax revenue is projected to decline slightly in each year of the five-year forecast.

### Comparisons to Other Cities

While Memphis' tax rate is high when compared to other Tennessee cities, overall tax burden is relatively low when compared to other major cities nationally. The District of Columbia conducts an annual analysis of the total state and local tax burdens borne by different households in the most populous cities in each

of the fifty states and compares them to the District of Columbia.<sup>5</sup> As of 2011, Memphis' tax burden was at or below the average and median among 51 cities for every category of family income. Compared to other cities, the highest rate was for household with a family income of \$25,000 – where Memphis' tax burden of 11.8 percent equaled the median for all of the cities in the survey. For Memphis households with a family income of \$150,000, the state and local tax burden of 4.3 percent was less than half the tax burden for Memphis families with income of \$25,000 and half the average and median tax burden for households with a family income of \$150,000 for major cities nationally.

### Memphis Tax Burden Comparison

Family Income	Memphis Tax Burden	Rank (out of 51 cities)	Average	Median
\$25,000	11.8%	29	12.3%	11.8%
\$50,000	6.6%	46	9.9%	9.4%
\$75,000	5.6%	48	9.4%	9.3%
\$100,000	4.8%	48	8.7%	9.0%
\$150,000	4.3%	47	8.6%	8.9%

## Initiatives

PFM identified three key themes that frame the opportunities for revenue enhancement in the City.

- There are opportunities for the City to enhance revenues by improving collections. A number of factors contribute to the City's difficulty in collecting certain revenues, especially court fines and fees, and ambulance fees. Some of those factors are within the City's control, while others are not. By addressing those factors that are within its control, the City can improve collection rates and see General Fund revenues increase.
- Fee and fine rates are very infrequently adjusted. In many instances, fees and fines have not been updated for decades. Further, there is an opportunity for the City to better manage information on rates charged and service costs in order to better inform policy around fee and fine rates.
- Memphis provides services to non-residents, but relies primarily on property taxes paid by residents to pay for these services. A large proportion of the individuals using Memphis' roadway infrastructure and public safety services work in the City during the day, but leave the City for one of the neighboring communities each night. Property taxes and state income taxes paid by these individuals do not go to fund any of the services provided by the City of Memphis. In addition to commuters, many nonprofit organizations receive the services provided by City government, but are exempt from paying property taxes which is the City's primary means for funding these services. PFM believes that there are opportunities to improve the City's revenue structure to achieve greater equity.

The City has identified three high impact priorities related to revenue enhancement:

- Centralize Revenue Collection and Revenue Strategy Development and hire a Revenue Officer
- Review all fines, fees and collections in order to increase revenues
- Review all PILOTS and PILOT policy so as to create a more efficient, effective and equitable system of generating revenue while promoting growth in sectors of the local economy

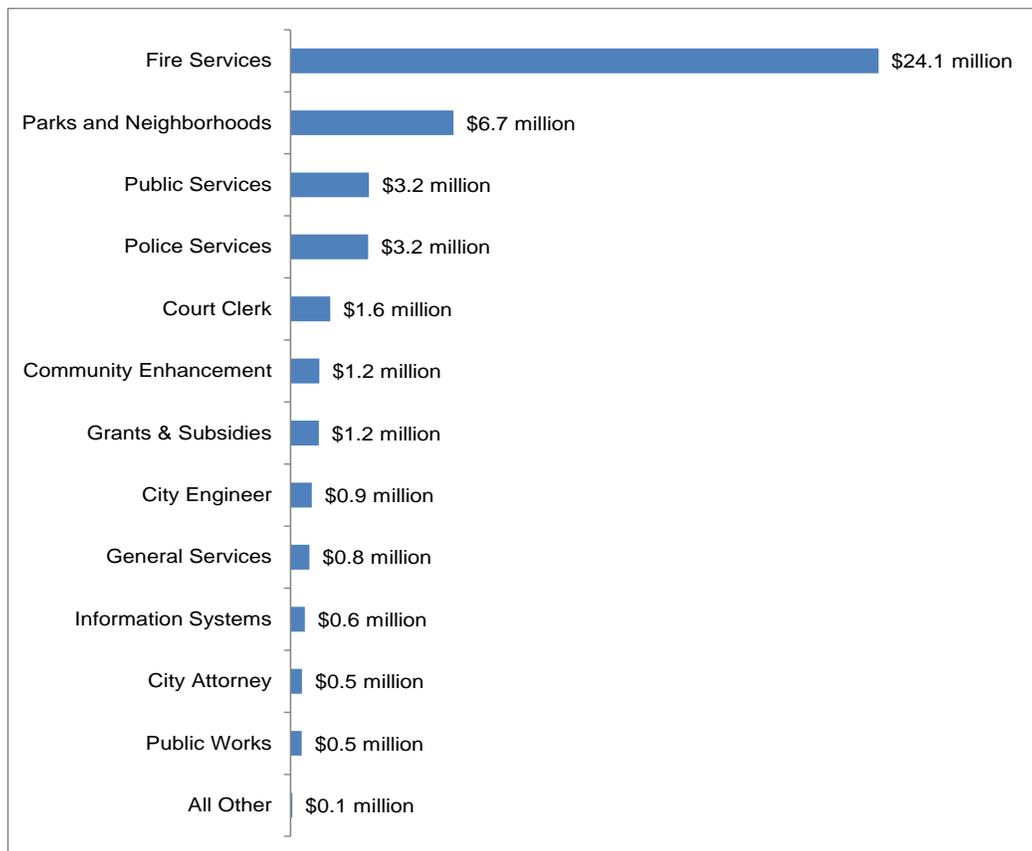
<sup>5</sup> The most recent survey was released in September 2012 and covered 2011 rates. It is available at <http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/Nationwide%20Comparison%202011.pdf>.

With these key themes as a foundation, PFM developed the following recommendations for revenue enhancement in the City.

<b>RE01.</b>	<b>Centralize Revenue Collection and Revenue Strategy Development</b>	
	<b>Target outcome:</b>	Improved cash management processes; greater efficiency, effectiveness and accountability in revenue collection; increased revenue
	<b>Five-year financial impact:</b>	\$9.6 million increased revenue
	<b>Responsible party:</b>	Finance Division

Responsibility for collecting revenues for the City of Memphis currently exists across a variety of City divisions. Revenues from different sources are collected via cash transactions, credit card transactions and invoicing for payment at different locations across the City. Many of the revenue collecting divisions have a fair amount of autonomy in determining the processes by which revenues are collected. The service centers that collect their own revenue also have the responsibility of depositing the funds and accounting for these receipts in the City’s financial accounting system.

**General Fund Revenue Collected at Division-Based Service Centers in FY2012**



Among the divisions with a decentralized revenue collection function, the Fire Division collects the largest amount of revenue. Most of this revenue is generated by ambulance service fees. The division with the second largest revenue collection in FY2012 was Parks and Neighborhoods, with the majority of this revenue being collected at the golf courses as well as at the Liberty Bowl Memorial Stadium.

The Finance Division maintains citywide cash management policies, but has limited authority to enforce adherence to these policies by the decentralized staff responsible for collecting the division revenues. The decentralization of the revenue collection function creates the potential for a number of challenges for the City:

- **Consistency of processes:** Despite the existence of written policies around cash management and receivables accounting, the Finance Division does not have direct authority over employees collecting revenues in other divisions, and cannot ensure that all policies are being complied with. In particular, divergent practices with regard to accounting for receipts results in inconsistencies across various divisions. These inconsistencies lead to a more burdensome reconciliation process at the end of each year.
- **Central accountability:** Under the current decentralized revenue collection model, employees collecting revenue for the various divisions report to the directors of their respective divisions, rather than to the Finance Division. This results in accountability for effective revenue collection being spread across a large number of divisions. Further, for these decentralized divisions, financial management and reporting functions are secondary in priority to their core service provision.
- **Strategic Planning:** With responsibility for collecting different revenues spread across a number of City divisions, there is limited ability to assess the City's revenue structure as a whole and determine the extent to which there are opportunities for comprehensive improvements in revenue policy.

#### Centralize the revenue management function in the Finance Division

In order to improve effectiveness and accountability, PFM recommends that the City establish a centralized revenue management function within the Finance Division. This function should be led by an individual who can be fully dedicated to this role. This "Revenue Czar" can hold a formal title of Revenue Officer, or any other title that is deemed appropriate. This individual will report to the Finance Director and, with the appropriate level of support staff, will oversee revenue collection processes and support revenue strategy development citywide. Specific responsibilities of this position should include:

- Documenting, disseminating, regularly updating and ensuring compliance with policies and procedures related to revenue collection and accounting functions in all City divisions
- Ensuring that all staff collecting revenue on the City's behalf are adequately trained and have access to the resources necessary to perform this function consistently
- Developing and overseeing strategic initiatives for improving revenue collection and informing revenue policy citywide. Specific examples may include:
  - **Identifying opportunities for revenues to be collected centrally:** While some revenues will need to be collected at service centers for practical reasons (i.e. admission fees), there may be others that can be collected instead by the Finance Division rather than the various operating divisions. This transition would improve accountability and also free the operating divisions to dedicate more of their resources to their core lines of service.
  - **Identifying opportunities for improved collection processes:** An important goal of every organization's revenue operation is to maximize the collection of revenues due. Improving revenue collection processes will help to reduce the amount of revenue that will need to be written off as uncollectible each year. The City's Revenue Manager should play a leadership role in the identification of opportunities to improve collections. Some potential initiatives for consideration include:

- Expanded use of credit cards and online payment: Out of approximately 85 decentralized service centers collecting revenue on the City's behalf, there are approximately 15 that currently accept payment by credit card. One way to improve current collections is to make it as easy as possible to pay. Expansion of the ability to accept credit card payments will likely improve revenue collection. The same holds true for online payment options.
- Improved delinquent collections: The City has been challenged in collecting certain delinquent fees and fines, and maintains large receivables for these outstanding revenues. Ambulance fees and court fines comprise the largest portions of outstanding receivables. The Revenue Manager can work with the appropriate division directors to identify and implement strategies to improve collection of delinquent revenues. The City Attorney's Office is designated as the entity to handle collections of all delinquent accounts – including those from the Court Clerk. The City Attorney's Office has a contract in place with a collections attorney to pursue delinquent accounts. The contract, paid at a low-percentage contingency fee should not be the only strategy used by the City. Strategic implementation of fine amnesty periods, and imposing stricter penalties for non-payment are additional tools the City has used and should continue to use in a selective manner in the future. The City can also further explore the potential benefits of the use of technology, and more efficient alignment of staff resources in improving delinquent revenue collection processes.
- **Performing revenue benchmarking analyses**: Another important function that can be assigned to the Revenue Manager and supporting staff is the gathering of information on revenue collection in comparable jurisdictions. Information on collection processes and collection rates in other governments can help to inform decisions on process improvements for Memphis. Also, information on tax, fee and fine rates in comparable governments can help to inform policy decisions around the rates charged by Memphis.

#### Establish a Revenue Strategy Working Group

In order to facilitate ongoing and comprehensive assessment of revenue policy citywide, the City should establish a Revenue Strategy Working Group. At a minimum, the individuals participating in the working group should include the newly created Revenue Officer position, the Finance Director, the Budget Director, the City Attorney, the Clerk of Courts, and the Chief Administrative Officer. The working group should meet at least quarterly and more frequently as needed.

The primary objective of the Revenue Strategy Working Group will be to regularly review the city's current revenue structure and existing revenue policies and to establish strategic objectives for short and long-term improvements. Specific issues addressed by this group may include:

- **Cost recovery of fees**: Certain fees are typically set to cover the cost of service provision, while other fees are set with the understanding of an implied government subsidy for the service being provided. The Revenue Strategy Working Group can review the extent to which current fees cover the cost of service provision, and can determine where full cost recovery is desired and where less than full cost recovery is appropriate.
- **Strategic rate-setting**: With information collected by the Revenue Manager on rates in comparable jurisdictions, the Working Group can collectively determine the most appropriate fee, fine and tax rates to be charged by the City in order to meet established strategic objectives. **[See Recommendation RE02]**

- **Potential new revenue sources:** The working group can also be responsible for staying abreast of potential new sources of revenue for the City and determining which new revenue sources may or may not align with City's strategic revenue objectives. Examples of potential new revenue sources can include corporate sponsorships or other market based revenue opportunities, new taxes and fees, or voluntary payments in lieu of taxes from tax-exempt nonprofits. **[See Recommendation RE03 in Appendix A]**
- **Intergovernmental relations and setting lobbying objectives:** The Revenue Strategy Working Group can be charged with keeping abreast of key issues at the State and Federal levels that have the potential to affect the City's revenues. The group can also be responsible for setting lobbying objectives and priorities with regard to legislative issues that can potentially impact City revenues. **[See Recommendation RE04 in Appendix A]**
- **Revenue structure and equity considerations:** An important role of the working group should be to regularly evaluate the City's revenue structure and the extent to which it aligns with the City's strategic objectives. Key questions that should be regularly addressed include:
  - What populations are receiving which City services?
  - To what extent does this align with the populations that are paying for City services?
  - Are current tax and fee rates fair and progressive?
  - Does the current revenue structure unfairly burden certain sectors of the population?
  - Is the current revenue structure aligned with the City's social improvement objectives?
  - Is the current revenue structure aligned with the City's economic development objectives?
  - In what ways can the revenue structure be improved to better align with the strategic goals of the City?

Arriving at the answers to these questions and the implementation of identified improvements should be part of the core function this Working Group.

PFM believes that that there is sufficient capacity in the Finance Division to be able to implement the above recommendations without the need to increase staffing levels. The assignment of a Revenue Officer and support staff to the roles described above, however, will undoubtedly require the realignment of staff resources. The Finance Division should seek to identify the available staff resources to be able to implement this recommendation without incurring additional costs.

The establishment of a centralized team dedicated to improving revenue collections will likely result in enhanced revenues for the City over time. The increase revenues will come from improved rates of current and delinquent revenue collection and increases in fee and fine rates as well as new sources of revenue for the City.

The increase in City revenues generated through increased fee and fine rates is estimated in recommendation **RE02**, and the estimated increase in revenue resulting from newly identified revenue sources is discussed in recommendation **RE03**. The fiscal impact below represents PFM's estimate of the revenue increase that the City can see as a result of improved revenue collection practices.

Over the next five years, PFM projects that implementation of this initiative could result in \$9.6 million in new revenue for the City. This estimate is based on the conservative assumption that the City can

increase revenues from fines and fees by 5.0 percent annually through the implementation of collection improvement strategies identified by the Revenue Officer. PFM estimates that the realization of the full revenue increase will be delayed, however, due to the time that it will take to (1) identify the necessary staffing resources, (2) perform the research that will inform the initiatives, (3) develop and vet the initiatives and (4) fully implement the initiatives. It is assumed that this process will take approximately 18 months, which would mean full implementation achieved by the middle of FY2016. The City should see half of the potential revenue increase of this initiative in FY2016 and the full impact in FY2017 and every year thereafter.

<b>RE02.</b>	<b>Review All Fines and Fees In Order to Increase Revenues</b>	
	<b>Target outcome:</b>	Increased revenue through more appropriate fee and fine rates
	<b>Five-year financial impact:</b>	\$9.9 million
	<b>Responsible party:</b>	Finance Division / Revenue Manager

In FY2012, revenue collected from licenses and permits, fines and forfeitures and charges for service in the General Fund comprised almost 10 percent of total General Fund revenues for the City of Memphis. The FY2013 budget for these revenue sources is \$57.5 million.

A number of earlier studies have found that the City has not regularly updated fee and fine rates.

- A 2002 report from the Bureau of Business and Economic Research at the University of Memphis found that “with few exceptions, fees, fines, and other revenues have not been consistently updated in Memphis.”
- In 2006, the City’s Revenue, Credits and Collections Committee recommended that the City perform regular analyses of the cost associated with fee-based services.
- In 2011, the Strategic Business Model Assessment Committee recommended that Memphis “immediately adjust City fees to accurately reflect cost of service and align with peer cities.”

Given the relatively low levels at which many of the City’s fee and fine rates are currently set, there is a significant opportunity for revenue enhancement through adjusting these rates to appropriate levels.

There are a variety of considerations that should go into the determination of appropriate fee and fine levels. In a 1996 best practices statement, the Government Finance Officers’ Association recommended that governments regularly review fee and fine rates, and update them based on the desired level of cost recovery, inflation or comparable rates in peer jurisdictions:

- **Cost Recovery:** For certain sources of revenue, governments will typically set fees to recover all or some portion of the cost of providing the service. For other services, governments will decide to subsidize the cost of service provision to some extent for residents and businesses. In either case, it is important for governments to have a strong understanding of the full costs associated with delivering services to customers. This information will help to inform decisions about the extent to which costs should be recovered through user-fees, and the extent to which subsidy of service through general revenues is more appropriate.

By performing a cost of service analysis, the City can gain a better understanding of the direct and indirect costs associated with providing services to customers. There are a number of professional firms that provide these services and the cost of these studies can

vary depending on the level of detail required. A less detailed version of this analysis can also be performed by the City's own in-house staff. The advantage of using external experts is the greater level of accuracy that can be achieved. The disadvantage, however, is the higher cost for this professional service.

Whether internal staff or external professionals are utilized, the City should perform a cost of service analysis to gain an understanding of the direct and indirect costs associated with providing certain City services. Comparing the results of this analysis to the amount of revenue generated by user fees will help to inform the extent to which fees currently cover costs and where they do not, how much of an increase in the rates will be required.

The Revenue Strategy Working Group discussed in Recommendation **RE01** can be responsible for determining the appropriate level of depth for this analysis and level of resources that should be committed to this endeavor. This working group should also develop policies about the appropriate cost recovery targets for the City's fee-based services.

- **Inflation:** Another basis for the adjustment of fee and fine rates is the comparison of growth in rates to growth in inflation over the same time period. Inflation trends are an especially important factor when establishing rates for fines and penalties. Government fines and penalties are charged in order to discourage certain behaviors. As both the cost of living and average earnings increase over time due to inflation, fines that are not adjusted similarly become less and less effective in influencing behavior. The comparison of growth in fee and fine rates to growth in inflation can be performed on an ongoing basis by the Revenue Manager position described in Recommendation **RE01**.
- **Benchmarking:** Another important consideration in determining the appropriate level for fee and fine rates is a comparison to the rates charged by similar or nearby jurisdictions. Benchmarking against peers is an effective way to ensure that the City's rates are generally in line with those charged by others for the same services or offenses. As an example, Memphis charges a very low downtown hourly parking rate compared to the rates charged by other large urban cities. Identifying those fee and fine rates that are not in line with the rates that are charged by comparable jurisdictions will help to inform the City on which fees and fines can potentially be increased as well as whether some fines and fees may be unnecessarily high. Benchmarking will be an important component of the effort to develop a strong revenue policy for the City.

The Revenue Strategy Working Group discussed in Recommendation **RE01** will play a critical role in the process of identifying the appropriate fee and fine rates for the City. This group would be accountable for the process, oversee the necessary analysis and make strategic decisions based on careful consideration of the needs of both the City and its customers.

PFM estimates that this initiative will likely have a modest cost impact in the first year, but will produce significant and recurring increases in revenue in future years.

Over a five year period, PFM projects that implementation of this initiative will result in \$9.9 million in new revenue. The implementation of this recommendation is estimated to have an upfront cost of about \$60,000 in the first year of implementation. The upfront cost represents the resources needed to perform a fairly rigorous cost of service analysis. If the City decides to rely on internal resources to perform this analysis at a less detailed level, this cost can be reduced or even eliminated.

PFM estimates that increases to fine and fee rates across the City will generate enough additional revenue to justify the potential upfront cost associated with the cost of service analysis. As a conservative estimate, it is assumed that adjustments to fee and fine rates can yield at least \$2.5 million annually for the City. This represents an increase of about 4.0 percent over FY2013's budgeted fee and fine revenue amount.

It is assumed that the City will require the majority of FY2014 to complete the cost of service analysis, decide on which fees and fines to increase, and complete the processes required to adopt the new rates.

# Compensation and Benefits

## Overview

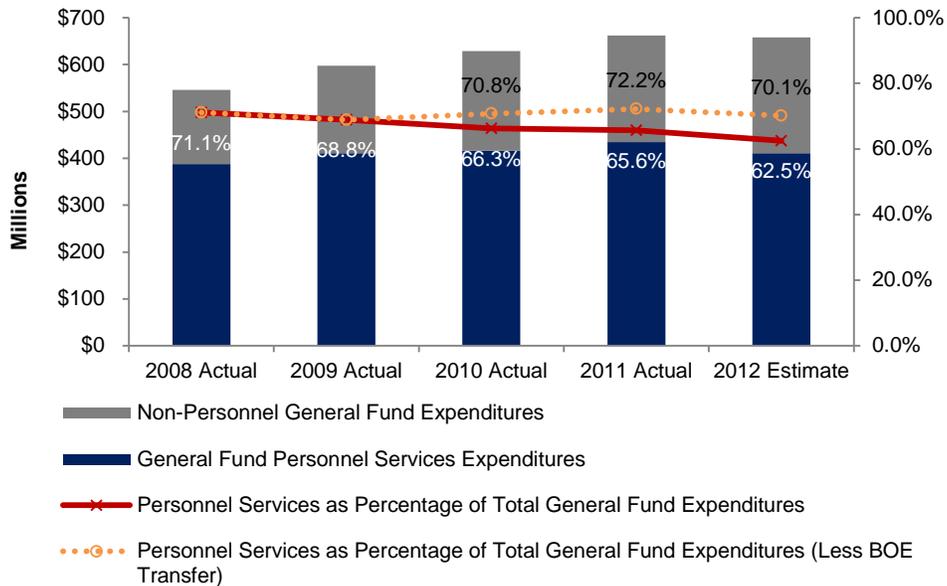
As with many local governments, personnel costs represent the majority of the City's General Fund expenditures. Those expenses have grown over time as salaries increased and – layered on top of salary expenditures – other cash compensation and benefit costs increased (e.g. longevity, health care costs, retirement benefits, etc.).

Absent corrective action, employee compensation – particularly public safety employee compensation – will increasingly consume the City's limited resources. It is critical to note that the financial health of the City's pension system is one of the greatest drivers of the City's budget gap and one of its greatest obstacles in securing long-term fiscal sustainability. Transition to a more affordable retirement package for City employees coupled with disciplined funding is essential to the City's short-term and long-term financial health.

From FY2008 through FY2012, approximately two-thirds (66.7 percent) of all City General Fund expenditures were attributable to personnel services – including all forms of wages, health benefits, and pensions. If City transfers to the Board of Education are excluded in FY2010 through FY2012, approximately 70.6 percent of all General Fund expenditures from FY2008 through FY2012 were attributable to personnel services.

Total compensation also includes work rules (such as overtime criteria) and leave policies (such as vacation leave and sick leave). These forms of compensation are discussed in additional detail in subsequent chapters.

**Personnel Services and General Fund Expenditures FY2008-FY2012**



Source: City of Memphis

## Wages

### Contextualizing Memphis Wages

The City, like many public employers, faces the challenge of achieving a careful balance between providing sufficient total compensation to attract and retain a qualified, high-performing workforce and doing so in a sustainable manner given the financial resources it has available. From a practical perspective, growth in employee compensation must be kept in line with growth in the City's revenues, and Memphis' revenue performance has not supported recent salary growth.

In 2010, the City commissioned a survey to review competitiveness across several types of compensation and job titles/functions.<sup>6</sup> The survey data, while not dispositive, suggested several high-level findings regarding City compensation:

- Salaries for police officers, firefighters, radio dispatchers, truck drivers and heavy equipment operators are higher than benchmark jurisdictions
- Salaries for mid-level management and supervisory positions were frequently lower than benchmark jurisdictions
- While some job titles may have higher or lower salaries than other jurisdictions, on the whole, the City appears to be competitive within its salary compensation structure

#### Compensation Survey - Comparative Results for Selected Job Titles

Job Title	Actual Salary Market Average (Adjusted)	Actual Salary Memphis Average	Percentage Above/ Below Market
Special Equipment Oper II	\$33,809	\$61,134	80.8%
Heavy Equipment Oper	\$37,187	\$58,222	56.6%
Police Radio Dispatcher	\$37,556	\$50,345	34.1%
Sr Court Records Clerk	\$29,793	\$37,837	27.0%
Custodian	\$25,328	\$31,975	26.2%
Animal Services Officer	\$31,809	\$39,146	23.1%
Firefighter Paramedic	\$54,089	\$56,375	4.2%
Fire Private II	\$49,353	\$51,044	3.4%
Police Officer II	\$50,907	\$52,247	2.6%
Police Sergeant	\$61,288	\$59,027	-3.7%
Fire Lieutenant	\$66,910	\$62,420	-6.7%
Police Lieutenant	\$74,764	\$63,952	-14.5%

Source: The Centre Group

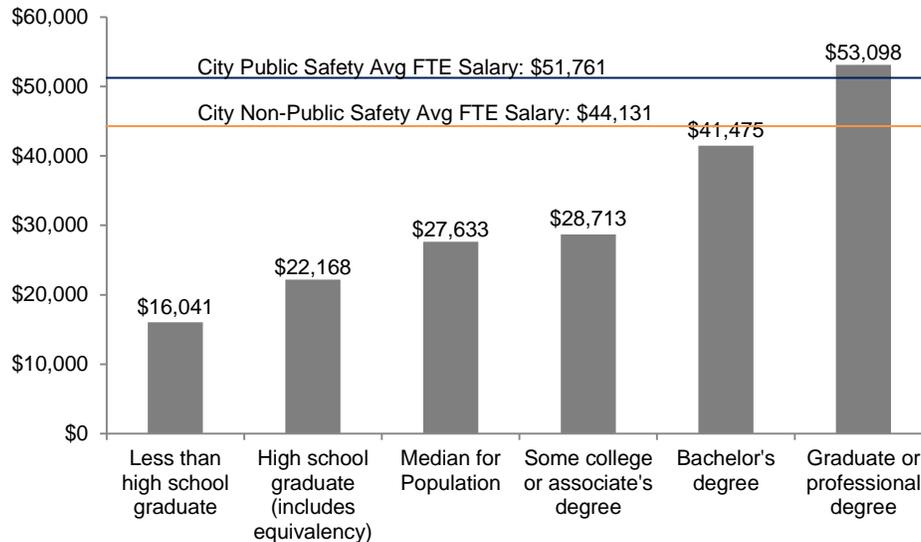
Memphis salaries are also competitive when compared to the overall local labor markets based on educational requirements.

As shown in the graph below, even with the 4.6 percent temporary pay reduction, the City's average FY2013 public safety employee base salary exceeded the median earnings of all Memphians except for those with a graduate or professional degree. The City's police officers have a minimum educational requirement of two years of post-secondary education or equivalent training/military experience and the City's firefighters are required to have a high school diploma. Salaries for Memphis public safety employees also do not include the significant overtime and additional elements of cash compensation that represent substantial earning potential for most employees.

<sup>6</sup> City of Memphis 2010 Wage Survey, prepared by The Centre Group in February 2010. It should also be noted that the City instituted a temporary 4.6 percent reduction in pay for all City employees in FY2012.

In FY2013, with the 4.6 percent temporary reduction, the City's non-public safety FTEs also earn average salaries greater than the median salaries of all Memphians except those with graduate or professional degrees. Select positions also have additional earning potential through overtime compensation as well.

### Memphians Ages 25 and Over – Median Earnings by Educational Attainment Level



Source: US Census Bureau 2008-2010 American Community Survey data; Memphis FY2013 salary data.

While Memphis' demographics and economic indicators suggest that the City could be expected to pay relatively low wages in comparison to other jurisdictions, the Centre Group's 2010 Compensation Survey showed the average Memphis Police Officer II (rank and file) salary ranked 5<sup>th</sup> among 12 responding benchmark cities. Similarly, Memphis Firefighter/Paramedic average pay ranked 2<sup>nd</sup> among 6 responding benchmark jurisdictions. These titles represent the rank and file positions in the two largest departments in Memphis and, thus, are critical to determining the City's competitiveness in employee wages.

While the data presented above is not dispositive, taken together, it provides sufficient information to suggest that the City's wages are competitive within the context of its labor market and relatively competitive among benchmarked jurisdictions.

### Personnel Expenses are Dominated by Public Safety Operations

According to City data, as of July 2012, the City had 6,190 full-time, filled positions that were funded by the General Fund. The 6,190 FTEs accounted for salaried wages of approximately \$310.3 million and another \$83.6 million in benefits and expenses (e.g. health care, pension, wage taxes, etc.). The average full-time equivalent (FTE) employee earned \$50,125 in salaried wages and the City paid an additional \$13,509 per FTE for a "fully-loaded" cost of \$63,634 per FTE.<sup>7</sup>

The City's General Fund personnel expenses are dominated by its public safety operations. While the average salary varies by division, the Police and Fire Divisions, taken together, accounted for 78.6 percent of the City's total General Fund FTEs and 81.4 percent of the City's total General Fund spending on personnel.

<sup>7</sup> It is important to note that the City data used does not include overtime wages, part-time employee wages, police and fire holiday pay or City assumptions for attrition.

The average police and fire (public safety) General Fund cost per FTE was approximately 20 percent greater than the City's non-public safety FTEs (\$65,946 vs. \$55,163), without accounting for the additional costs related to overtime expenses. As a result, the police and fire personnel expenses were – and will continue to be – the primary drivers in the City's overall General Fund personnel-related costs.

### FY2013 Divisions – General Fund FTE Costs

Division	Authorized FTE Level	Filled FTE Level	Salary	Benefits and Other Expenses	Total Cost of FTES	Average Cost Per FTE
City Attorney	58	56	\$3,557,187	\$717,750	\$4,274,937	\$76,338
City Courts	5	5	\$458,718	\$92,179	\$550,897	\$110,179
City Engineer	120	118	\$5,935,095	\$1,370,931	\$7,306,026	\$61,915
Clerk	65	59	\$2,379,504	\$630,044	\$3,009,548	\$51,009
Council	25	25	\$1,057,075	\$262,179	\$1,319,254	\$52,770
Executive	40	37	\$2,165,581	\$500,669	\$2,666,250	\$72,061
Finance	82	75	\$3,815,083	\$790,734	\$4,605,817	\$61,411
Fire	1,906	1,885	\$101,193,379	\$27,729,684	\$128,923,063	\$68,394
General Services	235	228	\$10,188,101	\$2,703,538	\$12,891,639	\$56,542
Grants & Subsidies	3	3	\$142,641	\$27,591	\$170,232	\$56,744
HCD	5	5	\$201,825	\$62,372	\$264,197	\$52,839
Human Resources	48	44	\$2,677,253	\$510,712	\$3,187,965	\$72,454
Information Services	17	17	\$1,227,366	\$230,115	\$1,457,481	\$85,734
Parks & Neighborhoods	520	456	\$16,878,955	\$4,568,905	\$21,447,860	\$47,035
Police	3,164	2,978	\$150,518,539	\$41,254,625	\$191,773,164	\$64,397
Public Works	243	199	\$7,877,445	\$2,171,331	\$10,048,776	\$50,496
<b>Grand Total</b>	<b>6,536</b>	<b>6,190</b>	<b>\$310,273,747</b>	<b>\$83,623,359</b>	<b>\$393,897,106</b>	<b>\$63,634</b>

### FY2013 Public Safety vs. All Others – General Fund FTE Costs

Division	Authorized FTE Level	Filled FTE Level	Salary	Benefits and Other Expenses	Total Cost of FTES	Average Cost Per FTE
Police and Fire	5,070	4,863	\$251,711,918	\$68,984,309	\$320,696,227	\$65,946
All Others	1,466	1,327	\$58,561,829	\$6,173,040	\$73,200,879	\$55,163
<b>Public Safety Percentage of Total</b>	<b>77.6%</b>	<b>78.6%</b>	<b>81.1%</b>	<b>91.8%</b>	<b>81.4%</b>	<b>119.5%</b>

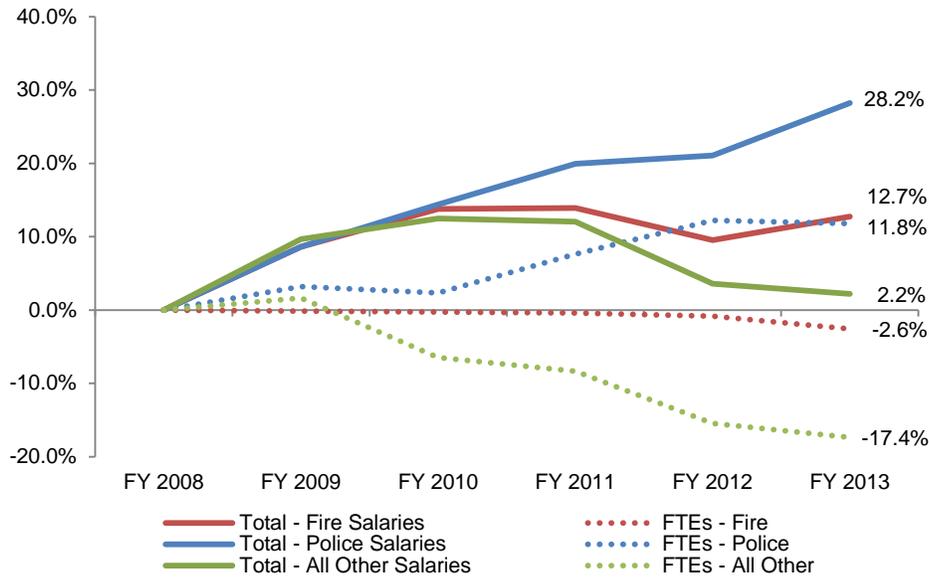
As seen above, the largest component of personnel expenditures is salaries, accounting for \$310.3 million in FY2013 (or 47.8 percent of total budgeted General Fund expenditures). The following chart shows the City's respective total percent change in police, fire, and "all other" salaries and budgeted FTEs from FY2008 through FY2013. As the chart shows, the total dollar value of salaries increased for each group, but most significantly for police. During the same period, the FTE levels decreased for both fire and "all other" employees, but increased for police. Notably, police saw a 12.7 percent increase in FTE level, while fire decreased slightly and the remainder of City government decreased by more than 17 percent.

From FY2008 to FY2013, 72.3 percent of total dollar salary increases in Memphis city government were attributable to the Police Division, 24.9 percent to the Fire Division, and 2.8 percent to the remainder of City government. During the same period, total City government budgeted headcount decreased by 23 FTEs, non-public safety divisions decreased by 288 FTEs, Fire decreased by 49 FTEs, and Police *increased* by 314 FTEs.<sup>8</sup>

<sup>8</sup> In FY2013, the City began accounting for "holiday salary full time," "vacation leave," "bonus leave," and "sick leave" within the single line item of "full-time salaries." The year-to-year comparisons discussed include the separate line items and full-time salaries for FY2008-FY2012.

The result of gaining 314 Police FTEs, slightly reducing Fire FTEs, and significantly reducing 288 non-public safety employees is that the City essentially replaced lower-wage non-public safety FTEs with higher-wage police employees, driving the overall growth in salary expenses.

**Police, Fire, and Non-Public Safety Salaries and FTEs – Cumulative Percent Changes**



**Other forms of compensation**

In addition to base salaries, the City provides other forms of cash compensation.

*Overtime*

City employees may earn overtime at a rate of time and one-half (1.5) for all hours worked in excess of a normal work period.<sup>9</sup> Overtime expenditures are a major cost driver for the City of Memphis, particularly for public safety functions. Leave usage, staffing levels, collective bargaining restrictions, service needs, public events and emergencies all contribute to the use of overtime. Police Officers also earn overtime for court appearances outside of regularly scheduled work days.

During the FY2008 to FY2012 period, Fire and Police overtime expenditures accounted for 94.3 percent of all General Fund expenditures on overtime.

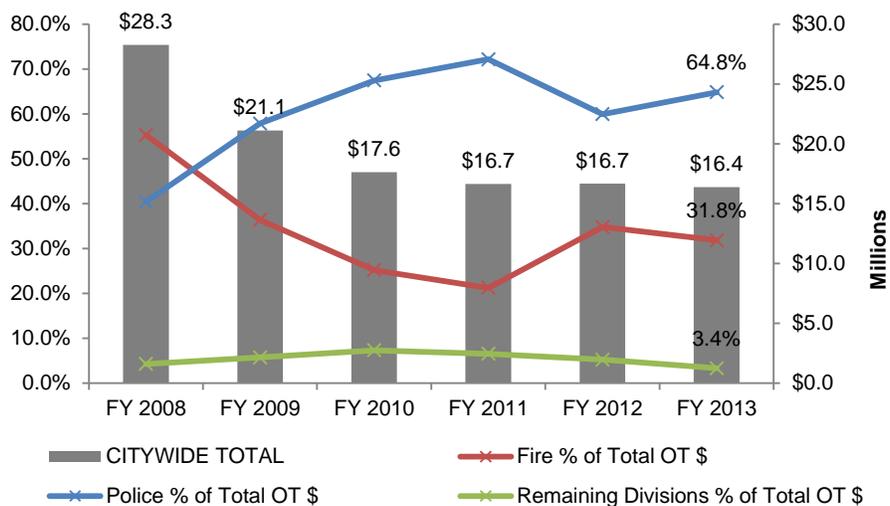
<sup>9</sup> A normal work week is defined as: 40 hours for AFSCME employees; 43 hours for MPA employees. MPA employees earn three hours of straight overtime per work period for the first three hours worked, and then receive regular time for the final 40 hours worked. The vast majority of IAFF members earn overtime for all hours worked over 212 in a 28-day work period.

### General Fund Overtime Expenditures by Fiscal Year by Division

Division	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
	Actual	Actual	Actual	Actual	Actual	Budget
Executive	\$89,644	\$119,980	\$118,288	\$59,949	\$29,816	\$0
Finance & Administration	\$28,564	\$26,909	\$17,675	\$13,428	\$17,835	\$5,000
Fire Services	\$15,634,313	\$7,685,577	\$4,448,858	\$3,540,399	\$5,805,980	\$5,211,675
Police Services	\$11,425,169	\$12,209,268	\$11,898,006	\$12,022,942	\$9,992,325	\$10,612,533
Parks and Neighborhoods	\$351,415	\$417,472	\$482,204	\$226,948	\$177,667	\$123,710
Public Works	\$68,537	\$44,500	\$91,375	\$112,679	\$47,537	\$81,244
Human Resources	\$8,968	\$18,271	\$13,808	\$4,620	\$79	\$5,000
Public Services	\$195,772	\$117,473	\$200,235	\$225,475	\$238,273	\$0
General Services	\$240,408	\$262,214	\$223,158	\$216,209	\$141,956	\$226,779
Housing & Community Development	\$363	\$0	\$0	\$0	\$0	\$0
City Engineer	\$165,193	\$133,484	\$112,966	\$183,152	\$108,573	\$108,150
Court Clerk	\$65	\$938	\$384	\$139	\$18	\$0
Community Enhancement	\$358	\$21,898	\$5,996	\$10,079	\$113,155	\$0
City Attorney	\$605	\$315	\$852	\$0	\$0	\$0
Information Systems	\$67,005	\$48,929	\$27,378	\$42,592	\$0	\$0
<b>CITYWIDE TOTAL</b>	<b>\$28,276,380</b>	<b>\$21,107,227</b>	<b>\$17,641,184</b>	<b>\$16,658,610</b>	<b>\$16,673,213</b>	<b>\$16,374,091</b>

From FY2008 through FY2012, overtime expenditures decreased by approximately \$11.6 million. As the graph below shows, Fire overtime expenditures have decreased as a percentage of total overtime expenditures from FY2008 to FY2012 (an apparent net reduction in overtime spending of approximately \$9.8 million). This was primarily due to a FY2009 change in allocation method (particularly in the Fire Division) that resulted in charging some overtime expenditures to regular salary (hiring additional fire fighters). Data appears to suggest that due to the change in allocation, overtime expenses in recent years are not significantly different from 2008.<sup>10</sup> Since FY2008, police overtime expenditures increased as a percentage of total overtime expenditures, though overall police overtime spending decreased slightly (approximately \$812,000).

#### Police, Fire, and Non-Public Safety General Fund OT Expenditures as Percentage of Total OT



<sup>10</sup> Additional discussion regarding Fire Division staffing and overtime utilization may be found in the Public Safety Chapter.

In addition to base wages and other premium pay, overtime compensation further adds to an employee's cash compensation. As the chart below demonstrates, a majority of public safety employees earned \$1,000 and over in overtime during FY2012. The respective Police and Fire average overtime earnings – based on total overtime spend and number of employees – were \$3,341.91 and \$3,116.47. **Nearly ten percent of police employees earned \$10,000 or more in overtime in 2012 and nearly eight percent of fire employees earned \$10,000 or more in overtime in 2012.**

#### FY2012 General Fund Overtime Detail

	Police	Fire	All Other Divisions
2012 Total Overtime Paid Out	\$9,992,325	\$5,805,980	\$874,908
2012 Number of Employees <sup>11</sup>	2,990	1,863	1,401
<b>Average Overtime / Employee</b>	<b>\$3,341.91</b>	<b>\$3,116.47</b>	<b>\$624.49</b>
Employees earning \$1,000+ in overtime	52.2%	63.1%	16.1%
Employees earning \$5,000+ in overtime	21.0%	16.7%	2.4%
Employees earning \$10,000+ in overtime	9.8%	7.9%	0.4%
Employees earning \$20,000+ in overtime	2.4%	1.0%	0.1%

Similar to wages, any meaningful reduction in overtime spending must include public safety operations – particularly police, which accounts for nearly 65 percent of total General Fund overtime expenditures.<sup>12</sup>

#### Paid Leave

Paid leave – the ability to take time off for vacation, personal days, sick leave or other reasons while receiving full compensation – is another important element of employee compensation. When employees use paid leave, governments must reduce the level of service provided or fill the resulting opening another way, either by hiring more staff on a permanent basis to compensate for the use of leave throughout the year or bringing in existing employees on a short term basis. In the latter case, employees are often paid overtime to fill the open shifts. As a result, government pays for the same service more than twice – once for the regularly scheduled employee who is on leave and again at time-and-one-half for the employee working overtime.

The table below shows the level of paid leave available to Memphis employees, which is generally more than the leave provided by private and public sector employers. Memphis employees receive more paid holidays than the medians for both private sector and state and local government employees nationally, though the level of vacation leave trails that average until the employee reaches 20 years of service. Memphis employees receive significantly greater sick leave than public or private sector medians.

<sup>11</sup> Overtime data received from the City for FY2012 reflected a total headcount of 2,990. Filled position data received from the City for FY2012 reflected a total headcount of 2,978.

<sup>12</sup> Budgeted FY2013.

## City of Memphis, State and National Paid Leave

Employee Group	Holidays	Sick Leave (days)	Vacation Leave Time (days)			
			1 Year of Service (YOS)	5 YOS	10 YOS	20 YOS
MPA	13	Years 1-5: 12 days Years 6-9: 18 days Years 10-14: 24 days Years 15+: 30 days	10 days	10 days	15 days	22 days
IAFF*	13	Years 1-5: 144 hours/yr. Years 6-9: 216 hours/yr. Years 10-14: 288 hours/yr. Years 15+: 360 hours/yr.	9 shift days (4 weeks)	9 shift days (4 weeks)	12 shift days (5 weeks)	14 shift days (6 weeks)
AFSCME	13	Years 1-5: 12 days Years 6-9: 18 days Years 10-14: 24 days Years 15+: 30 days	10 days	10 days	15 days	22 days
Private Sector	8	6 days	10 days	15 days	15 days	20 days
State and Local Governments	11	12 days	12 days	15 days	18 days	22 days

\*Shown for firefighter employees

Sources: MPA, IAFF, AFSCME Collective Bargaining Agreements; US Bureau of Labor Statistics, 2012 National Compensation Survey data

### Miscellaneous Forms of Cash Compensation

Memphis provides other forms of cash compensation to its employees. In FY2013, Fire and Police miscellaneous forms of cash compensation detailed below are projected to cost the City over \$39.5 million above and beyond the cost of salary and benefits. This amount is 97.9 percent of the City's total budgeted amount of \$40.4 million for miscellaneous forms of cash compensation. The Police Division's FY2013 total for miscellaneous forms of cash compensation is budgeted at \$24.7 million and the Fire Division is budgeted at \$14.9 million.

#### *Holiday Pay*

Memphis police officers and firefighters receive 13 days of pay (eight hours of straight time) in one lump sum every November. Holiday pay is received regardless of whether they work on a specific holiday. Police officer and firefighter schedules do not change as a result of a holiday and, as such, holiday pay is meant to compensate them for those days.

#### Holiday Pay Expenditures, FY2008-FY2013 Estimated

Holiday Pay	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Fire Services	\$3,855,767	\$4,220,001	\$4,641,651	\$4,742,570	\$4,543,387	\$4,833,000
Police Services	\$5,262,179	\$5,450,373	\$5,929,123	\$6,408,476	\$6,596,785	\$7,025,972
Community Enhancement	\$825	\$0	\$0	\$0	\$0	\$0
City Attorney	\$226	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$9,118,997</b>	<b>\$9,670,374</b>	<b>\$10,570,773</b>	<b>\$11,151,045</b>	<b>\$11,140,171</b>	<b>\$11,858,972</b>

#### *Sick Leave Pay*

The cost of sick leave pay has increased 22 percent across City government from FY2008 to FY2012. The primary drivers of this cost are the Police and Fire Divisions, which comprise 84 percent of total sick leave expenditures in FY2012. The 12 percent increase in costs over this period by the Police Division matches the increase seen in all other divisions across City government, while the Fire Division's expenditures for sick leave have increased 39 percent since FY2008.

**Sick Leave Expenditures, FY2008–FY2012 Estimated**

<b>Division</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012 Estimate</b>	<b>FY2012 Percentage</b>	<b>FY2008-FY2012 % Change</b>
Police	\$5,941,456	\$5,535,365	\$6,109,584	\$6,456,971	\$6,660,318	43%	12%
Fire	\$4,642,806	\$4,570,993	\$5,165,123	\$6,023,477	\$6,445,740	41%	39%
Other	\$2,228,790	\$2,302,848	\$2,471,474	\$2,427,773	\$2,485,387	16%	12%
<b>Total</b>	<b>\$12,813,052</b>	<b>\$12,409,207</b>	<b>\$13,746,181</b>	<b>\$14,908,221</b>	<b>\$15,591,445</b>	<b>100%</b>	<b>22%</b>

The MFD leadership estimates that approximately 30 to 40 emergency response personnel, or roughly seven percent of the daily minimum staffing requirement, are out sick on a daily basis. Based on the average hourly rate of base wages for commissioned personnel in FY2013 of \$19, the FY2012 total of \$6.4 million in sick leave represents an average of 40 personnel using sick leave on a daily basis. This means, on average, each commissioned employee in the department misses eight 24-hour shifts on sick leave.

Because the MFD has minimum manning requirements of 4 personnel on engines and ladders, if a firefighter calls out sick for a 24-hour shift then another firefighter must be called in to work overtime for 24 hours to meet the staffing requirement. When this happens, the firefighter that calls out sick is being paid and the replacement firefighter is receiving overtime pay at 1.5 times his or her regular pay, which can be very costly when done excessively.

The division already requires personnel to provide doctor's notes and remain in their homes during sick leave, but in practice the system operates on the "honor system" because division leadership do not have the time to consistently check in on staff that have called out sick to ensure that they are actually sick.

*Longevity*

City employees receive longevity for years of service worked. In essence, longevity pay is a form of seniority and retention incentive pay for employees. Primarily, longevity is earned by police officers and firefighters. These employees receive either a percentage of salary or a flat dollar amount based upon the number of years worked in City government. For police officers and firefighters, the threshold to receive longevity pay is five years of service. Firefighters receive a flat dollar amount that increases incrementally with their years of service. Police officers receive an additional percentage of their salary that increases incrementally with their years of service.

The table below provides an overview of longevity pay for FY2008 through FY2012. From FY2008 through FY2012, public safety employees earned 98.6 percent of all longevity pay among City employees – with Police accounting for 57.6 percent of total longevity pay and Fire accounting for 41.0 percent.

### Longevity Pay, FY2008-FY2013 Estimated

Longevity Pay	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Finance & Administration	\$0	\$0	\$37	\$37	\$37	\$0
Fire Services	\$563,419	\$671,018	\$731,566	\$743,776	\$781,044	\$711,360
Police Services	\$586,694	\$1,026,709	\$1,081,058	\$1,105,917	\$1,110,268	\$964,492
Parks and Neighborhoods	\$6,541	\$6,537	\$6,415	\$6,059	\$5,857	\$1,000
Public Works	\$3,302	\$3,045	\$3,236	\$3,611	\$3,443	\$5,550
Human Resources	\$182	\$96	\$0	\$0	\$0	\$0
Public Resources	\$1,090	\$1,041	\$1,025	\$840	\$1,180	\$0
General Services	\$657	\$5,496	\$5,927	\$5,670	\$4,026	\$5,575
City Engineer	\$1,243	\$5,745	\$6,479	\$6,714	\$6,519	\$7,927
Court Clerk	\$2,280	\$2,092	\$1,738	\$1,649	\$1,781	\$0
Community Enhancement	\$0	\$670	\$563	\$537	\$651	\$0
Information Systems	\$37	\$825	\$462	\$562	\$0	\$0
<b>Total</b>	<b>\$1,165,445</b>	<b>\$1,723,275</b>	<b>\$1,838,507</b>	<b>\$1,875,372</b>	<b>\$1,914,806</b>	<b>\$1,695,904</b>

#### College Incentive Pay

Memphis firefighters and police officers can receive additional pay based upon their educational attainment level.<sup>13</sup> Police and firefighters receive an additional percentage of base salary if they qualify for one of the various tiers of educational incentive pay.<sup>14</sup> The Police and Fire educational incentive ranges from 1.0 percent of base pay for one year of college (25 credit hours) to 7.5 percent of base pay for those with a four-year college degree.

### College Incentive Expenditures, FY2008-FY2013 Estimated

College Incentive Pay	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Fire Services	\$1,564,813	\$1,769,013	\$2,035,416	\$2,142,473	\$2,158,700	\$2,062,360
Police Services	\$3,614,374	\$3,784,008	\$3,975,610	\$4,071,480	\$4,110,407	\$3,950,027
<b>Total</b>	<b>\$5,179,186</b>	<b>\$5,553,021</b>	<b>\$6,011,026</b>	<b>\$6,213,954</b>	<b>\$6,269,107</b>	<b>\$6,012,387</b>

#### Out of Rank Pay

City employees, primarily Fire and Police, are paid "out-of-rank" pay when they are assigned to perform duties of a higher rank than their own. For Fire (IAFF) employees, the "out-of-rank" pay is paid at the base rate of the rank performed by the employee. Police employees (MPA) performing out of rank work are compensated by receiving five percent on the base rate for the top pay of their classification with certain limits.

From FY2008 through FY2012, the Fire Division accounted for 59.0 percent of total out-of-rank pay. Projected growth in Fire out-of-rank pay in FY2013 is the principal driver of the year-over-year projected increased in this expense category.

<sup>13</sup> Educational incentive pay is not provided to non-public safety employees.

<sup>14</sup> Depending upon date of hire, police officers are required to have the equivalent of two years of college attainment. Those officers hired with this requirement do not receive educational incentive pay for their two years of college experience, but may receive educational incentive pay if they have more than two years of college experience.

### Out of Rank Expenditures, FY2008-FY2013 Estimated

Out of Rank Pay	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Executive	\$4,753	\$10,439	\$2,911	\$7,942	\$1,833	\$0
Finance & Administration	\$10,436	\$5,660	\$11,632	\$1,913	\$1,709	\$0
Fire Services	\$700,104	\$1,252,507	\$1,527,778	\$1,439,088	\$896,258	\$1,179,000
Police Services	\$479,662	\$555,927	\$691,704	\$489,871	\$537,914	\$573,524
Parks and Neighborhoods	\$144,199	\$52,856	\$44,369	\$32,777	\$34,549	\$8,300
Public Works	\$19,785	\$25,170	\$20,136	\$24,376	\$14,355	\$46,376
Human Resources	\$57,410	\$41,035	\$24,720	\$12,004	\$4,271	\$6,000
Public Resources	\$22,146	\$27,005	\$69,905	\$6,752	\$14,096	\$0
General Services	\$52,445	\$34,971	\$34,892	\$12,027	\$736	\$2,000
Housing & Community Development	\$681	\$0	\$0	\$0	\$0	\$0
City Attorney	\$259	\$10,266	\$11,124	\$6,435	\$6,435	\$0
City Engineer	\$35,865	\$36,332	\$32,254	\$32,365	\$25,884	\$35,757
Community Enhancement	\$4,308	\$15,350	\$33,596	\$37,652	\$15,369	\$0
Legislative Council	\$1,693	\$0	\$0	\$0	\$0	\$0
Court Clerk	\$3,782	\$8,194	\$6,936	\$0	\$0	\$0
Information Systems	\$0	\$2,728	\$16,414	\$38,148	\$18,152	\$8,000
<b>Total</b>	<b>\$1,537,527</b>	<b>\$2,078,441</b>	<b>\$2,528,372</b>	<b>\$2,141,349</b>	<b>\$1,571,561</b>	<b>\$1,858,957</b>

#### *Hazardous Duty Pay*

Hazardous Duty pay is received by employees who serve as part of the Crisis Intervention Team, Hostage Negotiation Team, Motorcycle Squad, Bomb Technician Unit, and/or Dog Squad. Employees in these units receive a hazardous duty pay incentive of \$50.00 per month. Similar to other personnel expenditure categories, hazardous duty pay is concentrated in Fire and Police.

### Hazardous Duty Expenditures, FY2008-FY2013 Estimated

Hazardous Duty Pay	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Fire Services	\$131,156	\$137,670	\$147,689	\$145,275	\$136,312	\$163,000
Police Services	\$112,523	\$155,310	\$151,249	\$144,827	\$171,102	\$164,163
Parks and Neighborhoods	\$4,262	\$4,722	\$4,493	\$5,953	\$6,230	\$1,000
Public Works	\$0	\$0	\$0	\$0	\$0	\$100
Public Services	\$30,955	\$2,386	\$954	\$630	\$949	\$0
General Services	\$546	\$0	\$0	\$0	\$0	\$0
Community Enhancement	\$32,670	\$1,547	\$962	\$143	\$0	\$0
<b>Total</b>	<b>\$312,113</b>	<b>\$301,636</b>	<b>\$305,347</b>	<b>\$296,828</b>	<b>\$314,594</b>	<b>\$328,263</b>

#### *Shift Differential*

Employees who work second, third, or a non-fixed shift receive a shift premium in the form of an additional level of compensation. Police officers who work the second shift (working a fixed shift beginning between 2pm and 6pm) are paid a premium of between \$19.62 and \$25.00 per month depending upon their rank. Police officers who work the third shift (working a fixed shift beginning between 9pm and 12am) are paid a premium of between \$39.24 and \$50.00 per month depending upon rank.<sup>15</sup> After a police officer works six consecutive months on the second or third shift (and remain on

<sup>15</sup> Any officer working a variable shift is to be paid the same shift differentials as those described above.

such a shift), the shift differential increases to between \$29.44 to \$37.50 per month for second shift and \$58.86 to \$75.00 per month for third shift.

From FY2008 to FY2012, police shift differential expenditures, on average, accounted for 91.8 percent of all shift differential expenditures. During this time, police shift differential expenditures increased by 23.4 percent while the non-police shift differential expenditures *decreased* by 4.3 percent.

### Shift Differential Expenditures, FY2008-FY2013 Estimated

Shift Differential Pay	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013 <sup>16</sup>
Fire Services	\$28,524	\$23,593	\$25,453	\$25,655	\$27,403	\$40,000
Police Services	\$678,060	\$682,412	\$717,695	\$759,265	\$836,921	\$850,000
Parks and Neighborhoods	\$2,395	\$3,189	\$3,296	\$3,406	\$2,337	\$6,000
Public Works	\$2,574	\$2,765	\$2,766	\$2,766	\$2,872	\$6,447
Public Services	\$8,671	\$10,098	\$7,778	\$9,197	\$6,217	\$0
Human Resources	\$14	\$17,993	\$14,428	\$14,359	\$3,069	\$2,000
City Engineer	\$10,995	\$10,518	\$10,726	\$10,768	\$11,232	\$12,360
Executive	\$70	\$0	\$0	\$0	\$0	\$0
Community Enhancement	\$195	\$150	\$2,208	\$3,243	\$1,368	\$0
Information Systems	\$3,472	\$4,160	\$4,160	\$3,776	\$160	\$0
Court Clerk	\$192	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$735,161</b>	<b>\$754,879</b>	<b>\$788,511</b>	<b>\$832,435</b>	<b>\$891,579</b>	<b>\$916,807</b>

### Uniform Allowance

City employees who wear uniforms as part of their job receive compensation for the provision, cleaning and upkeep of the uniforms in the form of a uniform allowance. The majority of the City's expenditures on uniform allowances are attributable to police officers and firefighters. The Police and Fire divisions combined account for 92.8 percent of all uniform allowance expenditures. Beginning in their second year of employment, police officers receive \$325 per year in uniform allowance, plus an additional \$50 per year for cleaning and maintenance of uniforms. Most firefighters receive \$450 in their first year of service, \$400 in their second year of service and \$325 per year thereafter.

### Uniform Allowance Expenditures, FY2008-FY2013 Estimated

Uniform Allowance	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Executive	\$11,635	\$4,195	\$11,245	\$3,540	\$4,962	\$0
Fire Services	\$538,776	\$680,392	\$638,755	\$625,716	\$600,940	\$709,000
Police Services	\$880,741	\$896,060	\$886,953	\$956,667	\$960,139	\$1,357,525
Parks and Neighborhoods	\$20,413	\$22,490	\$14,498	\$12,942	\$12,747	\$22,450
Public Works	\$14,404	\$18,106	\$15,328	\$12,538	\$12,289	\$34,074
Public Services	\$24,412	\$17,839	\$16,212	\$21,026	\$24,851	\$0
General Services	\$24,856	\$30,847	\$30,329	\$31,258	\$30,431	\$74,249
Housing & Community Development	\$6,500	\$0	\$0	\$0	\$0	\$0
City Engineer	\$24,209	\$26,260	\$25,556	\$25,185	\$23,633	\$28,633
Judicial City Courts	\$284	\$0	\$0	\$0	\$0	\$1,006
Human Resources	\$141	\$0	\$0	\$0	\$0	\$0
Community Enhancement	\$2,339	\$20,285	\$17,362	\$16,793	\$11,934	\$0
Information Systems	\$5,150	\$6,325	\$5,625	\$5,250	\$0	\$0
<b>Total</b>	<b>\$1,553,860</b>	<b>\$1,722,800</b>	<b>\$1,661,864</b>	<b>\$1,710,915</b>	<b>\$1,681,925</b>	<b>\$2,226,937</b>

<sup>16</sup> The FY2013 Adopted City Budget includes an error showing \$3,000 for police shift differential. This figure should show police shift differential expenditures increasing from FY2012 by approximately 1.6 percent to \$850,000.

## Health Insurance and Wellness

The City of Memphis is self-insured for health insurance – meaning that the City pays claims for its employees directly – and utilizes a Third-Party Administrator (TPA), currently Cigna, to manage the operations of its medical benefits and Caremark to manage the operations of its prescription drug benefits. The City offers two health plans:

- Basic Plan – specific network of healthcare providers that contract with City to provide services at a reduced rate
- Premier Plan – managed network of primary care physicians and specialists. The Premier Plan is the highest enrollment plan for the City, with the vast majority of employees participating in this plan.

### Family Plan Coverage Details – Basic and Premier Plans

Plan Component	Basic Plan	Premier Plan
In-Network Deductible	\$1,050 per family	\$300 per family
In-Network Co-Pay	10 percent of covered charges	\$20 for PCP, \$40 for specialist
2013 Monthly Employee Contribution (\$)	\$312.47	\$322.56

Two surcharges may be applied to either plan based upon a member’s experience. A Spousal Surcharge of \$25.00 per pay period is levied if an employee’s spouse has access to another health care plan, but chooses to participate in the City plan. A Tobacco Surcharge of \$25.00 per pay period is levied for employees and dependents that use tobacco products. Employees must sign an affidavit indicating spousal availability of healthcare and/or tobacco use. This “self-identification” method is used to establish which employees pay the relevant surcharges.

### Cost and Comparability

An important factor affecting City health care expenditures is the premium cost share split between the City and its employees. The City is supposed to fund 70 percent of employee health care premium costs and employees are to fund the remaining 30 percent of premium costs. However, the City has not adhered to this level – instead covering more than its 70 percent share in recent years. Initially, the City covered additional health care premium increases during the period of employee wage reductions. The City has outlined a plan by which it will incrementally step up to the 70-30 cost share within the next two fiscal years.

### Three-Year Trend in Employer-Employee Health Premium Cost Share (All Funds)

	FY10	%	FY11	%	FY12	%
Employer	\$47,547,047	74.0%	\$52,258,668	73.1%	\$51,372,415	75.7%
Employee	\$16,717,827	26.0%	\$19,248,892	26.9%	\$15,700,049	23.1%
Spousal Surcharge	\$0	-	\$0	-	\$413,975	0.6%
Tobacco Surcharge	\$0	-	\$0	-	\$369,125	0.5%
<b>Total Contributions:</b>	<b>\$64,264,874</b>	<b>100.0%</b>	<b>\$71,507,560</b>	<b>100.0%</b>	<b>\$67,855,564</b>	<b>100.0%</b>

On a fiscal year basis, from FY2008 to FY2012, the City’s General Fund contributions to the Basic and Premier Plans has increased by more 36.6 percent – or \$11.5 million. During this period, the City’s FTEs increased by 54 positions, meaning that the City’s cost to provide medical coverage to an average General Fund employee increased by \$1,801 – from \$5,079 per year in FY2008 to \$6,880 per year in FY2012. In FY2013, the City projects it will spend \$45.4 million from General Fund on employee health care premiums – further increasing the per employee cost to \$7,347 per year and overall spending growth

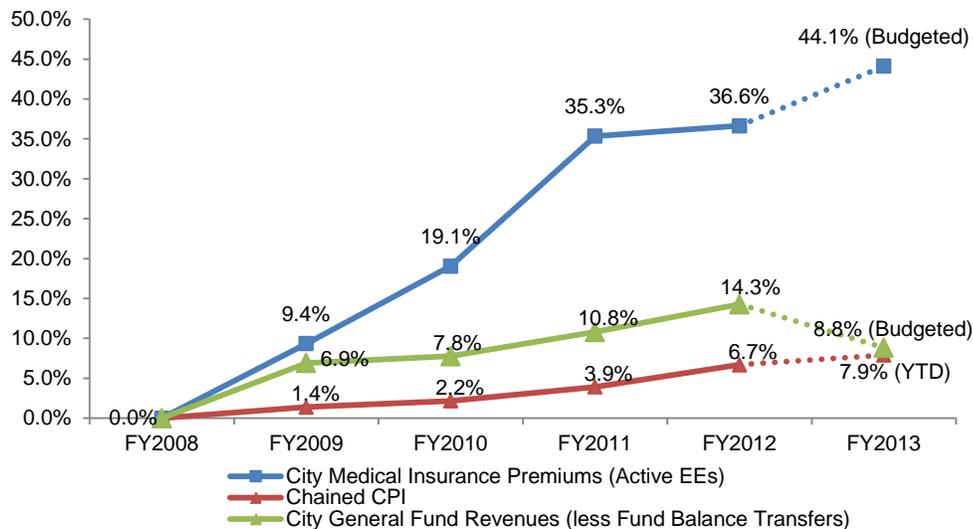
of 44.1 percent since FY2008. By comparison, according to the Kaiser Family Foundation's 2012 Employer Health Benefits Survey, nationally, large employers (200+ employees) that are self-funded experienced a 22.8 percent growth in premiums from calendar year 2008 through calendar year 2012.

### General Fund Employer Health Care Premium Contributions – FY2008–FY2013

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
<b>Basic Plan</b>	\$3,059,636	\$2,829,616	\$2,926,538	\$2,636,306	\$2,417,120	\$2,885,034
<b>Premier Plan</b>	\$28,429,304	\$31,606,152	\$34,566,175	\$39,982,226	\$40,610,097	\$42,494,374
<b>Total</b>	<b>\$31,488,939</b>	<b>\$34,435,769</b>	<b>\$37,492,713</b>	<b>\$42,618,532</b>	<b>\$43,027,217</b>	<b>\$45,379,408</b>
<b>FTEs</b>	6,200	6,309	6,150	6,257	6,254	6,190
<b>Cost per FTE</b>	<b>\$5,079</b>	<b>\$5,458</b>	<b>\$6,096</b>	<b>\$6,811</b>	<b>\$6,880</b>	<b>\$7,331</b>

In recent years the City began a wellness program, designed to pre-emptively identify or remediate health issues when they can be treated more easily and at a lower cost. This program, combined with certain incentives has shown preliminary success according to the City. Additionally, the City is working with its health care consultant to identify new opportunities to control costs and maintain adequate health insurance coverage for its employees.

### Cumulative Percent Increases in Med. Insurance Premium Cost, CPI, Revenues - FY2008-FY2013



Employees in the public and private sectors generally share the cost of their health benefits in the form of contributions to monthly premium costs and making payment when receiving services – through a co-payment, deductible, co-insurance or other mechanism. For Memphis employees, monthly premiums range from \$147.19 to \$159.69 for single coverage and \$312.47 to \$322.56 for family coverage, depending upon the plan chosen.<sup>17</sup> Once Memphis achieves a 30 percent premium share, Memphis employees will pay a competitive share of premium (30 percent – though currently the City is not charging employees the full 30 percent share) compared to comparable jurisdictions and public and private sector experiences.<sup>18</sup> Additionally, the City is competitive among other public employers and the private sector in co-pays for office visits and prescriptions.

<sup>17</sup> CY2013 rates

<sup>18</sup> As previously noted, the City does not currently receive 30 percent of premium costs from employees, making the benefit to the employee richer than the adopted City cost share agreement.

While the City's health plan is generally competitive on most high-level plan details, the primary driver of the City's health care costs is actual payment of claims because the City is self-insured. Thus, even though the City has a premium share in line with the private and public sectors, the lack of a significant deductible for employees significantly increases the City's costs. The lack of higher deductible is notable as deductibles approaching \$1,000 or more are seen in comparable jurisdictions and several thousand dollars in the private sector. This constitutes a generous benefit to City employees compared to other public and private employers.

Deductibles are also often cited as ways help control the cost of health care for employers. The theory suggests that when employees have a greater financial stake they reduce utilization. The challenge for many employers is to strike an appropriate balance between cost share to provide a disincentive to employees for needless or luxury medical attention, while not incentivizing short-term cost avoidance in seeking medical care for necessary services, which could adversely impact employee health and/or lead to more expensive conditions in the long-run.

The table below shows plan highlights for Memphis employees as compared to benefits received by similar employees in other jurisdictions.<sup>19</sup> The table also contains data on private sector norms and state and local governments generally.

### Major Comparable Health Benefit Plan Offerings – Family Coverage

City	Monthly Employee Contribution	In-Network Deductible	In-Network Co-Pay	Rx Co-Pay
<b>Memphis</b>	30% (\$343.84)	\$100 per person up to \$300	PCP: \$20	\$10/\$20/\$40 Generic / Formulary / Non-Formulary
	26.5% (\$303.74)		Spc: \$40	
<b>Atlanta</b>	30% (\$232.21)	\$900	PCP: \$15	\$10/\$25/\$40 Generic / Formulary / Non-Formulary
			Spc: \$30	
<b>Baltimore</b> (Police and Fire Plan)	20% (\$260.97)	\$0	PCP: \$10	\$10/\$20/\$30 Generic / Formulary / Non-Formulary
			Spc: \$15	
<b>Boston</b>	20% (\$428.04)	\$400	PCP: \$15	\$10/\$25/\$45 Generic / Formulary / Non-Formulary
			Spc: \$25	
<b>Chattanooga</b>	19% (\$223.00)	\$1,600	PCP: \$30	\$10/\$40/\$65 Generic / Formulary / Non-Formulary
			Spc: \$40	
<b>Knoxville</b>	10.82% (avg) (\$76.93)	\$2,000-\$6,000	PCP: \$0	\$5/\$20/\$40 Generic / Formulary / Non-Formulary
			Spc: \$0	
<b>Nashville</b>	12.5% (\$181.00)	\$2,000	PCP: 20% of cost	\$10/\$30 Generic / Brand Name
			Spc: 20% of cost	
<b>Private Sector</b>	28.0% (\$360.00)	\$1,329 to \$3,924 depending upon plan type	PCP: \$23	\$10/\$29/\$51 Generic / Formulary / Non-Formulary
			Spc: \$33	
<b>State and Local Governments</b>	28.0% (\$347.54)	N/A	N/A	N/A

The City also offers dental and vision plans to employees. According to United States Bureau of Labor Statistics 2012 National Compensation Survey data, only 56 percent of state and local government

<sup>19</sup> In other jurisdictions, health insurance plans may vary by bargaining unit – this does not occur in Memphis. To ensure comparability, benefits offered to Memphis' workforce were compared to the highest-enrollment plans in other jurisdictions. Family coverage is used in the comparison.

employees have access to dental care through their employer and 39 percent have access to vision care. Among private sector entities, the rate is even lower, with just 45 percent having access to dental care through their employer and 25 percent having access to vision care. City employees have access to three dental plans with various levels of coverage. Employees also have access to a vision plan with an option for a materials-only vision plan.

### Dental and Vision Employee Costs (FY2012)

Dental Coverage	Employee Cost Per Month
Employee only	\$10.22 to \$29.64
Employee + 1	\$20.31 to \$60.98
Family	\$37.57 to \$88.72
Vision Coverage	Employee Cost Per Month
Employee only	\$3.78 to \$5.10
Employee + 1	\$6.94 to \$9.36
Family	\$11.79 to \$15.88

### Pension and OPEB

Memphis provides defined benefit pensions and other post-employment benefits (OPEB) to employees, including retiree health insurance. The specific level of benefit is generally similar across all City employees – but varies somewhat depending upon an employee’s occupation. General employees and public safety employees are both eligible to receive a maximum pension of 72.5 percent of average final compensation. However, for general employees, “average final compensation” is defined as the most recent 12 months or highest consecutive 5 years of service. Public safety employee final average compensation is defined as an employee’s highest consecutive 3 years of service. All retirees, if sufficiently vested, receive a defined benefit pension based on an average salary calculation and retiree health insurance provided with premium cost sharing similar to active employees.

### Memphis Pension Plan Key Characteristics

Employee Group	Employee Contribution	Average Final Compensation	Multiplier	Service Retirement
<b>General Employees</b> (hired prior to July 1, 2012)	8%	Most recent 12 months or highest 5 consecutive years	2.25% for all YOS prior to 1/1/1990 + 2.5% for all YOS after 1/1/1990 + 1.0% for all YOS in excess of 25  (max. benefit of 72.5% AFS)	25 YOS
<b>Public Safety Employees</b> (hired prior to July 1, 2012)	6.25% (if hired before 7/1/1983)  6.5% (if hired on or after 7/1/1983)	Highest 3 consecutive years	2.25% for all YOS prior to 1/1/1990 + 2.5% for all YOS after 1/1/1990 + 1.0% for all YOS in excess of 25  (max. benefit of 72.5% AFS)	25 YOS

Memphis employees are also eligible to participate in the City’s Deferred Retirement Option Program (DROP) that allows eligible employees, who agree to retire in 1 to 3 years, to cease participation in and contributions to the City’s pension plan. By electing into DROP, an employee increases his or her take home pay by the amount previously contributed to the pension plan. Upon entering DROP, an employee’s pension benefits are calculated and the pension plan designs disbursing an employee’s pension earnings. However, the earnings accrue to a separate, interest bearing account while the employee remains in active status with the City. Upon actual retirement, the City will disburse a lump sum payment to the new retiree from the DROP account and the employee will receive his or her pension payments directly for the remainder of their life.

In theory, the DROP design is meant to be a “win-win” situation for the City and the employee. The employee accrues a significant lump sum payment and increases his or her take home pay while in DROP. The City does not make contributions to the pension plan on behalf of the employee and can effectively implement a succession plan if necessary to mitigate the impact of the employee’s retirement.

To fund the pension plan, the City makes annual contributions based upon a percentage of payroll – recently increased to 6 percent from 5 percent as shown in the following table. The City’s actuary also calculates an Actuarial Required Contribution (ARC) amount every fiscal year that determines that amount the City must contribute in order to maintain a full-funded pension plan. It is important to note that the percentage of payroll contribution made by the City and the ARC are not the same figure.

### FY2008–FY2013 Pension Contributions

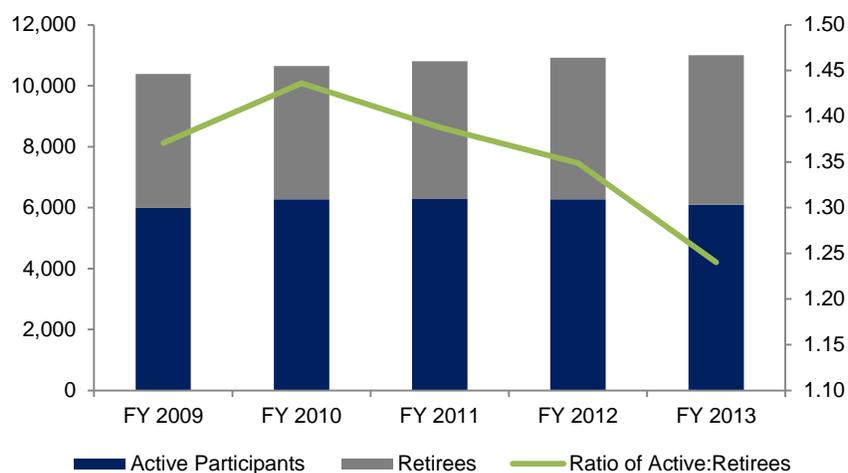
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
ARC	\$24,072,000	\$21,208,000	\$71,447,000	\$80,021,000	\$89,006,000	\$90,363,000
City Contribution	\$14,588,000	\$16,182,000	\$17,433,000	\$20,165,000	\$20,115,000	\$0
Percentage Contributed	60.6%	76.3%	24.4%	25.2%	22.6%	
General Fund Share of Contribution	\$12,719,010	\$13,998,368	\$14,727,303	\$17,658,634	\$17,443,280	\$17,298,328
% of GF Share of City Contribution	87.2%	86.5%	84.5%	87.6%	86.7%	

Source: Memphis 2012-2013 Actuarial Valuation Report; FY2008-FY2013 City Budgets

### Sustainability Challenges

There are a decreasing number of active employees contributing to the system to fund an increasing number of retirees. As of July 1, 2012, the City’s pension plan had 6,093 active participants and 4,913 retired participants – a ratio of 1.24 active participants for every retiree – a decrease from a 1.37:1 ratio in July 2009. This ratio is significantly below the median among public pension systems nationally of 1.74 active employees for every retiree.<sup>20</sup>

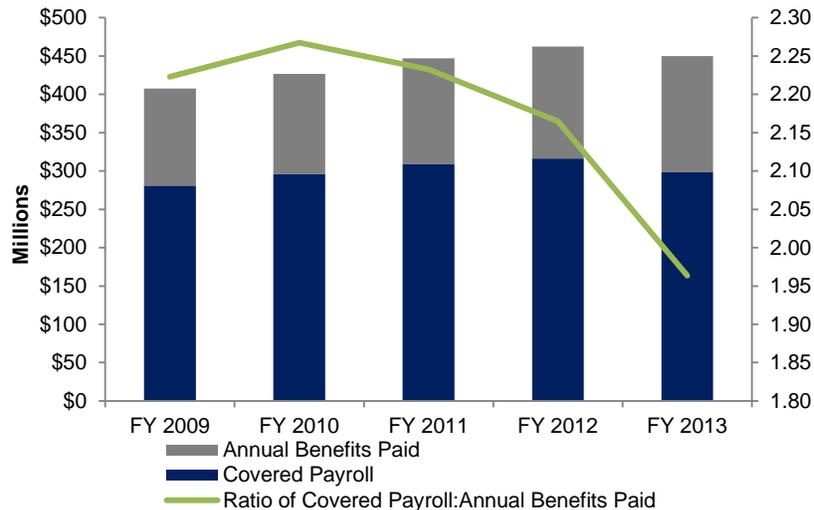
### Memphis Pension Plan – Active to Retiree Ratio



<sup>20</sup> Public Fund Survey of Findings FY11 (November 2012) at [www.publicfundsurvey.org](http://www.publicfundsurvey.org). The survey is sponsored by the National Association of State Retirement Administrators and the National Council on Teacher Retirement. It is a compendium of data from 100 public retirement systems that represent more than 85% of the public retirement community.

An associated challenge with declining active to retiree ratios is the amount of covered payroll subject to pension contributions versus the amount of benefits that must be paid to retirees. As of July 1, 2012, the City's covered payroll contributing to the pension plan was \$298,250,000 and the amount of benefits to be paid was \$151,899,000 – a ratio of 1.96. Similar to the active to retiree ratio, the covered payroll to benefits paid ratio has decreased notably in recent years, reaching the current level in FY2013 from 2.22 in FY2009.

### Memphis Pension Plan – Covered Payroll to Annual Benefits Paid Ratio



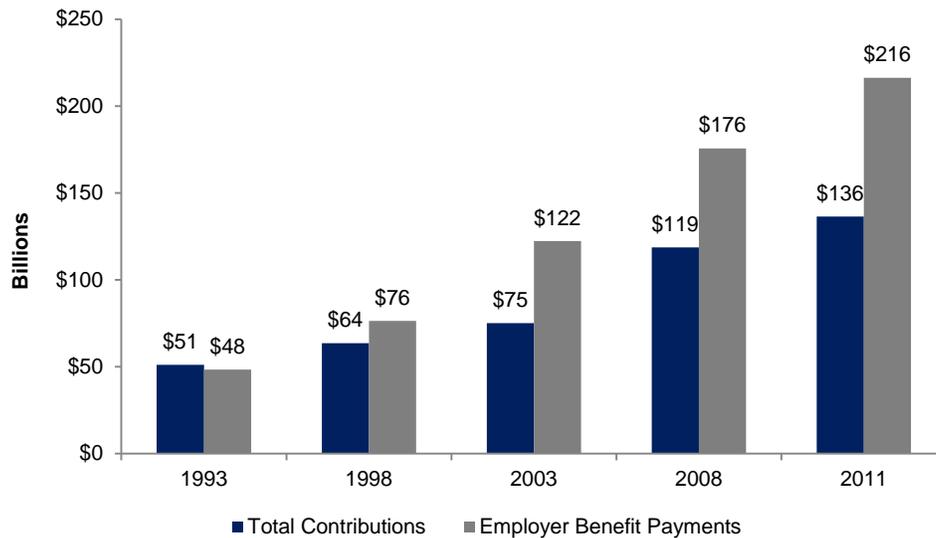
Taking a longer view, the City's actuarial accrued liability (AAL) has grown from \$2.1 billion in FY2009 to \$2.5 billion in FY2013, and the unfunded portion of this liability grew from \$0 in FY2009 to \$642.0 million in FY2013 – or 215.3 percent of covered payroll.

As a result of these trends, the City's ARC as a percentage of payroll has increased from 7.5 percent of covered payroll in FY2009 to 30.3 percent of covered payroll in FY2013. It is important to note that the City's contributions have been based on a percentage of covered payroll – previously 5 percent, and recently increased to 6 percent. Thus, by any measurement, the City has not been able to keep pace with the growing funding demands of the pension fund by making contributions less than the ARC and less than the percentage of payroll represented by the ARC.

### Comparative Context

Memphis is not alone in facing a retiree benefit funding challenge. Nationally, public employers are struggling to cope with increasing retiree benefits costs due to life expectancy, the "baby boomers" beginning to end their working careers with generous benefits, and asset erosion stemming from the "Great Recession." As shown in the graph below, state and local government retirement system benefit payments are rapidly outpacing total contributions. In September 2012, the National League of Cities released the results of its annual "City Fiscal Conditions" report that indicated that 74 percent of City finance directors had reported that pension costs had negatively impacted their respective city budgets.

## State and Local Government Retirement Systems – Contributions and Benefit Payments 1993 to 2011



Source: US Census Bureau, State & Local Public Employee Retirement Systems, 1993-2011 Surveys.

As of 2012, 83 percent of state and local government full-time workers participated in a traditional defined benefit pension.<sup>21</sup> Across the private sector, the number of full-time employees participating in a traditional, defined benefit plan is much smaller. Private sector defined benefit participation has decreased notably during the last 25 to 30 years. In 1986, 76 percent of full-time private industry workers participated in a defined benefit plan, but by 2012 that level decreased to just 19 percent. As defined benefit plans disappeared from the private sector, a majority of private sector full-time employees instead participated in a defined contribution plan such as a 401(k).

The table following compares the pension benefits levels for police officers (Memphis' largest employee group) to those in other jurisdictions. Comparisons to other large city employers can be helpful to contextualize Memphis' pension plan relative to other jurisdictions. Each jurisdiction has its unique circumstances and characteristics and, as result, there are no "perfect twins" among comparable jurisdictions. However, regular benchmarking to other jurisdictions nationally and regionally is useful to assist in understanding the trends and relative context for the City. Primary findings indicate that:

- The percentage of wages contributed to pensions by Memphis employees is within the norm among comparable jurisdictions
- The City's average final compensation calculation of "most recent 12 months" of salary is outside the mainstream and causes pension benefits to be richer than comparable jurisdictions
- The richer final average salary is subject to a relatively rich multiplier of 2.5 percent for most employees
- Service retirement at 25 years of service (regardless of age) increases the years for which the City must pay pension and OPEB costs – especially for public safety employees

<sup>21</sup> US BLS 2012 National Compensation Survey data.

## Police Pension Benefits in Memphis and Benchmarked Jurisdictions

City	Employee Contribution	Average Final Salary	Multiplier	Service Retirement
Memphis	7-8%	Most recent 12 months or highest 5 consecutive years	2.25-2.5%	25 YOS (New hires pay penalty if retiring prior to age 62)
Atlanta	7-8%	Average of highest 36 months	3.0% for each YOS	30 YOS
Baltimore	7%	Highest 18 or 36 months (depending on date of hire)	2.0-2.5%	25 YOS
Boston	10-11%	Most recent consecutive 3 year average	1.5-2.5%	20 YOS
Chattanooga	8%	Average of highest 36 months	2.75%	25 YOS
Knoxville	6%	75% of average monthly salary from top two earning years	2.4%	25 YOS
Nashville	Non-contributory	Sum of average earnings for each credited year of service	2.0%	Rule of 75 (must be at least age 53)
St. Louis	7%	Average of final 24 months	2.0%	20 YOS

As recently as 2008, Memphis' pension plan was over 100 percent funded. The City was previously able to achieve this funding level by contributing a flat percentage of covered payroll (5 percent). However, as the recession and other City funding pressures began to strain the City's budget, investment returns declined, and employee headcount increased, the ARC increased beyond a level sustainable by a flat percentage of covered payroll. In essence, the City was funding a dynamic system with a static method that did not keep pace.

### Comparable Jurisdiction Total Funded Status

	2007	2008	2009	2010	2011
Atlanta	58%	57%	61%	55%	57%
Baltimore	91%	89%	86%	80%	78%
Birmingham	93%	92%	87%	81%	79%
Boston	67%	68%	59%	60%	62%
Chattanooga	90%	91%	81%	81%	77%
Knoxville	97%	96%	93%	89%	86%
Nashville	N/A	90%	91%	85%	91%
New Orleans	87%	77%	68%	40%	57%
Seattle (FY2010)	N/A	92%		62%	74%
Shelby County	106%	104%	103%	97%	90%
St. Louis	89%	93%	91%	89%	87%
<b>Memphis</b>	<b>103%</b>	<b>105%</b>	<b>80%</b>	<b>77%</b>	<b>75%</b>
Median (Excl. Memphis)	90%	91%	86%	81%	78%
Mean (Excl. Memphis)	86%	86%	82%	74%	76%
Memphis Rank	2 of 12	1 of 12	8 of 11	8 of 12	8 of 12

The following table displays the City's pension contribution as a percentage of ARC relative to other benchmarked jurisdictions. From FY2007 to FY2011, Memphis funded no more than 76 percent of its ARC – with 24 percent and 25 percent ARC contributions in 2010 and 2011 respectively. During this

period, the Memphis pension plan funded ratio fell from 103 percent to 75 percent. When compared to other benchmarked cities, Memphis' pension ARC contribution ranked last or next to last in each year. Similarly, the City's funded status fell from second to eighth. Especially striking is that the median of other cities' (excluding Memphis) percentage of ARC contribution was no less than 94 percent in any year – while Memphis' percentage of ARC contribution was never greater than 76 percent – with 24 and 25 percent respectively in FY2010 and FY2011.

### Comparable Jurisdiction – Total Percentage of ARC Contributed

	2007	2008	2009	2010	2011
Atlanta	100%	100%	100%	100%	100%
Baltimore	106%	105%	100%	109%	111%
Birmingham	91%	91%	86%	79%	66%
Boston	100%	100%	100%	100%	166%
Chattanooga	93%	99%	106%	104%	85%
Knoxville	100%	145%	100%	100%	100%
Nashville	99%	133%	118%	74%	100%
New Orleans	74%	72%	75%	53%	63%
Seattle (FY2010)	100%	100%	100%	100%	47%
Shelby County	170%	145%	120%	116%	101%
St. Louis	42%	306%	85%	101%	100%
<b>Memphis</b>	<b>62%</b>	<b>61%</b>	<b>76%</b>	<b>24%</b>	<b>25%</b>
Median (Excl. Memphis)	100%	100%	100%	100%	100%
Mean (Excl. Memphis)	98%	127%	99%	94%	94%
Memphis Rank	11 of 12	12 of 12	11 of 12	12 of 12	12 of 12

### Implications and Recent Changes

A significant portion of the City's budget gap will continue to be driven by the policy decisions around the extent to which pension costs are funded on an annual basis. If the City continues funding its pension plan at similar levels to recent years (approximately 25 percent of ARC), the projected budget gap would be substantially smaller – but only because the City would be kicking the pension costs down the road. This will impact the City's credit rating risk. **In March 2012, Fitch Rating noted, "[t]he City's inability to control the growing pension liability or its continued underfunding of the pension's annual required contribution will materially weaken the credit profile and likely result in negative rating action."**<sup>22</sup>

The City began addressing its pension challenges with legislation in late 2011. The legislation, which took effect July 1, 2012, created a new tier of pension benefits for those employees hired on or after July 1, 2012. The primary elements of the legislation included:

- **Eligibility:** all new hires on/after July 1, 2012 must attain the minimum age as well as 25 years of service for normal retirement (formerly no minimum age with 25 years of service)
  - Minimum age for public safety: 52
  - Minimum age for all others: 62

<sup>22</sup> Fitch Ratings, March 2012.

- **Multiplier** (benefit accrual rate): all new hires on/after July 1, 2012 will have a multiplier of 2.25 percent (formerly 2.5 percent)
- **Final Average Compensation:** all new hires on/after July 1, 2012 will have a final average compensation rate determined as the average of the highest three consecutive years (formerly most recent 12 months for general employees)
- **Employee Contribution Rate:** all non-vested public safety employees will contribute 8 percent by July 1, 2015 – increasing by 0.5 percent per year over three years from current 6.5 percent rate. If an employee vests during this three-year period, his/her contribution rate will be frozen at the rate as of the time of vesting. All public safety new hires will contribute 8 percent. Non-public safety employees already contribute 8 percent and will continue to do so.
- **DROP:** in order to enter deferred retirement, employees hired on/after July 1, 2012 must attain age 62.
- **Early Retirement Reduction:** all new hires on/after July 1, 2012 will receive a five percent per year benefit reduction for each year under the minimum age for retirement.

## OPEB

Memphis, like many other governments, has focused on the pension liabilities associated with retiree benefits. However, the City also provides retirees with health insurance benefits, which it pays for on a “pay-as-you-go” (PAYGO) basis – meaning the City makes payments for OPEB each fiscal year in the amount that the benefits will cost that year. The City makes contributions to its OPEB trust – an account to pre-fund future OPEB liabilities – on a semi-regular basis, but in amounts far below the actuarial required contribution amount.

In 2004, the Government Standards Accounting Board (GASB) issued Statement 45 (GASB 45) requiring local governments to begin treating OPEB costs as liabilities in financial reporting by the end of 2008. The GASB requirement created an expectation that governments treat OPEB in the same manner as pensions and should seek to pre-fund the benefits.

The City’s most recent draft actuarial valuation report, issued in October 2012, indicates the City’s OPEB liability is nearly \$1.4 billion. As health insurance costs increase and additional employees with health insurance coverage near retirement and ultimately retire, Memphis will see this liability increase.

Due to the size of many jurisdictions’ OPEB liabilities, OPEB funding is viewed as a long-term commitment and pre-funding a sizable commitment must occur over a number of years. As such, OPEB funding, unlike pension funding, is not viewed as an immediate credit risk if proper long-term funding strategies are employed. However, pro-active pre-funding is considered a best practice.

In addition to a limited, but important OPEB trust, the City sought to limit its exposure to long-term retiree medical costs in FY2012 with the introduction of a “Medicare Buy-Back” program. City employees hired before April 1, 1986 were not required to participate in Medicare. The City implemented a “Medicare Buy-Back” program that offered these employees the ability to participate in Medicare. Under the program, the City purchased six years of Medicare premiums and the employee purchased four years of Medicare premiums. The City spent approximately \$1.8M to purchase Medicare eligibility for employees. As a result of the program, the City’s most recent OPEB actuarial report suggests that it saved the City \$1.9 million dollars in normal cost and \$90.6 million in long-term liabilities.<sup>23</sup>

<sup>23</sup> City of Memphis OPEB 2011 Actuarial Valuation Report, October 2012.

## Initiatives

Workforce cost control is essential to Memphis' fiscal health. While such workforce changes can be difficult in the short-run, long-term spending must become aligned with revenue growth to ensure Memphis' fiscal health in the short-term and fiscal self-sustainability in the long-run.

The City has identified two high impact initiative areas for action:

- Pension and OPEB Reforms
- Review of all employee benefits including the DROP program, holidays and establishing a sick leave pool

<b>CB01.</b>	<b>Implement Pension Reforms</b>	
	<b>Target outcome:</b>	Reduce pension liability accrual and reduce expenses
	<b>Five-year financial impact:</b>	Significant savings, precise estimates require actuarial costing
	<b>Responsible party:</b>	Mayor, City Council, Human Resources Director, Finance Director

Recent years of significant underfunding, coupled with investment losses due to the recession and hiring more expensive public safety employees have caused the City's ARC to skyrocket – it increased by over \$69.1 million or 326.1 percent from FY2009 to FY2013. The City's 2011 pension reform legislation was a beginning – not the end – of necessary reforms the City must make to ensure its pension system remains solvent and affordable for the City and its employees.

The City should implement a series of reforms to lower the volatility of its pension ARC and ensure employees have access to affordable and sufficient retirement benefits. Below are actions the City can take to address its pension funding challenges and stabilize its budget:<sup>24</sup>

"The old joke is that General Motors is just a health insurance company that makes cars on the side," San Luis Obispo County Supervisor Adam Hill said during a pension presentation at a recent board meeting.

**"My concern is that the county government is becoming a pension provider that provides government services on the side."**

- "Pension promises threaten California cities, counties," *Sacramento Bee*, April 11, 2010. (emphasis added)

*Freeze Cost-of-Living-Adjustments (COLAs) for retirees until Pension Plan achieves 100 percent funded status (inclusive of COLA benefit) and revise COLA allocations*

Currently, the City grants COLAs for retirees on a year-to-year basis subject to available funding. In order to help the pension plan address its funding challenges, the City should suspend all COLA payments until the pension plan achieves a funded status of at least 100 percent. Thereafter, COLAs should only be provided if, and only if, the Plan's funded status is at least 100 percent and then only up to a maximum amount of the smaller amount of 3.0 percent or CPI.

When the plan is funded at 100 percent, COLAs should be provided on a sliding scale based upon pension amount. The highest-earning pensioners would earn the lowest percentage COLA increase, while the lowest earning pensioners would earn the greatest COLA increase (up to the capped amount).

<sup>24</sup> It is imperative to note that until full actuarial cost analyses are conducted, the potential savings are not considered final, definitive, or official. Significant actuarial costing is required – and beyond the scope of this engagement – to arrive at final fiscal impacts associated with the pension changes presented herein. All potential pension and benefit changes must be reviewed in consultation with the City's actuary and counsel to ensure all legal and fiscal requirements are achieved.

For instance, a retiree receiving a \$100,000 annual pension may receive a 0.5 percent COLA and an employee receiving a \$30,000 annual pension may receive a 2.5 percent COLA. This would help minimize the impact of COLA changes for those who can least afford it.

Contribute the Actuarially Required Contribution (ARC), not a percentage of payroll

In order to slow the growth in unfunded liability associated with the pension plan, the City should contribute the ARC (or adopt a policy that funds the pension plan at the percentage of payroll represented by the ARC in each respective year).

The City may find it necessary to initially make contributions at a level sufficient to maintain or improve its credit rating and phase in increased contributions over time as the initial impact of assuming the full ARC may be too burdensome. However, regardless of the phase-in chosen, the City must fully fund its ARC contribution.

Close the current defined benefit pension plan and begin a defined contribution plan

The competitive landscape is now very different as governments seek to recruit and retain personnel within the general labor market. The prevalence of defined contribution structures outside of government is associated with an increasingly mobile workforce that values portability of retirement benefits over the stability of defined benefit structures.

The City should elect to close its current pension plan and replace it with a defined contribution plan. To balance the public and employee interests in affordable and sustainable retirement benefits, the City should assure that the defined contribution plan provides sufficient benefits to provide adequate replacement income for participating employees, and that the plan itself is soundly designed and operated efficiently and responsibly.

In order to achieve savings of the magnitude necessary to reduce the City's pension liability to an affordable and sustainable level – for both the City and its employees – the City must slow or stop the growth in accrued liability. To do so requires revising benefits for non-vested employees.<sup>25</sup>

New hires and non-vested employees would not receive a defined benefit pension at retirement; instead, the City should institute a defined contribution plan – to which both the employer and employee regularly contribute. Non-vested employees could elect to use their pension contributions as “seed” money for participation in the defined contribution plan.

As part of the process, the City should honor those benefits accrued by employees at the present value as of the date legislation. A Tennessee State Attorney General opinion holds that benefit changes – such as contemplated – cannot be applied to vested employees. Employees who are vested should retain pension benefits earned to date and be paid a pension based on the current system of accrued benefits.

In the first several years of operation, the City will likely find the introduction of a defined contribution plan will increase its costs associated with retiree benefits.<sup>26</sup> However, given that the City has not paid its full ARC, an increase in ARC contribution coupled with defined contributions to employees should prove feasible and provide long-term cost certainty in its ARC – as its liabilities are essentially frozen on a forward-looking basis.

Additionally, changes in actuarial cost methods could result in short-term cost spikes – however, to the extent that the City has to begin fully-funding its ARC, it is again likely that the City can implement such

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<sup>25</sup> City of Memphis FY2012, Pension Actuarial Valuation Report, October 2012. Data do not include the 335 employees participating in the City's DROP program as of July 1, 2012.

<sup>26</sup> Since Memphis pension participants do not participate in Social Security (income replacement), the City must meet the federal “Social Security Safe Harbor” requirement. In general, this requires the City to contribute at least 7.5 percent toward a defined contribution plan.

policies to achieve both short-term and long-term cost savings while maintaining the affordability and sufficiency of benefits for employees.

Precise savings estimates require actuarial projections to determine the magnitude of savings associated with this option, though it is likely to yield short-term cost increases with significant long-term savings.

#### Extend the City's 2011 pension reforms to non-vested employees

The City should close its pension plan as described above. However, if this is not feasible in the short-term or long-term, it is imperative that – at a minimum – the City extend its 2011 pension reforms affecting new hires as of July 1, 2012 to all non-vested employees in order to address the accrued liability of the pension.

Given the fact that Memphis pension participants do not participate in Social Security, the City's employee contribution rate of 8 percent (once scale-up for public safety employees is complete) may be comparatively low. For instance, while some employers such as Atlanta also have subsets of employees who do not participate in Social Security and who have contribution rates similar to Memphis, cities like Charlotte, NC (firefighters contribute 13 percent), Omaha, NE (police contribute 16.35 percent and firefighters contribute 15.4 percent) and Columbus, OH (police and fire fighters contribute 10 percent as part of state plan) have employee contributions that are greater than Memphis for employees not participating in Social Security. This suggests that there may be a need to review additional employee contribution increases.

According to the City's actuary's initial working projections, extending the 2011 reforms to all non-vested employees (approximately 47.7 percent of total employees) would reduce the City's ARC by \$5.0 million in FY2014 and \$28.2 million dollars from FY2014 through FY2018.

#### Implement plan benefit changes for all non-vested employees that are equal to the State of Tennessee Consolidated Retirement System (TCRS) - Local Government Pension Plan offerings

Memphis could change plan benefits to be comparable with those offered in the TCRS Local Government Pension Plan.<sup>27</sup> The TCRS Local Government Pension Plan offers political subdivisions multiple plan options – a defined benefit plan, a hybrid defined contribution/defined benefit plan, and a defined contribution plan.

The TCRS Plan also provides the option to prospectively adjust benefits and plan offerings rather than change its benefits to match those offered in the TCRS plan. The City would need the assistance of actuaries and labor counsel to determine the financial savings/costs associated with participating in one of the plan's four options (and each variation thereof) to ensure that it selects the optimal design(s) to meet both City and employee needs.

### **Reforms Nationally**

Examples of public sector models for defined contribution and hybrid approaches, as well as recent changes to move toward such approaches, include the following:

- Voters in the City of San Diego recently passed a proposition to move new hires into a defined contribution plan and cap how benefits are calculated for current employees.
- Washington, DC civilians hired since 1987 participate in a DC plan as their primary retirement program, with a 5.0 percent of pay employer contribution (5.5 percent for Corrections Officers).
- Montgomery County, MD civilians hired since 1994 also participate in a DC plan as their primary retirement program, with a 6.0 percent of pay employer contribution.

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<sup>27</sup> The City would need to include social Security participation – or lack thereof – in comparing benefit levels with the TCRS Plans.

- Since January 1, 1987, the U.S. government program for federal retirees has used a hybrid model, with benefits under the Federal Employees Retirement System (FERS) accruing from three sources:
  - A Basic Benefit Plan, under a traditional DB structure with an employee contribution. For eligible Firefighters and Law Enforcement Officers, Capitol Police, and Supreme Court Police, this provides 1.7 percent of the highest average 3 consecutive years salary multiplied by years of service up to 20, plus 1 percent of highest average 3 consecutive years, multiplied by years of service in excess of 20;
  - A Thrift Savings Plan, using a DC approach. Employer agencies deposit an amount equal to 1 percent of an employee's earned pay in the worker's Thrift Savings Account, and the employee may make additional tax-deferred contributions matched by the employee's agency dollar for dollar on the first 3 percent, and \$0.50 for every dollar for next 2 percent; and,
  - Participation in Social Security.

Employees contribute to the Basic Benefit Plan and Social Security through payroll deductions. Each pay period, employer agencies deposit an amount equal to one percent of an employee's earned pay during that period in the employee's Thrift Savings Account. The employee may make tax-deferred contributions to the Thrift Savings Account that will be matched by the employee's agency; dollar for dollar on the first three percent and \$0.50 for every dollar for the next 2 percent. If an employee separates from services, two of the three parts of FERS are portable (Social Security and Thrift Savings Plan).

- Washington State civilian employees hired since March 1, 2002 choose between a defined benefit (DB) plan or a hybrid DB and deferred compensation (DC) plan. The hybrid plan is comprised of employer contributions that finance the DB portion of the plan and employee contributions that finance the DC portion of the plan. The DB plan offers an allowance (2 percent \* years of service), while the hybrid plan offers a reduced DB (1 percent \* years of service) plus the value of DC benefits.
- Georgia enacted a hybrid plan for state workers hired after January 1, 2009, that combines a DB plan with a reduced pension multiplier (1 percent \* years of service, down from 2 percent previously) with a DC component featuring a dollar-for-dollar employer match for the first 1 percent of pay contributed by the employee and a 50 percent match for up to another 4 percent of pay contributed.
- An arbitration award covering City of Philadelphia police officers establishes a new hybrid retirement plan, featuring a 50 percent City match in a DC plan up to 1.5 percent of pay, coupled with a reduced DB multiplier for the first 20 years of service (1.75 percent \* Average Final Compensation \* years of service, in comparison to 2.2 percent \* Average Final Compensation \* years under the older plan). New hires have the option to elect between this new hybrid plan or the prior DB plan with a higher employee contribution.

In general, a defined contribution or hybrid approach changes the risk dynamic for retirement programs, such that employees share more directly in the market risks (and rewards) associated with retirement investments. In addition, defined contribution components can provide greater benefit portability, and may be structured to encourage higher levels of personal retirement savings (i.e., with an employer match). In a hybrid model, such as the Federal Employee Retirement System, such characteristics can be mixed with a moderate defined benefit component to address retiree concerns regarding benefit stability and sufficiency.

<b>CB02.</b>	<b>Review Pension Investment Strategies and Practices</b>	
	<b>Target outcome:</b>	Increase return on investment, reduce ARC
	<b>Five-year financial impact:</b>	Cost of review will be offset by savings, but savings difficult to determine prior to review
	<b>Responsible party:</b>	Finance Director

Improved pension fund investment performance would also reduce the needed level of City annual required contributions to the Pension Fund. As of September 30, 2012, the City Pension Fund had over \$1.98 billion in assets. Approximately 36.9 percent of assets were invested in domestic equities, 36.3 percent were invested in fixed income and 20.8 percent were invested in international equities. Another 5 percent of funds were invested in real estate.

The Fund's quarterly performance reports compare composite performance to a policy index – in other words an index based on the Fund's asset allocation policy. Over the trailing year, the Fund's assets grew at a rate of 18.08 percent compared to Index performance of 17.53 percent; the Fund similarly outperformed the Index over three years – with growth of 9.95 percent compared to the Index rate of 8.86 percent; over a five year period, however, the Fund underperformed compared against the Index – growing at 2.0 percent against Index performance of 3.2 percent. The five year performance takes into account the dramatic reduction in the market in 2008. In 2008, the fund composite lost 28.95 percent of value compared to Index loss of 22.15 percent.

Pension fund performance is largely the result of asset allocation. In the case of actively invested funds, the performance of active managers – or the lack of performance – also has an effect on returns. The Public Funds Survey for FY2011 found that on average the nation's largest public pension funds had 51.1 percent invested in equities, 25.1 percent in fixed income, 6.3 percent in real estate and just over 14 percent invested in alternatives. Comparing to national averages, Memphis's pension assets are invested more in fixed income and less in alternatives.

The City needs to focus as much on investment performance as a means of controlling pension contribution costs as it does on reforms in pension benefits. The Pension Fund should undertake an independent review of its current investment policy statement, asset allocation and overall administration to determine whether improvements in practice could yield savings in costs and improvements in performance that would reduce annual contributions by the City.

An independent review would examine the current mix of assets, the potential use of passive strategies and current manager performance. It would also assess the overall performance of current consultants to the Fund. While the independent review would not need to occur annually, a bi-annual independent assessment of consultant performance would assist the Pension Board in ensuring that it was maximizing consultant performance.

Independent review of Pension Board consultants and actions is not uncommon for public pension plans. For example, between 2003 and 2005, the Chattanooga General Pension Plan commissioned two independent reviews to assess the performance of both its past and then current investment consultants.

A detailed independent review of the Pension Board's practices would likely cost \$50,000 and more regular assessments of consultant performance would cost even less. Even small recommendations – such as reductions in fees by increasing passive investment strategies – would more than cover any costs of the independent review and assessments.

<b>CB03.</b>	<b>Implement OPEB Reforms</b>	
	<b>Target outcome:</b>	Implement long-term strategy to pre-fund OPEB liabilities
	<b>Five-year financial impact:</b>	Significant long-term savings
	<b>Responsible party:</b>	Human Resources Director, Finance Director

A delay in funding retiree medical benefits (OPEB) has left many state and local governments with little to no money set aside or invested to meet rapidly increasing costs. Memphis has largely funded its OPEB expenses on a pay-as-you-go basis (“paygo”). As long-term pension and OPEB liabilities continue to grow, governments – including Memphis – must find solutions to achieve sustainable financing for both the government and employee.

Like many jurisdictions, Memphis does not fully fund its OPEB ARC. It is unlikely to be able to do so in one year. This is somewhat different from pension experiences. Rating agencies generally view pension liabilities as key elements of a jurisdiction’s credit worthiness. A well-funded pension plan is helpful and a significantly underfunded pension fund or deterioration in funded status is generally viewed in a negative light. Recognition of OPEB liabilities are relatively new – per GASB 45 – and credit rating agencies have shown some recognition that while OPEB liabilities must be addressed, the absence of full funding in the short-term may not affect a jurisdiction’s credit rating in the same manner as pension liabilities. Thus, to the extent a jurisdiction has a long-term strategy to address OPEB, significant current liabilities may be temporarily seen as palatable.<sup>28</sup>

Strategies to proactively address the City’s nearly \$1.4 billion in OPEB liabilities could include:<sup>29</sup>

- **Increase the City’s contribution to OPEB Trust Fund to pre-fund OPEB liabilities.** The City should increase its OPEB contributions beyond paygo to grow its OPEB Trust Fund. The recent transfer of OPEB Trust Fund assets to assist in closing the City’s FY2013 budget gap reduced the value of the Trust Fund.
- **Reduce or restructure benefits for new and existing employees.** Memphis could eliminate or reduce coverage for retiree dependents, thereby eliminating a cohort of plan participants and reducing future liabilities. If the City chooses to eliminate dependent coverage for retirees, it may consider allowing “buy-up” eligibility for dependents that could be obtained by retirees for the full cost of the attributable premium or through a defined contribution plan (the City would match employee contributions up to a certain percentage to pre-fund employee-directed OPEB savings). The City’s actuary’s working draft estimates that this could reduce the City’s OPEB ARC by over \$30 million if adopted immediately and reduce the City’s OPEB actuarial liability by almost \$345 million. If current and future retiree dependent eligibility is eliminated, the City’s ARC would be reduced by nearly \$41 million in the first year of adoption and the OPEB actuarial liability would be reduced by almost 48 percent (over \$600 million). To the extent the City is funding OPEB on a paygo basis, it would not achieve any immediate savings unless reforms were applied to current retiree dependent eligibility, in which case it could save up to \$10 million.

<sup>28</sup> It is critical to note that jurisdiction-specific credit ratings are dependent upon a vast number of criteria and jurisdictions with similar pension and/or OPEB liabilities may experience different credit ratings for numerous reasons. The above discussion is intended to be illustrative only. It is not intended to reflect the likely or resultant credit ratings that would occur if a jurisdiction adopts or fails to adopt any OPEB and/or pension funding strategy.

<sup>29</sup> Best practice information cites from: “New Normal” Retirement Plan Designs,” Jim Link and Girard Miller. *Government Finance Review*, August 2009; “strategies to Consider as OPEB Costs Escalate,” Girard Miller, *Government Finance Review*, February 2011; and GFOA OPEB Reform Best Practices – [www.gfoa.org](http://www.gfoa.org).

In addition, for new hires, the City could make OPEB a Medicare supplement equal to a dollar value per year of service that would be paid per month (i.e. \$10 per year of service would be paid by the City to employees on a monthly basis as a supplement to Medicare, with CPI adjustments).

- **Extend pension reform eligibility to OPEB eligibility.** Currently, general employees are eligible for retiree health care benefits with the attainment of 25 years of service (no age requirement), age 62 and 10 years of service, or age 65 and 5 years of service. Public safety employees are currently eligible for retiree health care benefits at 25 years of service (no age requirement) or age 55 and 10 years of service.

Increasing eligibility requirements for current employees and future employees would lessen the duration for which the City must be the primary funding source of post-retirement medical expenses for employees. The City's 2011 pension reform requirements provide a good model to follow for OPEB eligibility for current and new employees. The legislation provided that new entrants to the pension system must attain 25 years of service and reach age 52 (public safety employees) or age 62 (general employees). This same standard should be adopted for OPEB eligibility for all current and future employees.

- **Adopt tiered contributions.** The City could tier retiree benefit cost sharing for retirees based on an employee's years of service. For instance, the City could create a premium sharing tier as follows (for illustrative purposes only):
  - 25 years of service and meets age attainment requirement for retirement: 30% of premium costs
    - Additional 10% of premium cost per year under minimum age requirement
  - 20-24 years of service and meets age attainment requirement for retirement: 35% of premium costs
    - Additional 10% of premium cost per year under minimum age requirement
  - 15-19 years of service and meets age attainment requirement for retirement: 40% of premium costs
    - Additional 10% of premium cost per year under minimum age requirement
  - 10-14 years of service and meets age attainment requirement for retirement: 50% of premium costs
    - Additional 10% of premium cost per year under minimum age requirement
  - 5-9 years of service and meets age attainment requirement for retirement: 60% of premium costs
    - Additional 10% of premium cost per year under minimum age requirement
- **Phase-up Employee and City contributions.** OPEB contributions should be phased-in over a period of years until employee and employer share of actuarial costs are equally divided.
- **CPI cap.** Cap the annual increase in premium costs borne by the City to CPI.

While actuarial costing is necessary to assess a precise magnitude of impact associated with the strategies discussed above, it is expected those strategies presented above would have a sizable impact in reducing the long-term liabilities associated with OPEB and would have some short-term cost savings as well.

<b>CB04.</b>	<b>Review Employee Health Care Benefits</b>	
	<b>Target outcome:</b>	Reduction in claim amount and cost sharing
	<b>Five-year financial impact:</b>	\$16.6 million
	<b>Responsible party:</b>	Human Resources Director

From FY2008 to FY2012, the City's General Fund health care costs have increased by 36.6 percent – or \$11.6 million. With increasing inflationary pressure and decreasing discretionary revenue, the City is not in a position to have the luxury of assuming additional health care costs for its employees.

*Achieve true 70-30 cost share of health care premium expenses – including cost increases*

In FY2012, the City's General Fund was the source of approximately 83.8 percent – or \$43.0 million – of all City health premium contributions. If the City were only contributing 70 percent of total premium costs (instead of the almost 76 percent it did in FY2012), the City's General Fund share would have been \$3.7 million less than was paid by the City.

Over a five year period, savings would be approximately \$4.0 million.

*Add spousal carve out*

Spousal health insurance carve-outs limit or deny health insurance benefits to an employee's spouse and are typically only implemented when the spouse is working and eligible for health insurance through another employer. Given that public sector health care benefits are often more generous than those offered in the private sector, spousal health insurance carve-outs allow public sector employers to reduce health care claims by not providing or limiting this subsidy of the non-public employee. Studies have determined that the average cost to insure employees of other organizations are between 5 percent and 25 percent of total health insurance costs.<sup>30</sup> Spousal carve outs can take many forms including full loss of spousal coverage or reduced employer contributions for spousal coverage.

The City should implement a spousal carve-out policy for its health plans. A 2007 Society for Human Resource Management survey found that among employers that implemented a spousal carve-out, 27 percent of covered individuals dropped out of their plans. Based on January 2013 data, approximately 10.4 percent of employees enroll a spouse on their health care plan despite the spouse having access to another health care plan. Currently, those employees pay a surcharge of \$25.00 per pay period for the covered spouse. If all such employees dropped spousal coverage in favor of single coverage, the City would save approximately \$325,200 in the first year with growth in subsequent years.<sup>31</sup> Given the likelihood that the City may not implement a full carve out and not all eligible employees would drop coverage, long-term savings are assumed to be 50 percent of this figure. The City should explore the value of secondary coverage claims during recent years to inform its decision, in consultation with its health care consultant, on pursuing a spousal carve out.

*Perform routine dependent eligibility audits*

The City should regularly conduct dependent health insurance audits. An audit does not change fundamental employee health benefits or coverage in any way. Dependent audits identify individuals who receive City health coverage even though they are no longer eligible. In many cases, dependents remain on city employees' health plans even after divorce, death, reaching the cutoff age, or securing health

<sup>30</sup>Gregg Bot. "Spousal Carve-Outs: A Hot Cost-Saving Trend for Employee Benefits?" Update Magazine, Winter 2007.

<sup>31</sup> Assumes FY2013 rates and basic: premier ratio remains the same.

coverage elsewhere. Dependent audits can reduce the number of dependents covered by City health plans and thereby reduce City health claims and required premium contributions.

Typically, audits find approximately three percent of dependents ineligible. The City does not conduct such audits on a regular basis. Implementing regular audits has the potential to generate immediate recurring cost savings. The City could establish quarterly auditing, whereby the City verifies that employees shown as eligible to receive health benefits in its Payroll system are the same as those in the Third Party Administrator’s system. Dependent audits have become an increasingly common practice by large private employers and have even become a popular state strategy to reduce health care costs. The states of North Carolina, Ohio, and New Jersey have all performed dependent audits within the last three years. Doing so, for a city the size of Memphis, could amount to net savings of approximately \$5.6 million over five years.

The cost to implement and execute a dependent eligibility audit varies significantly by the depth and scope of effort (i.e. whether an audit consists of random mailings or a full audit of all with external support, etc.). A dependent eligibility audit that could yield approximately \$1 million in savings would likely cost the City approximately \$75,000 to \$150,000. The City should consult with its health care consultant to determine an appropriate scope and depth of a dependent eligibility audit. This will help narrow the range of potential cost and likely savings.

*Introduce consumerism to health care offerings and increase dependent coverage options*

Health care consumerism is an evolving trend that is targeted to combat increasing health care costs. According to Mercer, consumerism is a strategy that encourages and enables people to:<sup>32</sup>

- Take charge of their personal health status and attain the healthiest lifestyle possible
- Make informed decisions about their health and health care
- Use their health care dollars cost-effectively
- Become active partners in their health care

Consumerism dictates that enhanced consumer involvement (and accountability) in his/her health directly affects the cost of health care provision. At its root, consumerism is designed to change human behavior to focus on increased health and wellness – a notoriously challenging proposition. Where consumerism has shown potential is to help employers and employees balance health and wellness with affordability of care. Consumerism approaches typically increase the financial investment of the employee as a means to incentivize behavior improving involvement in their own health and wellness and an enhanced awareness of the costs of utilization. This is typically done through what Mercer terms, a “carrot and stick” method.

**Employee Health Behavior Incentives**

Examples of Carrots	Examples of Sticks
Premium reductions	Higher deductibles
Financial rewards/incentives	Higher premiums
Co-pay waivers	Penalties/Surcharges

The City should introduce elements of consumerism in its health care offerings.<sup>33</sup> One way for the City to do so is to offer a lower-cost plan to all employees with tiered buy-ups for types of coverage on a dollar-for-dollar basis. That is, employees would receive a base level plan and have the freedom to choose enhanced options, coverage levels and/or financial protection levels at the actual level of cost above and beyond the base level plan. Additionally, employees would be required to continue paying surcharges for smoking – and the penalties should be increased from the current \$25.00 per pay period surcharge, to an

<sup>32</sup> Mercer. “The Case for Consumerism.” <http://www.mercer.com/flipbook/healthcare/index.html>

<sup>33</sup> The City’s health plan year runs on a calendar year as opposed to a fiscal year.

amount commensurate with the proportionate cost of coverage for health insurance.<sup>34</sup> Employees would be required to complete an annual affidavit reflecting self and/or dependent tobacco use and other access to health care. Significant penalties (financial, employment-related, or other) would result if random audits found instances of intentional deception or erroneous reporting.

As part of the plan design, in order to achieve a change in employee behavior to improve collective health and wellness and achieve necessary savings for the City (and many employees), the City will need to increase the very low deductibles currently offered to employees. Family coverage has an annual maximum deductible of \$300 compared to deductibles in other jurisdictions of \$1,000 or more. Increasing the employee annual deductible will help affect employee behavior so that health maintenance and wellness goals are tied to financial contributions. It is critical that the focus of new plan designs be the health of employees, particularly improving prevention and wellness initiatives. Cost reductions follow if – and only if – employee health experiences improve and are maintained over time.

While City employees pay a reasonable share of premium (30 percent), premium sharing is not nearly as significant as the City's costs to cover claims. From a fiscal standpoint, because it is self-insured, the City pays the cost of claims. Thus, in order to achieve impactful savings, it must reduce the number of claims, severity of claims, or a combination of both. Introducing elements of consumerism will likely yield important, positive changes in employee health and wellness awareness, achieve increased employee contributions (through deductibles) to claims, and may reduce premium costs for some employees.

A potential design alternative could also include additional tiers of coverage for employees. Currently, the City offers only “single” coverage and “family” coverage to employees. Under this design, coverage for an employee and his/her spouse is treated the same in terms of employee contribution as coverage for an employee and five dependents.

From an equity standpoint, the City should add additional tiers – in consultation with its health care consultant – to ensure employees are afforded levels of coverage that ensure they pay a fair amount for the coverage they receive and are not subsidizing other employee and dependent coverage. An element of consumerism may be added to the additional tiers as the City could offer employees the freedom to extend choose enhanced options, coverage levels and/or financial protection levels at the actual level of cost above and beyond the base level plan to their dependents on a dollar-for-dollar basis, especially if dependents have access to other health care coverage.

Actual cost savings from introducing consumerism to health care offerings and increasing dependent coverage options will require actuarial costing that is beyond the scope of this report.

#### Expand wellness program

Currently, the City has a limited employee wellness program. The City could improve employee health, reduce medical claims, and reduce absenteeism related to illness by expanding its wellness program to make it more accessible to a greater number of employees – specifically public safety employees. Additionally, the City should consider expanding the wellness program to dependents of employees covered by the City's health plan.

Wellness programs have become a common practice among employers seeking to improve employee health and to control the increasing cost of employee health care. A greater number of employers in both the public and private sectors are seeking to improve health outcomes for workers through investments in programs and activities that raise health awareness and promote healthy lifestyles.

It is generally accepted that a healthier workforce is more productive, as improved health leads to reduced absenteeism associated with illness as well as improved quality of life and morale. Improved employee health also has a direct impact on an organization's bottom line. Improved health outcomes

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<sup>34</sup> To be determined in conjunction with the City's health care consultant.

will also result in lower medical claims experience, which translates to direct savings for self-insured employers. Controlling absenteeism can allow organizations to reduce their reliance on overtime.

Wellness programs are growing in popularity nationwide. According to a Kaiser Family Foundation survey in 2012, 63 percent of employers offering health benefits also offered at least one wellness program. This represents an increase from the 58 percent of employers offering wellness programs in 2009.<sup>35</sup> The popularity of these programs is understandable, as several studies point to the potential return on investment that can be realized by employers that implement wellness programs. A 2010 study found that medical costs fall by \$3.27 for every \$1.00 spent on wellness programs and that absenteeism costs fall by about \$2.73 per \$1.00 spent.<sup>36</sup> A 2009 report published by the American Heart Association identified the potential return on investment of these programs as ranging from \$3.00 to as much as \$15.00 per \$1.00 spent.<sup>37</sup>

Wellness programs can take many forms, depending on the needs of the organization. Examples of wellness program activities include:

- Walking clubs
- Training/information sessions on nutrition and wellness issues
- Health club/fitness membership incentives
- Weight loss programs
- Participation in national wellness events and campaigns
- Wellness newsletters
- Healthy catering policy
- Smoking cessation programs

In 2012, the City of Chicago began a new program to improve the health of City employees and their dependents, with nearly 80 percent of all eligible participants enrolled in the program. The program requires participants to get health screenings in the hope of identifying medical issues that would otherwise have gone untreated or undertreated. Workers and dependents who did not sign up for the program were required to pay an additional \$50 per month for health insurance. Chicago is using the non-participation fee revenues to cover the expenditures associated with running the wellness program (third-party contract).

Chicago's wellness plan had over 38,000 participants and was estimated to cost approximately \$7 million in the first year (approximately \$184 per participant). The plan is anticipated to save nearly \$20 million per year (approximately \$526 per participant). If Memphis had 3,500 of its covered participants participate in a similar wellness plan with similar proportional savings estimates and that was funded by enhanced fees on non-participants, it could yield savings of approximately \$1.8 million per year. Assuming that Memphis may not initially realize the same leverage as Chicago due to participation, a first year discount of 50 percent is applied yielding \$900,000 in estimated savings. A 25 percent discount is applied in years two and three (savings of \$1.35 million in each year) and no discount is applied in years four and five (savings of \$1.8 million in each year) – for an estimated five-year total savings of \$7.2 million. The actual savings seen from reduced medical costs and improved attendance will likely be higher. Increasing the investments in wellness and the level of partnership in future years would increase the return received by the City.

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<sup>35</sup>Kaiser Family Foundation. *Employer Health Benefits 2012 Annual Survey*.

<sup>36</sup>Baicker, K. et. al. "Workplace Wellness Programs Can Generate Savings." *Health Affairs*, 29, no. 2, 2010.

<sup>37</sup>Carnethon, M. et. al. "Worksite Wellness Programs for Cardiovascular Disease Prevention: A Policy Statement from the American Heart Association." *Circulation*, 2009.

<b>CB05.</b>	<b>Review Employee Incentive Pay and Longevity Pay</b>	
	<b>Target outcome:</b>	Expense reduction
	<b>Five year financial impact:</b>	\$26.4 million to \$30.9 million
	<b>Responsible party:</b>	Human Resources Director, Finance Director, Fire Director, Police Director

College Incentive Pay

In FY2013, the City's General Fund budget includes over \$6.0 million for college incentive pay. The "incentive" is available only to sworn public safety employees (e.g. firefighters and police officers).

New police officer hires to the Memphis Police Department must have at least 54 semester hours of satisfactory post-secondary education at an accredited institution or two years of active military experience. Memphis firefighters must have a high school diploma or equivalent. Prior to 1984, the City did not have an educational pre-requisite for sworn police officers. The City moved away from the requirement in 2008 and reinstated it in 2010.

Educational incentives are used in some jurisdictions across the country as an attempt to enhance the overall education of a jurisdiction's workforce – which some suggest lead to better performance. In Memphis, public safety employees who have up to 25 semester hours of post-secondary educational attainment receive a 1.0 percent of salary educational incentive, those with 55 or more semester hours receive 2.5 percent of salary, those with 85 semester hours receive 5.0 percent of salary, and those with a 4-year degree receive 7.5 percent of salary. Thus, Memphis not only requires police employees to have at least 54 semester hours of educational attainment, but if they have 55 or more – the City adds incentive pay. Additionally, if an employee continues to pursue education while employed, the City offers tuition reimbursement and will increase the educational incentive for that employee without the receipt of a degree (i.e. for those with 85 semester hours completed, but not a four-year degree). There is no requirement that the course work is related to the employee's current duties.

Considering the general labor market of Memphis and its region, the City's budget challenges, and the comparatively strong compensation opportunities for public safety employees relative to similar opportunities for individuals at the same educational attainment, the City should consider either eliminating the incentive altogether or restructuring the incentive to be less burdensome to its General Fund budget. Additionally, while there is research that suggests advanced education for police officers can reduce liability claims for a jurisdiction, no similar research exists for fire fighters. Thus, extending educational incentives to firefighters should be eliminated.

If the City eliminated the college incentive pay (assuming the same base expenditures as FY2013 with no growth), it could save \$6.0 million in the first year. As an alternative, if the City deems it affordable, the college incentive could be converted to a flat dollar figure instead of a percentage of salary and apply only to those police employees who have an Associate's Degree or a Bachelor's Degree (or greater). For instance, sworn police employees with an Associate's Degree could receive an annual college incentive award of \$500 and an employee with a Bachelor's Degree (or greater) could receive an annual college incentive award of \$1,000. Based on City data, 1,867 employees receive college incentive pay in the following categories:

## Distribution of Memphis Employees Receiving College Incentive Pay

Education Level	Employees Receiving Incentive
1 year of post-secondary education (25 semester hours):	99 (MFD: 99 MPD: 0)
2 years of post-secondary education (55 semester hours):	192 (MFD: 190 MPD: 2)
3 years of post-secondary education (85 semester hours):	510 (MFD: 188 MPD: 322)
4 years of post-secondary education (college degree):	1,390 (MFD: 282 MPD: 1,108)

If the City eliminates college incentive pay for police non-degree recipients and all fire fighters and transitions to the flat dollar amounts describe above, the City could save \$5.1 million - \$5.5 million in the first year.<sup>38</sup>

### Longevity

Memphis provides public safety employees with longevity pay. Firefighters receive longevity pay at a flat dollar amount based on years of service as follows:

- Five Years of Service: \$300.00
- Ten Years of Service: \$420.00
- Fifteen Years of Service: \$600.00
- Twenty Years of Service: \$720.00
- Twenty-Five Years of Service: \$900.00
- Thirty Years of Service and above: \$1,020.00

Police officers receive longevity pay as a percentage of salary at the following rates:

- Five Years of Service: 0.75 percent
- Ten Years of Service: 1.0 percent
- Fifteen Years of Service: 1.25 percent
- Twenty Years of Service: 1.5 percent
- Twenty-Five Years of Service and above: 1.75 percent

By switching Police to a flat dollar amount similar to that seen in the Fire division, the City could save approximately \$891,500 over five years.

<b>CB06.</b>	<b>Review Employee Holidays</b>	
	<b>Target outcome:</b>	Improve service delivery, reduce expenditure, increase productivity
	<b>Five year financial impact:</b>	\$13.5 million
	<b>Responsible party:</b>	Human Resources Director

All current and future employees should be limited to ten holidays annually – more in line with private sector and state and local governments nationally. All employees who receive holiday pay should have their holiday pay reduced to reflect this holiday reduction.

In FY2013, the City estimates that it will pay more than \$11.8 million in holiday pay to police and fire employees – a cumulative average of more than \$912,000 per holiday. The baseline forecast for future

<sup>38</sup> If including overtime pay calculated on top of college incentive – approximately equal to another 7 percent of total educational incentive pay – an additional 7 percent of \$6.0M could be realized; approximately \$420,000).

spending assumes holiday pay remains at the FY2013 level. By eliminating three annual holidays for City employees, the City would save approximately \$2.7 million per year and over \$13.5 million over five years.

<b>CB07.</b>	<b>Review Employee Sick Leave</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five year financial impact:</b>	\$21.8 million
	<b>Responsible party:</b>	HR Director

The City should consider moving towards a sick leave pool, based primarily on the model established by the Louisville Fire Department. Under the Louisville model, the Fire Chief compiles the total amount of used sick leave for the entire department on a fiscal year basis (not including leave used as a result of catastrophic illness or disease). An average number of hours per firefighter is determined, and if the average is fewer than 48 hours per firefighter, then all firefighters receive a bonus (extra vacation time) and the amount of bonus hours can increase if a lesser amount of sick leave is used. If the average amount of sick leave used is more than 96 hours, then each firefighter pays a one-time penalty in the form of lost vacation time (unless he or she specifically used fewer than 24 hours of sick leave that year).

In FY2012, Memphis 40-hour work week employees (4,162 – primarily all FTEs except commissioned fire FTEs) used nearly 468,000 sick hours – the equivalent of 225 full-time employees working a standard 2,080 hour work year or 112.4 sick hours used per FTE. Among 40 hour FTEs, 19 used 999 or more hours of sick leave in FY2012. The vast majority of sick leave use in this category came from the Police Division. MPD accounted for 48.0 percent of all sick leave hours used by 40 hour employees. This is proportionate with MPD’s share of total City employees.

The City’s 56-hour work week employees (1,291 FTEs – primarily all commissioned fire employees) used approximately 265,700 sick hours – the equivalent of over 91 full-time commissioned officers working a 2,912 hour work year or 205.8 sick hours used per FTE. Within this cohort, 37 FTEs used 999 or more hours of sick leave in FY2012.

If the City adopts a sick leave policy for its employees similar to the Louisville model described above, it would have the most significant impact on the Fire Division. As an example illustrating potential savings to the Fire Division, adopting this policy would lower the average usage of sick leave hours taken per commissioned FTE from 206 in FY2012 to 48. It is estimated this would result in a total of 264,000 avoided hours of sick leave – equivalent to the total average cost of 71 commissioned FTEs.

To calculate potential savings, the aggregate of 264,000 hours of sick leave is reduced by 50 percent due to an assumption that a portion of the sick leave hours must be backfilled. This results in the Division avoiding 132,000 hours in sick leave. If this value is multiplied by the average hourly overtime rate of \$28.00, implementation of this policy could reduce overtime expenditures for the Fire Division by \$3.7 million in the first year. A discounted approach to these savings would yield \$12.2 million over five years.

If the City adopts this sick leave policy for the Police Division, the average usage hours of sick leave taken per commissioned FTE can decline from 112 in FY2012 to 48, a total of 164,000 hours of sick leave would be avoided – equivalent to the total average cost of 57 commissioned FTEs. Reducing 164,000 to reflect an assumption that 50 percent of these hours must be backfilled results in 82,000 hours of sick leave avoided. If this value is multiplied by the average hourly overtime rate of \$35.00, implementation of this policy could reduce overtime expenditures by \$2.9 million in FY2014. A discounted approach would yield \$9.5 million in savings over five years.

# Public Safety

## Overview

In FY2013, the Memphis Police Division (MPD) and the Memphis Fire Division (MFD) accounted for 60.3 percent of the total General Fund budget (36.6 percent – MPD; 23.7 percent MFD). Public safety's proportional share of the budget would account for an even greater share of the General Fund budget if indirect costs were allocated proportionally (e.g. IS, HR, Finance, City Attorney, etc.).

As detailed in prior chapters, MPD and MFD – combined – account for nearly 79 percent of the City's total General Fund FTEs and 81 percent of the City's total General Fund spending on personnel. Additionally, the average General Fund cost per public safety FTE was approximately 20 percent greater than that of non-public safety FTEs (without accounting for additional overtime-related earning potential for public safety employees). MPD and MFD FTEs account for approximately two-thirds of all vested participants in the City's Pension Fund – a source of significant challenge for the City's budget. As of 2012, the City was funding less than one-third of its pension ARC. Thus, to the extent that the City is only funding less than one-third of its pension ARC, it is underfunding the pension system by an amount attributable to the police and fire divisions (approximately two-thirds of all vested FTEs) – an unsustainable and unaffordable course of action.

MPD and MFD are the driving forces in the City's General Fund personnel expenditures. Given the City's budget challenges, it is necessary that the City find new and more efficient ways to provide public safety services to its residents, businesses, and visitors. The current model is cost-prohibitive and there are opportunities to both improve and enhance services while reducing the burden on taxpayers.

This chapter provides an overview of the MPD and MFD, their respective responsibilities, organizations and operations, initiatives to enhance each of the Divisions and reduce their operational costs.

## Police

Memphis Police Division (MPD) is responsible for the delivery of police services across the City's 315.1 square miles and for its 646,889 citizens – in addition to visitors and commuters who travel through the City.<sup>39</sup> The Department's mission statement summarizes its duties in broad terms:

*To create and maintain public safety in the City of Memphis with focused attention on preventing and reducing crime, enforcing the law and apprehending criminals.*

In addition to patrol services, the MPD also performs investigative services, administrative services and special operations (e.g. bomb unit, tactical unit, canine unit, traffic unit, organized crime unit, etc.). The MPD operates its own training academy which trains and prepares recruits for service as police officers. Fleet maintenance for the police vehicles is performed by the City's Division of General Services. The City's Information Services (IS) Division is generally responsible for technical support and technology maintenance, though the MPD does have its own IS team that focuses on criminal justice data and reporting. In calendar year 2012, the MPD received 1,637,200 total calls (748,629 911 emergency calls and 888,571 non-emergency calls) and dispatched officers to 932,584 assignments.

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<sup>39</sup> US Census Bureau 2010 Census data.

## MPD High-Level Table of Organization



The MPD's FY2013 budget included an authorized complement level of 3,032 FTEs.<sup>40</sup> As of July 2012, the Division had 2,978 FTEs. The table below shows the historical sworn and civilian FTEs in MPD.

### Police Sworn and Civilian FTEs – FY2005-FY2012

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	% Change
Sworn	2,147	2,024	2,018	2,385	2,273	2,444	2,550	2,550	18.8%
Civilian	598	578	667	483	482	447	478	478	-20.1%
<b>Total</b>	<b>2,745</b>	<b>2,602</b>	<b>2,685</b>	<b>2,868</b>	<b>2,755</b>	<b>2,891</b>	<b>3,028</b>	<b>3,028</b>	<b>10.3%</b>

Source: City of Memphis 2012 CAFR

On a calendar year basis, the FBI's Uniform Crime Report (UCR) captures police employee data for state and local jurisdictions across the country.<sup>41</sup> Data for calendar year (CY) 2005 through 2011 are available from the UCR. This data is generally a "point in time" representation of staffing as of each October. As a result of the timing of data collection by the UCR, Fiscal Year data shown above align most generally with the prior calendar year (i.e. because UCR data for 2005 represents October 2005 data, the Fiscal Year covering October 2005 is Fiscal Year 2006 – the City's Fiscal Year runs July 1 – June 30 of every year).

The following table shows a comparison between the two "point in time" data sets. As the table shows, there are notable variances in the two data sets – this is to be expected given the different data collection times and the inevitable personnel changes (i.e. new recruit class, retirements, etc.) that occur in an organization the size of the MPD. However, several trends emerge in both data sets. First, the number of sworn FTEs has increased by approximately 25 percent since FY2006 (CY2005). Second, the number of civilians has decreased by a similarly significant rate (ranging from approximately 40 percent smaller in UCR data to approximately 20 percent smaller in City data). Third, as a result of the first two trends, the overall staffing level of the MPD increased and generally less expensive civilian positions were eliminated or held vacant while generally more expensive sworn positions were added to the MPD's complement.

<sup>40</sup> Data received from the City as of July 2012 show 3,164 authorized positions in MPD. The difference primarily appears to be attributable to the level of authorized Training Academy FTEs. The FY2013 budget shows an authorized level of 123 FTEs, data received from the City's Finance Division shows an authorized level of 256.

<sup>41</sup> This data is generally a "point in time" representation of staffing as of each October. Data for 2012 are not yet available.

### Fiscal Year versus Calendar Year Staffing Data – City CAFR Data and FBI UCR Data

CAFR	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	% Changed
CAFR Sworn	2,024	2,018	2,385	2,273	2,444	2,550	2,550	26.0%
CAFR Civilian	578	667	483	482	447	478	478	-17.3%
<b>CAFR Total</b>	<b>2,602</b>	<b>2,685</b>	<b>2,868</b>	<b>2,755</b>	<b>2,891</b>	<b>3,028</b>	<b>3,028</b>	<b>16.4%</b>
UCR	CY2005	CY2006	CY2007	CY2008	CY2009	CY2010	CY2011	% Change
UCR Sworn	1,975	1,990	2,056	2,098	2,202	2,335	2,454	24.3%
UCR Civilian	682	450	473	425	522	440	401	-41.2%
<b>UCR Total</b>	<b>2,657</b>	<b>2,440</b>	<b>2,529</b>	<b>2,523</b>	<b>2,724</b>	<b>2,775</b>	<b>2,855</b>	<b>7.5%</b>

As a result of an increase in sworn officers and a decrease in the number of civilians, many civilian functions – particularly administrative in nature – became the responsibility of sworn personnel. Rather than these sworn personnel being assigned to proactive policing, responding to calls or other higher-priority jobs for sworn personnel, an increasing number of MPD’s sworn employees became, in essence, more expensive versions of civilians. To the extent the City increased the number of sworn FTEs, but also increased the number of sworn FTEs performing civilian functions, the net result was an operational wash (no increased benefit of police presence or patrol) and a more expensive staff.

#### Budget

From FY2008 to FY2013, the Division’s budget has increased by 22.7 percent. The primary factor in this increase was personnel services growth of 21.2 percent. A smaller factor was materials and supplies growth of 20.2 percent.

#### Police Division FY2008–FY2013 Budgets

Budget Category	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
	Actual	Actual	Actual	Actual	Actual	Budget
Personnel Services	\$172,146,485	\$186,420,983	\$192,781,231	\$205,871,312	\$199,058,866	\$208,608,582
Materials and Supplies	\$20,746,903	\$19,402,058	\$19,543,925	\$18,880,797	\$18,993,647	\$24,945,326
Capital Outlay	\$130,338	\$502,881	\$166,293	\$0	\$2,704	\$0
Transfers Out	\$457,761	\$4,575,636	\$2,151,350	\$2,707,825	\$3,375,217	\$3,762,824
Grants and Subsidies	\$0	\$0	\$0	\$69	\$0	\$0
<b>TOTAL</b>	<b>\$193,481,488</b>	<b>\$210,901,558</b>	<b>\$214,642,799</b>	<b>\$227,460,003</b>	<b>\$221,430,435</b>	<b>\$237,316,732</b>

Salaries, health care benefits, pension benefits, overtime costs, educational incentive expenses, longevity costs, holiday pay and taxes are included within the Personnel Services category.<sup>42</sup> Expenditures on Materials and Supplies, such as fuel from the City’s General Services Division, shop charges (also to the City’s General Services Division), rent, clothing, outside IS, technology and communications support, and utilities account for 10.5 percent of the MPD budget. The remaining 1.6 percent of expenditures is attributable to debt service payments made from the MPD budget.

The MPD’s budget, much like that of the City, is driven by personnel expenditures, which averaged 89.5 percent of all MPD costs in the Division’s FY2008-FY2012 budgets. According to data for FY2013, the

<sup>42</sup> Primary non-salary compensation expenditures, such as those just listed, are discussed in the Compensation and Benefits chapter of this report.

average “fully loaded” cost per police FTE (including both civilian and sworn) is \$64,397. Sworn personnel account for 88.6 percent of total salary expenses for the Division, have an average salary of \$52,110 and cost on average an additional \$14,419 in benefits/taxes, which yields an average fully-loaded cost of \$66,529 per sworn FTE. Civilian FTEs account for 11.4 percent of total salary expenses for the Division, have an average salary of \$40,959 and cost on average an additional \$10,370 in benefits/taxes, which yields an average fully-loaded cost of \$51,329 per civilian FTE.

### Average Cost Difference – Sworn FTE vs. Civilian FTE

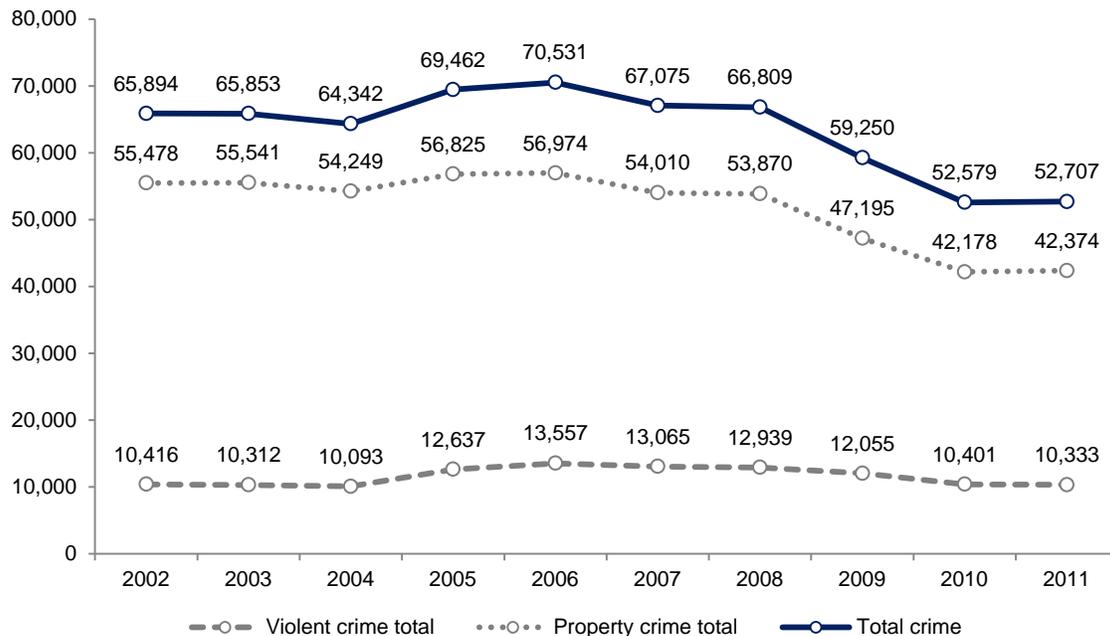
Employee Type	Average Salary	Average Benefits/Taxes	Average Full-Loaded Cost
Sworn	\$52,110	\$14,419	\$66,529
Civilian	\$40,959	\$10,370	\$51,329
<b>Variance</b>	<b>\$11,151</b>	<b>\$4,049</b>	<b>\$15,200</b>

### Crime Challenges and Staffing

One of the most critical measures of a police department’s workload is the City’s crime rate. Crime rate changes are important for the community’s perception of “how safe” the City is and speak to its quality of life, an important factor that families, businesses and tourists use in deciding where to live, operate and visit. Similarly, one of the most critical measures of a department’s effectiveness is its success in reducing crime. Crime reduction directly relates to the MPD’s mission focus on safety and is important for measuring the Division’s success. Memphis’ crime rate, and particularly the violent crime rate, poses a significant challenge to the City.

Based on UCR data, crime in Memphis decreased from 2002 to 2011 by 20.0 percent. Property crimes (e.g. burglary, larceny theft, motor vehicle theft, etc.) accounted for approximately 80 percent of total UCR crimes on an annual basis. From 2002 to 2011, property crime decreased by 23.2 percent. Violent crime (e.g. murder, rape, robbery, aggravated assault, etc.) constitutes the remaining 20 percent of all UCR crime in Memphis. From 2002 to 2011, violent crime decreased by 0.8 percent.

### Memphis Violent and Property Crimes – 2002-2011



Source: FBI UCR data, 2002-2011

Murders decreased by 21.5 percent, rapes decreased by 23.4 percent and robberies decreased by 27.4 percent. Among property crimes, all categories experienced a decreased number of incidents in 2011 as compared to 2002. During this time, burglaries decreased by 18.6 percent, larceny-theft decreased by 14.3 percent and motor vehicle thefts decreased by 62.8 percent.

While Memphis was able to achieve an overall crime reduction of 20.0 percent, largely from a sizeable decrease in property crimes, violent crimes remained largely unchanged due to a significant increase in the number of aggravated assaults.

### Memphis Violent and Property Crime Incidents – 2002 – 2011

Year	Violent Crime					Property Crime			
	Violent crime total	Murder and Non-negligent Manslaughter	Forcible rape	Robbery	Aggravated assault	Property crime total	Burglary	Larceny-theft	Motor vehicle theft
2002	10,416	149	517	4,244	5,506	55,478	16,360	29,899	9,219
2003	10,312	126	449	4,299	5,438	55,541	16,908	30,099	8,534
2004	10,093	107	448	3,773	5,765	54,249	14,643	32,250	7,356
2005	12,637	138	403	4,466	7,630	56,825	15,856	32,663	8,306
2006	13,557	149	434	5,313	7,661	56,974	16,457	33,783	6,734
2007	13,065	131	450	4,871	7,613	54,010	14,620	33,186	6,204
2008	12,939	138	366	4,788	7,647	53,870	15,879	32,572	5,419
2009	12,055	132	382	4,139	7,402	47,195	13,943	29,059	4,193
2010	10,401	89	433	3,237	6,642	42,178	13,100	25,144	3,934
2011	10,333	117	396	3,083	6,737	42,374	13,309	25,637	3,428
<b>% Change</b>	<b>-0.8%</b>	<b>-21.5%</b>	<b>-23.4%</b>	<b>-27.4%</b>	<b>22.4%</b>	<b>-23.6%</b>	<b>-18.6%</b>	<b>-14.3%</b>	<b>-62.8%</b>

Source: FBI UCR data – 2002-2011

According to 2011 FBI Uniform Crime Report (UCR) data, among cities with 500,000 or more residents, Memphis ranked second in total crime rate per 100,000 residents. Memphis ranked second in violent crimes per 100,000 residents and ranked first in property crimes per 100,000 residents.

For violent crimes, Memphis ranked 4<sup>th</sup> in murders per 100,000 residents, 4<sup>th</sup> in rapes per 100,000 residents, 7<sup>th</sup> in robberies per 100,000 residents and 2<sup>nd</sup> in aggravated assaults per 100,000 residents. For property crime, Memphis ranked 2<sup>nd</sup> in burglaries per 100,000 residents, and 3<sup>rd</sup> in larcenies per 100,000 residents.

### 2011 FBI UCR Crime Rate Data – Cities with 500,000 or More Residents

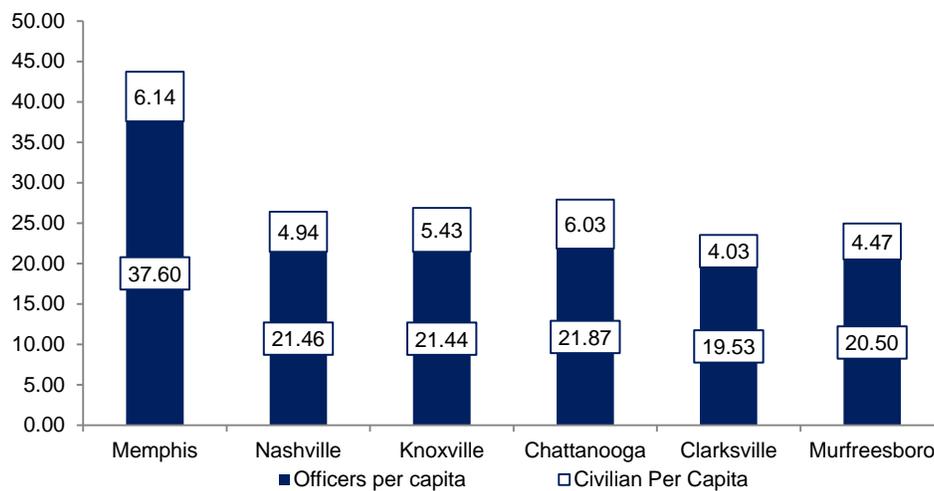
City	Population	Violent Crime Rate (per 100,000 residents)	Property Crime Rate (per 100,000 residents)	Total Crime Rate (per 100,000 residents)	Violent Crime Rate Rank	Property Crime Rate Rank	Total Crime Rate Rank
Detroit	713,239	2,137.43	6,143.52	8,280.95	1	3	1
<b>Memphis</b>	<b>652,725</b>	<b>1,583.06</b>	<b>6,491.86</b>	<b>8,074.92</b>	<b>2</b>	<b>1</b>	<b>2</b>
Columbus	787,609	658.32	6,226.82	6,885.14	15	2	3
Oklahoma City	586,208	871.36	5,819.27	6,690.63	9	5	4
San Antonio	1,355,339	519.28	5,966.63	6,485.91	27	4	5
Baltimore	626,848	1,417.41	4,757.77	6,175.18	3	16	6
Houston	2,143,628	974.61	5,053.86	6,028.47	8	12	7
Milwaukee	597,426	996.11	5,027.74	6,023.84	7	13	8
Nashville	612,789	1,180.83	4,777.01	5,957.84	5	15	9
Albuquerque	551,961	762.19	5,068.47	5,830.67	11	10	10

Source: FBI UCR 2011 data

The vast majority of police responses are to calls not related to the serious crimes tracked by UCR data. While there were approximately 50,000 UCR crimes in 2011, the MPD responded to nearly one million calls for service. Those calls included responses to less serious crimes. But they also included responses to calls that could have been addressed by someone other than a sworn officer. According to a May 2012 PERF study, MPD responded to more than 66,000 burglar alarm calls, more than 36,000 accidents and more than 8,000 animal/dog calls. Each response to a call unrelated to serious crime reduction or crime prevention takes away resources from addressing one of the City's foremost challenges.

As of 2011, FBI UCR data indicates the MPD has 43.74 FTEs per 10,000 residents – 37.6 of whom are sworn officers. No other Tennessee city came close to this level of per capita staffing. However, among national benchmarks (e.g. Atlanta, Baltimore, Birmingham, Boston, New Orleans, Seattle, St. Louis), Memphis has the 3<sup>rd</sup> lowest FTEs and officers per capita.

**TN Cities' FTEs Per Capita - Sworn and Civilian, 2011**



**Comparison of Police Staffing in Benchmark Jurisdictions**

FBI UCR Data Police Agency Employees - 2011	Population	Total law enforcement employees	Total officers	Total civilians	FTE per capita	Officers per capita
<b>Memphis</b>	<b>652,725</b>	<b>2,855</b>	<b>2,454</b>	<b>401</b>	<b>43.74</b>	<b>37.60</b>
Atlanta	425,533	2,069	1,693	376	48.62	39.79
Baltimore	626,848	3,470	2,931	539	55.36	46.76
Birmingham	213,258	1,163	877	286	54.53	41.12
Boston	621,359	2,719	2,156	563	43.76	34.70
New Orleans	346,974	1,609	1,349	260	46.37	38.88
Seattle	618,209	1,804	1,305	499	29.18	21.11
St. Louis	320,454	1,920	1,363	557	59.91	42.53

Increasing the number of sworn officers – as Memphis did – is not the only method to reduce violent crime. Between 2006 and 2011, seven US cities of 500,000 or more residents achieved violent crime rate reductions of greater than 25 percent – a quarter more than Memphis. No city with 500,000 or more residents had an increase in officers per 100,000 residents greater than Memphis, and three other cities

of 500,000 or more residents achieved violent crime rate decreases with a reduction in officers per capita. Within Tennessee, Nashville achieved a 22.7 percent reduction in violent crime between 2006 and 2011 – and slightly reduced its number of sworn officers per 100,000 residents. During this time, other cities decreased FTEs and sworn officers per 100,000 residents and achieved greater reductions in violent crime.

Memphis remains an outlier in the size of its Police Department when compared to other cities with 500,000 or more residents that have achieved the greatest reductions in violent crime rate over five years. Moreover, when compared to seven cities that achieved reductions in violent crime greater than 25 percent between 2006 and 2011, Memphis increased its sworn staffing at a greater rate than all of them.

### Violent Crime Rate and Staffing Changes – 2006-2011

2006-2011 FBI UCR Data	2006 FTE	2011 FTE	2006 Officers	2011 Officers	2006 Violent Crime Rate	2011 Violent Crime Rate	FTE % Change	Officers Per 100,000 % Change	Violent % Change	Population Change
<b>Memphis</b>	<b>2,440</b>	<b>2,855</b>	<b>1,990</b>	<b>2,454</b>	<b>1,989</b>	<b>1,583</b>	<b>17.0</b>	28.6	<b>-20.4</b>	<b>-4.1</b>
Jacksonville	2,858	3,161	1,690	1,645	837	621	10.6	-7.2	-25.8	4.9
Charlotte	2,007	2,214	1,558	1,726	1,077	606	10.3	-1.9	-43.7	12.9
Phoenix	3,829	4,169	2,896	3,079	738	552	8.9	10.0	-25.2	-3.4
Portland	N/A	1,201	N/A	956	714	515	N/A	N/A	-27.9	8.8
Dallas	3,610	4,052	3,043	3,511	1,206	681	12.2	17.8	-43.5	-2.0
Los Angeles	12,685	12,724	9,393	9,860	787	522	0.3	6.1	-33.6	-1.1
Boston	2,625	2,719	2,056	2,156	1,339	845	3.6	-5.1	-36.9	10.5

Source: FBI UCR data 2006, 2011

The link between the number of police officers and crime rate reduction is, at best, elusive. Different studies have found different relationships and data suggest variation by city.<sup>43</sup> Other approaches related to crime prevention, prosecution and punishment may have as much, if not more, of an impact on crime reduction and often come at a lower cost than sworn police officers.<sup>44</sup> For instance, the following alternatives to additional sworn police personnel, when implemented and managed properly, have shown significant policy and fiscal impacts:

- Teen courts and family-based therapy for juvenile offenders
- Restorative justice for low risk offenders
- Employment and job training for prior offenders
- Intensive supervision
- Community-based drug treatment programs

<sup>43</sup> For instance, a 2010 study by RAND, Hidden in Plain Sight – What Cost-of-Crime Research Can Tell Us About Investing in Police,” concluded that “returns on investments in additional police in terms of reduced crime...are likely to be appreciably above hiring costs.” A 2007 Brookings Institution Policy Brief concluded that increased police help reduce crime, but other factors also play a significant and important role.

<sup>44</sup> Many of these approaches and suggestions were also discussed in Memphis Fast Forward’s “Operation: Safe Community” report which was produced by the Memphis Shelby Crime Commission in January 2012 (most recently updated in October 2012).

## Fire

The Memphis Fire Division (MFD) provides a wide range of emergency response and public safety services, including fire suppression, emergency medical services, rescue services, environmental and hazardous materials response, fire prevention and education, fire inspections and emergency preparedness. The divisions within the MFD are organized as follows:

- **Administration:** includes the Director, Deputy Director, Deputy Chief for Planning, Deputy Chief for Emergency Operations and Fire Administrator who are responsible for the overall performance and fiscal management of the department.
- **Firefighting:** includes Division Chiefs, Battalion Chiefs, Lieutenants, Drivers and Firefighters that deliver emergency and non-emergency response to incidents including fires, emergency medical events, rescues, hazardous conditions and other calls for service.
- **Emergency Medical Services (EMS):** includes the Deputy Chief for Emergency Medical Services, Division Chief, Battalion Chiefs, Lieutenants and Paramedic Firefighters that provides advanced life support (ALS) and basic life support (BLS) for emergency and non-emergency medical incidents.
- **Airport:** includes the Chiefs for Air Rescue, Lieutenants, Drivers, Paramedic Firefighters and Firefighters that provide emergency response services at Memphis International Airport.
- **Communications:** includes the Communications Manager, Watch Commanders, Senior Fire Alarm Operators and Fire Alarm Operators that receives calls for non-medical and medical emergencies and dispatches incident response units.
- **Training:** includes the Division Chief, Battalion Chief, and Lieutenants that coordinate in-service training for current commissioned personnel and recruit training program.
- **Fire Prevention:** includes the Fire Marshall, Assistant Fire Marshalls, Fire Prevention Managers, Fire Inspectors, Anti-Neglect Inspectors, Chief Fire Investigator and Fire Investigators that provide fire code inspections, arson investigations and public education programs.
- **Support Services:** includes the Battalion Chief, Air Mask Manager, OSHA Coordinators, Air Mask Mechanics, Fire Hydrant Repairs, and Apparatus Mechanics that provide maintenance and repair to fire and medical apparatus, air masks and other emergency response equipment.
- **Logistical Services:** includes the Manager of Logistical Services, Crewpersons and Fire Material Specialists that maintain equipment, provide supplies and maintain buildings and grounds for incident response personnel.

## Staffing

In FY2013, the MFD had an authorized compliment of 1,831 FTEs. Of the budgeted positions, 87 percent are allotted to emergency response personnel that serve in the Firefighting, EMS or Airport divisions and the remaining 13 percent serve in administrative or support functions in the Administration, Communications, Training, Fire Prevention, Support Services or Logistical Services divisions. For the purposes of this analysis, commissioned personnel who serve in the Firefighting, EMS and Airport divisions are considered emergency response personnel.

### Adopted FTEs by Division, FY2013

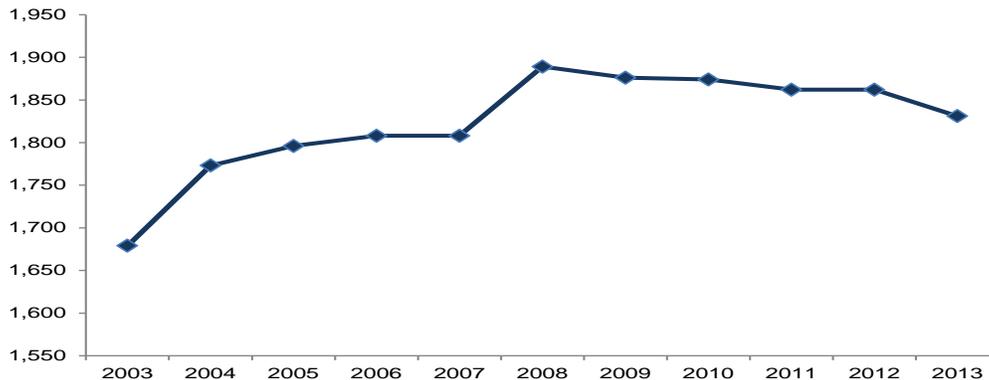
Assignment	Emergency Response Personnel	% of Total FTEs	Non-Emergency Response Personnel	% of Total FTEs
Firefighting	1,157	63%	0	0%
EMS	399	22%	5	0%
Communications	0	2%	65	4%
Fire Prevention	0	0%	65	4%
Support Services	0	0%	41	2%
Airport	33	0%	0	0%
Training	0	0%	26	1%
Administration	0	0%	22	1%
Logistical Services	0	0%	18	1%
<b>Total</b>	<b>1,589</b>	<b>87%</b>	<b>242</b>	<b>13%</b>

Source: City of Memphis, FY2013 Adopted Operating Budget

Even though the MFD's senior leadership, most Training Division personnel and other commissioned staff that serve in administrative roles are experienced emergency response professionals and play significant roles in emergency response planning and management, members of the Firefighting, EMS and Airport divisions comprise what can be considered the "core operations staff" of the department that respond to incidents on a daily basis.

Between FY2003 and FY2013, the number of total budgeted positions in the MFD increased by 9 percent, growing from 1,679 to 1,831, though there has been some decline since FY2008.

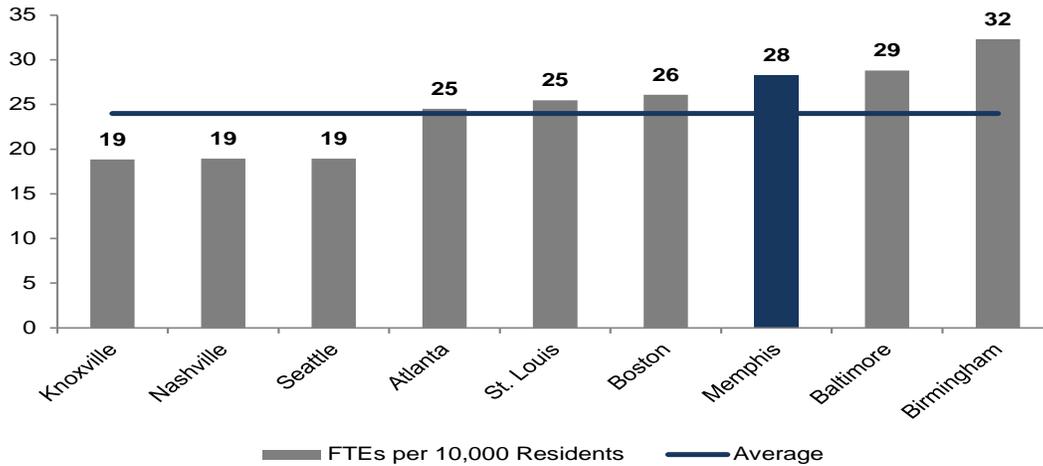
### Adopted FTEs, FY2003–FY2013



Source: City of Memphis, FY2012 Comprehensive Annual Financial Report

When compared to a number of benchmark cities that have fire departments which also provide EMS services, the MFD's staffing per capita is high. In FY2012, the MFD had 28 budgeted FTEs per 10,000 residents. Based on budgeted FTEs (including commissioned and civilian personnel) in each comparison city's FY2012 adopted budget, the average for the comparison group is 24 FTEs per 10,000 residents, with a high of 32 in Birmingham and lows in Knoxville and Nashville of 19.

### Total Budgeted Department FTEs, FY2012 Adopted



Source: FY2012 adopted budgets

### Emergency Response Personnel

In FY2013, the division had 1,589 budgeted emergency response personnel in the Firefighting, EMS and Airport divisions. 73 percent of all emergency response personnel serve in the Firefighting division, 25 percent serve in the EMS division and two percent serve at the Memphis International Airport.

### Emergency Response Personnel by Assignment, FY2013

Assignment	FTEs	% of Emergency Response FTEs
Firefighting	1,157	73%
EMS	399	25%
Airport	33	2%
<b>Total</b>	<b>1,589</b>	<b>100%</b>

Source: City of Memphis, FY2013 Adopted Operating Budget

At 38 percent and 23 percent respectively, Firefighters and Paramedic Firefighters comprise the majority of emergency response personnel. Lieutenants and Drivers, at 18 percent and 17 percent, represent the next largest sub-groups of emergency response personnel. Combined, these four groups make up 96 percent of all emergency response personnel. Deputy Chiefs, Division Chiefs and Battalion Chiefs comprise the remaining four percent of emergency response staff.

### Emergency Response Personnel by Rank, FY2013

Assignment	Deputy Chief	Division Chief	Battalion Chief	Lieutenant	Driver	Firefighter	Paramedic Firefighter	Total
Firefighting	0	7	42	252	262	594	0	1,157
EMS	1	1	5	26	0	0	366	399
Airport	0	0	4	6	8	11	4	33
<b>Total</b>	<b>1</b>	<b>8</b>	<b>51</b>	<b>284</b>	<b>270</b>	<b>605</b>	<b>370</b>	<b>1,589</b>
<b>Percentage of Emergency Response Personnel</b>	<b>0%</b>	<b>1%</b>	<b>3%</b>	<b>18%</b>	<b>17%</b>	<b>38%</b>	<b>23%</b>	<b>100%</b>

Source: City of Memphis, FY2013 Adopted Operating Budget

### Schedule

Emergency response personnel work 24-hour shifts. Under this model, a firefighter works a 24-hour shift and then has several days off before the next 24-hour shift. In Memphis, Firefighting, EMS and Airport personnel are divided into three platoons that work a “24 on, 24 off” followed by 96 hours off. The Fair Labor Standards Act sets a maximum of 212 hours that can be worked by fire personnel during a 28-day period.

The model also results in a certain amount of scheduled overtime, as any additional hours worked during the 28-day cycle beyond 212 hours are subject to an overtime pay rate of at least time and a half. Emergency response personnel average 12 hours of scheduled overtime for every 28-day cycle, which is equivalent to 156 hours of scheduled overtime per year. However, if one shift is missed during this 28-day cycle, any scheduled overtime would be calculated and paid as regular time.

#### Emergency Response Personnel 9-Day Shift Cycle

Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7	Day 8	Day 9
24	0	24	0	24	0	0	0	0

### Non-Emergency Response Personnel

In FY2013, the division had 241 budgeted non-emergency response personnel in the Administration, EMS Communication, Training, Fire Prevention, Support Services and Logistical Services divisions. Communications and Fire Prevention each represent 27 percent of non-emergency response personnel, followed by Support Services at 17 percent, Training at 11 percent, Administration at 9 percent and Logistical Services at 7 percent. Additionally, the EMS division includes 2 percent of the division’s non-emergency response personnel.

#### Non-Emergency Response Personnel by Assignment, FY2013

Assignment	FTEs	% of Non-Emergency Response FTEs
Administration	22	9%
Communications	65	27%
Training	26	11%
Fire Prevention	65	27%
Support Services	41	17%
Logistical Services	18	7%
EMS	5	2%
<b>Total</b>	<b>241</b>	<b>100%</b>

Source: City of Memphis, FY2013 Adopted Operating Budget

65 percent of the MFD’s non-emergency response personnel are non-commissioned civilian employees who serve in divisions throughout the department, including the Watch Commanders and Fire Alarm Operators in the Communications division. Fire Inspectors and Fire Investigators in the Fire Prevention division comprise the next largest group of non-emergency response personnel at eighteen percent. Lieutenants and Battalion Chiefs serving in multiple divisions represent nine percent and seven percent of non-emergency response personnel, respectively. The remaining five percent of non-emergency response personnel are comprised primarily of Division Chiefs and the department’s senior leadership. In general, these personnel work 40-hour weekly shifts.

## Non-Emergency Response Personnel by Rank, FY2013

Assignment	Dep. Chief or Above	Div. Chief	Bat. Chief	Lt.	Driver	FF / Para. FF	Insp. / Invest.	Civilians	Total
Administration	4	0	0	2	0	0	0	16	22
Communications	0	0	0	0	0	2	0	63	65
Training	1	2	2	18	0	0	0	3	26
Fire Prevention	1	3	4	0	0	0	43	14	65
Support Services	0	0	1	2	0	0	0	38	41
Logistical Services	0	0	1	0	0	0	0	17	18
EMS	0	0	0	0	0	0	0	5	4
<b>Total</b>	<b>6</b>	<b>6</b>	<b>13</b>	<b>22</b>	<b>0</b>	<b>2</b>	<b>43</b>	<b>158</b>	<b>242</b>
<b>Percentage of Non-Emergency Response Personnel</b>	<b>2%</b>	<b>2%</b>	<b>5%</b>	<b>9%</b>	<b>0%</b>	<b>1%</b>	<b>18%</b>	<b>65%</b>	<b>100%</b>

Source: City of Memphis, FY2013 Adopted Operating Budget

Note: Fire Prevention – Fire Marshall included as Deputy Chief, Assistant Fire Marshalls included as Division Chiefs, Fire Prevention Managers included as Battalion Chiefs, Chief Fire Investigator included as Division Chief. Support Services – OSHA Coordinators included as Lieutenants. Logistical Services – Logistical Services Manager included as Battalion Chief.

### Commissioned vs. Civilian Personnel

In FY2013, 91 percent of the MFD's total budgeted FTEs are commissioned personnel, the majority of whom provide incident response in the Firefighting, EMS and Airport divisions. The Training division is comprised primarily of experienced commissioned emergency response personnel and the Fire Prevention staff is commissioned but exempt personnel.

The remaining nine percent of the division's FY2013 budgeted FTEs are civilians, the bulk of whom are civilian employees that provide administrative and support services throughout the division, including budgeting and payroll, equipment and apparatus maintenance and repair, and analytical support. The Communications staff is comprised of civilians, though the schedules, compensation and related work rules for these employees are determined by the same agreement between the City and IAFF Local 1784 bargaining unit as commissioned emergency response personnel. There are approximately six commissioned personnel who serve in administrative or support functions in the Administration, Support Services and Logistical Services divisions, not including the department's senior leadership.

### Standards

Like most fire departments in the U.S., the MFD's personnel and resources are structured to respond to fires. Emergency response is primarily driven by two national standards: NFPA 1710 and ISO ratings.

#### *NFPA 1710*

The NFPA is a national organization that creates and oversees more than 300 codes and standards relating to fire prevention and suppression, training and equipment. The codes and standards set by the NFPA do not have any legal standing, but are commonly accepted standards used by fire departments throughout the country. NFPA 1710 sets staffing minimums for fire apparatus and guidelines for both emergency response manpower and response time. In terms of manpower, the first alarm (on-scene) weight-of-response levels are as follows:

## NFPA First Alarm Weight-of-Response Staffing Minimums

Incident Type	Occupancy Types	First Alarm Staffing Minimums
High-Hazard Occupancy	Schools, hospitals, nursing homes, explosive plants, refineries, high-rise buildings and other high-risk or large fire potential occupancies	24 Firefighters 2 Chief Officers
Medium-Hazard Occupancy	Apartments, offices, mercantile and industrial occupancies not normally requiring extensive rescue or firefighting forces	16 Firefighters 1 Chief Officer
Low-Hazard Occupancy	One-, two-, or three-family dwellings and scattered small businesses and industrial occupancies	12 Firefighters 1 Chief Officer

These standards are based on a strategy of limiting injury and loss from fire through timely response and adequate manpower. Response time and staffing requirements for fire suppression are designed to reduce the likelihood that a fire will spread or flashover. The goal is speed in response to contain the fire and extinguish it, limiting damages and the risk of injury to firefighters and civilians.

NFPA 1710 also sets standards for emergency response times for call processing, turn-out and travel times. Response time is the most common performance measure used by the fire service because it is understood by citizens, easy to compute and useful in the evaluation of end results. Rapid response is also an aspect of the quality of service about which most citizens' care. Highlights of NFPA 1710 include:

- The fire department shall establish a performance objective of having an alarm answering time of not more than 15 seconds for at least 95 percent of the alarms received and not more than 40 seconds for at least 99 percent of the alarms received, as specified by NFPA 1221
- When the alarm is received at a public safety answering point (PSAP) and transferred to a secondary answering point or communication center, the agency responsible for the PSAP shall establish a performance objective of having an alarm transfer time of not more than 30 seconds for at least 95 percent of all alarms processed, as specified by NFPA 1221
- The fire department shall establish a performance objective of having an alarm processing time of not more than 60 seconds for at least 90 percent of the alarms and not more than 90 seconds for at least 99 percent of the alarms, as specified by NFPA 1221
- The fire department's fire suppression resources shall be deployed to provide for the arrival of an engine company within a 240-second travel time to 90 percent of the incidents. The fire department shall have the capability to deploy an initial full alarm assignment within a 480-second travel time to 90 percent of the incidents

Ultimately, NFPA 1710 sets a standard for the first engine to arrive at the scene of a fire within six minutes and 20 seconds of the division being notified of the incident. The same standard for EMS response is six minutes. Most fire departments use the NFPA 1710 standard as a goal, not as a prescriptive requirement. Few departments are currently meeting or exceeding NFPA 1710, especially with respect to travel time (which is the hardest to improve).

### Emergency Response Unit Staffing

Unit	Number	Minimum Staffing	Total Staffing
Engine	52	4	208
Ladder	24	4	96
Quint	4	4	16
Rescue	2	4	8
Ambulance	33	2	66

The MFD's emergency response unit staffing meets the minimums set by the NFPA, with four personnel serving on engines, ladder trucks and quints, while two personnel serve on ambulances.

It should be noted that a 2010 study by the National Institute of Standards and Technology (NIST) tested the practical effect of these standards and concluded – based on field experiments – that the results “establish a technical basis for the effectiveness of company crew size and arrival time in NFPA 1710.”<sup>45</sup>

### ISO Ratings

Throughout most of the U.S., the Insurance Services Office, Inc. (ISO) provides a Fire Suppression Rating Schedule (FSRS) that is used to determine the quality of a locality’s fire suppression system in order to help insurance companies determine property insurance rates. Each locality is given a Public Protection Classification (PPC™), a numerical rating ranging from Class 1 (best) to Class 10 (worst). The PPC™, with an overall score ranging from zero to 100 percentage points, are based on three areas of evaluation: 10 percent is based on how well the fire department receives fire alarms and dispatches its firefighting resources, 50 percent is based on the number of engine companies and the amount of water needed to fight a fire and 40 percent is based on the water supply.

The grading schedule rewards fire departments that have more fire stations and more fire response personnel. Criteria for fire departments also include the amount of time spent on training activities, the number of fire apparatus and the functional status and availability of equipment.

Unlike NFPA 1710, ISO does not consider the actual performance of the local fire department. The ratings do not adjust for the actual level of risk in a particular community, so population or demographic characteristics such as the proportion of blighted buildings do not affect the overall score. The rating is applied to the entire community, so no distinction is made between homes in areas close to fire stations and homes that are farther from a fire station. ISO also fails to include response to emergency medical calls. In general, ISO ratings are a crude and limited measure of preparedness for fires and emergency response.

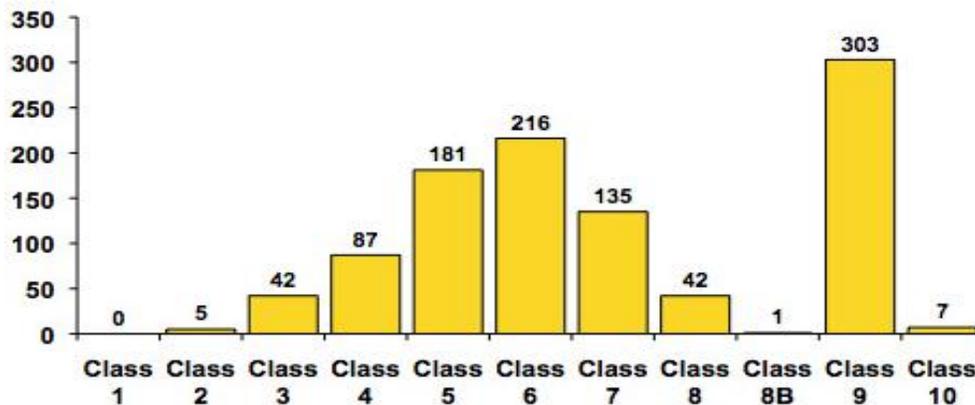
**Distribution of U.S. Communities by PPC™ Class<sup>46</sup>**



<sup>45</sup> Averill, Jason; Moore-Merrell, Lori; et. al. *Report on Residential Fireground Field Experiments, NIST Technical Note 1661*. U.S. Department of Commerce, National Institute of Standards and Technology. April 2010.

<sup>46</sup> Based on information available at [www.isomitigation.com](http://www.isomitigation.com) as of January 14, 2013

### Distribution of Tennessee Communities by PPC™ Class<sup>47</sup>



Memphis currently has a Class 2 rating.<sup>48</sup> Even if Memphis were to drop one level to Class 3, it would remain among the top six percent of fire districts in the nation and the top five percent of the fire districts in Tennessee. Furthermore, it is unclear what the effect of moving from a Class 2 to a Class 3 rating would mean for actual insurance rates in Memphis. According to the ISO's website:

Insurance companies — not ISO — establish the premiums they charge to policyholders. The methodology a company uses to calculate premiums for property insurance may depend on the company's fire-loss experience, underwriting guidelines, and marketing strategy.<sup>49</sup>

In Tennessee, the single largest provider of homeowner insurance is State Farm – accounting for 27.1 percent of market share in 2011.<sup>50</sup> State Farm Insurance stopped relying on ISO ratings in many states a decade ago.

### Fire Risk

Nationally, the number of total fires has been declining over the last three decades. In 1977, there were 3.3 million total fires and 1.1 million structure fires. In 2011, there were 1.4 million total fires and 484,500 structure fires, representing declines of 57 percent and 56 percent respectively. Data reflecting the number of fires in Memphis since 2007 suggest that the overall number of fires in Memphis has remained relatively flat in recent years and that it has more fire risk than similar sized cities across the country. In 2011, Memphis had 6.6 fires per 1,000 residents. By comparison, cities with populations of 500,000 or above had just 3.6 fires per 1,000 residents and southern cities with 500,000 or more residents had only 3.3 fires per 1,000 residents. This represents an additional three fires for every 1,000 residents in Memphis compared to similar sized cities both nationally and regionally.

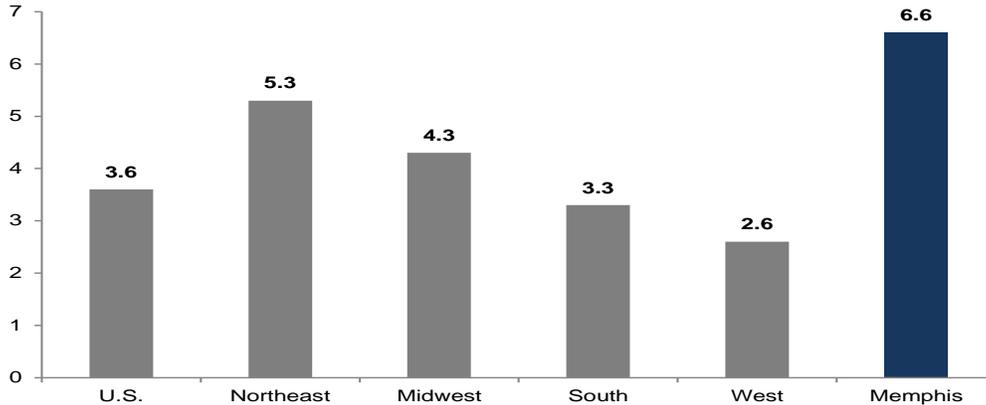
<sup>47</sup> Based on information available at [www.isomitigation.com](http://www.isomitigation.com) as of January 14, 2013

<sup>48</sup> Insurance Services Office, As of August 29, 2011

<sup>49</sup> Insurance Services Office, Inc. How Does PPC™ Information Affect Individual Insurance Policies? [www.isomitigation.com](http://www.isomitigation.com)

<sup>50</sup> [www. http://www.tn.gov/commerce/insurance/documents/HomeownersMarketShare.pdf](http://www.tn.gov/commerce/insurance/documents/HomeownersMarketShare.pdf).

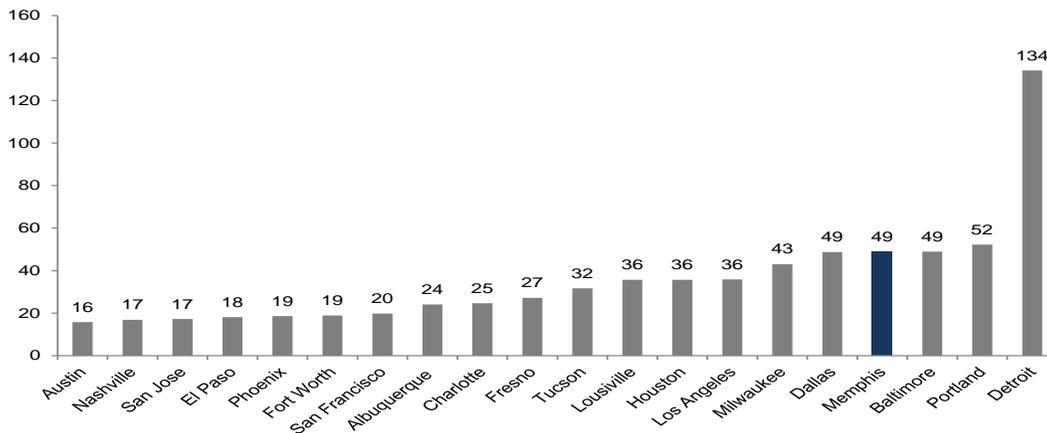
### Comparison of Fires per 1,000 Residents in Cities with Populations 500,000 or Above, 2011



Source: NFPA's Survey of Fire Departments for 2011 U.S. Fire Experience.

A related problem to Memphis' high fire risk is its high arson rate. According to data compiled by the FBI, Memphis had the fourth highest rate of arsons per 100,000 residents in cities with populations of 100,000 or above in the nation at 49.<sup>51</sup>

### Comparison of Arsons per 100,000 Residents in Cities with Population 100,000 or Above, 2011



Source: FBI Uniform Crime Report, 2011.

Memphis has a large number of older structures and distressed neighborhoods with vacant buildings, which creates additional fire risk. According to the US Census Bureau, 51 percent of housing units in Memphis were built before 1970. Older structures are less likely to have sprinklers and other improvements that would reduce their risk of fire. The MFD must also deal with a significant amount of blighted and vacant buildings that drive fire demand in Memphis. The 2010 U.S. Census found that 14 percent of housing units in Memphis were vacant. The NFPA outlines the specific risks associated with vacant buildings:

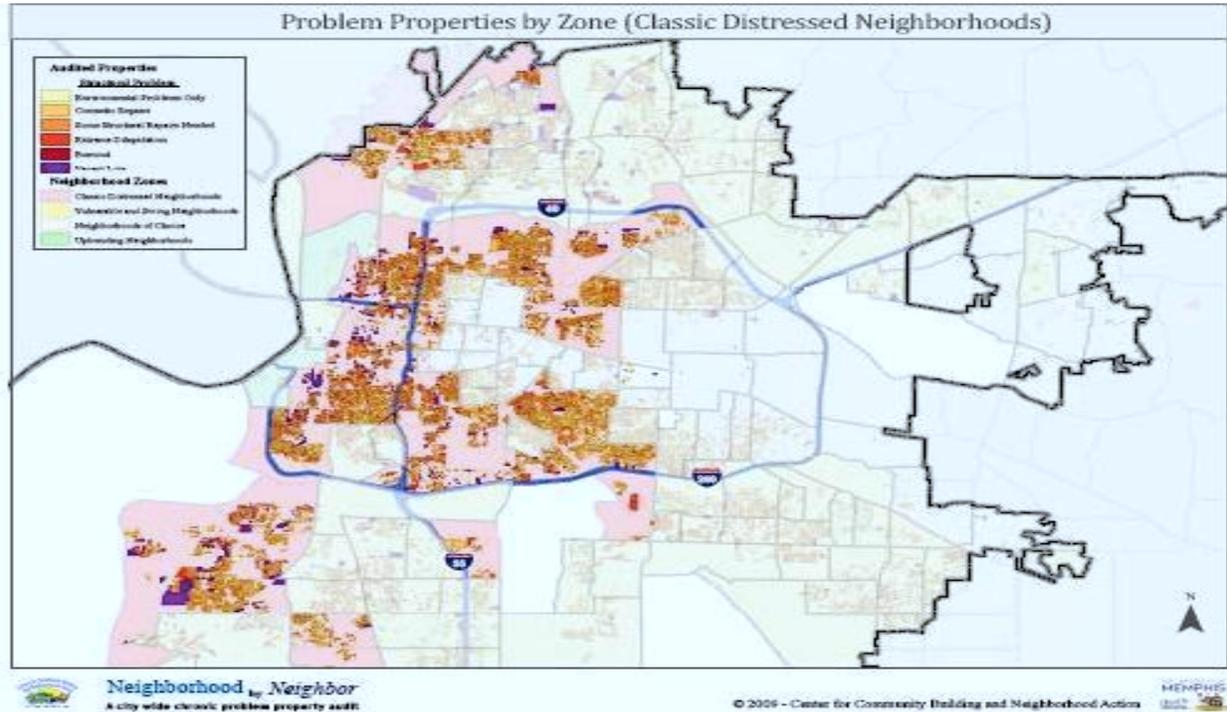
- Vacant buildings, often unsecured, are usually not in compliance with building and fire codes
- Almost no probability that vacant buildings will have operational sprinkler systems
- Fire is more likely to spread from a vacant building than from other structure fires

<sup>51</sup> It should be noted that some cities did not submit arson data, including New York City, Philadelphia, Chicago, Boston and Columbus.

- Fires in vacant buildings are more likely to be set intentionally than other structure fires

Deteriorated buildings in need of physical and structural repair also pose a significant threat to firefighters who enter them. Vacant buildings that are otherwise uninhabitable often become refuges for the homeless, so firefighters cannot assume that there are no people inside. Vacant buildings can also be used by squatters who can create unsafe electrical hookups and pose other risks.

### Classic Distressed Neighborhoods in Memphis, 2009



Source: Buchanan, Betts, et. al. *Neighborhood-by-Neighbor: A Citywide Problem Property Audit*. Center for Community Building and Neighborhood Action. April 15, 2010.

Analysis by the Center for Community Building and Neighborhood Action (CBANA) in 2010 identified a group of “classic distressed neighborhoods” that traditionally have had residential poverty rates above 40 percent, low homeownership rates and high mobility rates.<sup>52</sup> These neighborhoods, representing approximately 25 percent of the all housing parcels in Memphis, have a blight rate greater than 50 percent, meaning that more than half of the housing units require some type of repair or code enforcement.<sup>53</sup> In interviews, MFD senior leadership suggested that the geographic areas driving both their fire risk and EMS workload are these same distressed neighborhoods.

### Incidents

In 2012, the MFD responded to 50,313 emergency medical/rescue calls, or 69 percent of all incidents, compared to just 4,454 calls, or just 6 percent, for fires. A higher percentage of the MFD’s workload, 14 percent, are for calls that turn out to be false, often the result of automatic alarms from commercial establishments, than for actual fires.

<sup>52</sup> Buchanan, Betts, et. al. *Neighborhood-by-Neighbor: A Citywide Problem Property Audit*. Center for Community Building and Neighborhood Action. April 15, 2010.

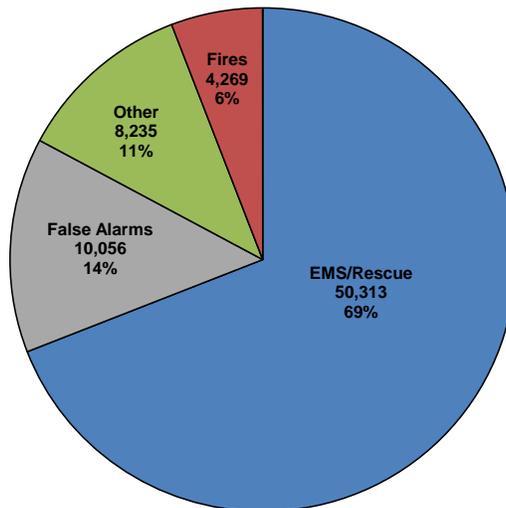
<sup>53</sup> Ibid.

## MFD Incidents, 2012

Incident Type	Total Incidents	Incidents Per Day	Percentage of Total Incidents
EMS/Rescue	50,313	138	69%
False Alarm	10,056	28	14%
Fires	4,454	12	6%
Good Intent	3,531	10	5%
Hazmat	2,444	7	3%
Public Service	1,984	5	3%
Severe Weather	144	0	0%
Special Incident	69	0	0%
Overpressure	52	0	0%
Unspecified	11	0	0%
<b>Total</b>	<b>73,058</b>	<b>200</b>	<b>100%</b>

The MFD responds to almost as many good intent calls, 3,531 or five percent of total incidents, as fires. The other five incident classifications – hazmat, public service, severe weather, special incident and overpressure – represent only eight percent of the division’s workload.

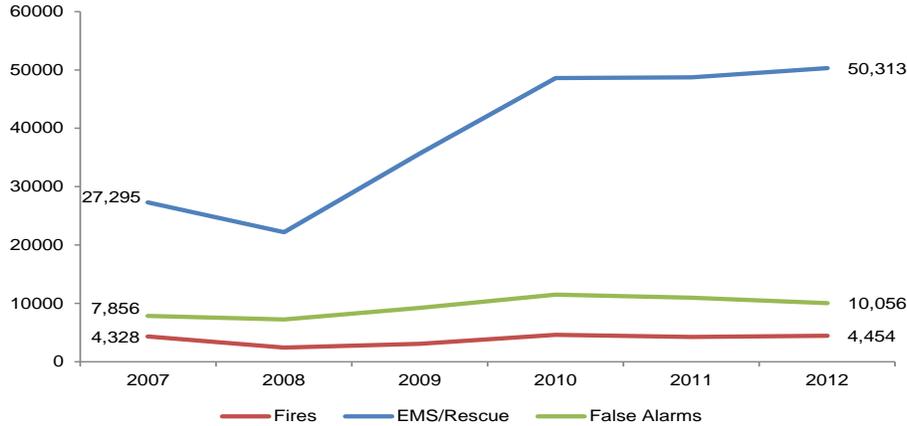
### Comparison of MFD Incidents, 2011



#### Trends

Between 2007 and 2012, the MFD experienced a 66 percent increase in its overall workload, jumping from 44,139 incidents in 2007 to 73,058 in 2012. The primary reason for the increase over this period was an 84 percent increase in calls for emergency medical and rescue, from 27,295 in 2007 to 50,313 in 2012. However, this apparent jump in EMS calls – and total workload – is misleading. The significant increase in EMS calls is more attributable to changes in how emergency response units labeled the incidents they responded to. It is likely that the actual level of EMS and total workload increased at a lower rate over this period. False alarms also grew significantly over this period, increasing 28 percent from 7,856 in 2007 to 10,056 in 2012. While EMS response and false alarms increased significantly over this period, the number of fires in Memphis remained essentially flat, increasing just four percent from 4,328 in 2007 to 4,454 in 2011.

### Fires, False Alarms and EMS/Rescue Calls, 2007-2011



From 2007 to 2011, hazmat calls increased 55 percent from 1,906 to 2,957, public service calls increased 89 percent from 1,276 to 2,411 and good intent calls increased 190 percent from 1,269 to 3,680. Remaining categories of incident response such as severe weather and overpressure increased, while calls for special incident declined, though none of these categories has a significant impact on the department's overall workload.

#### Unit Workload

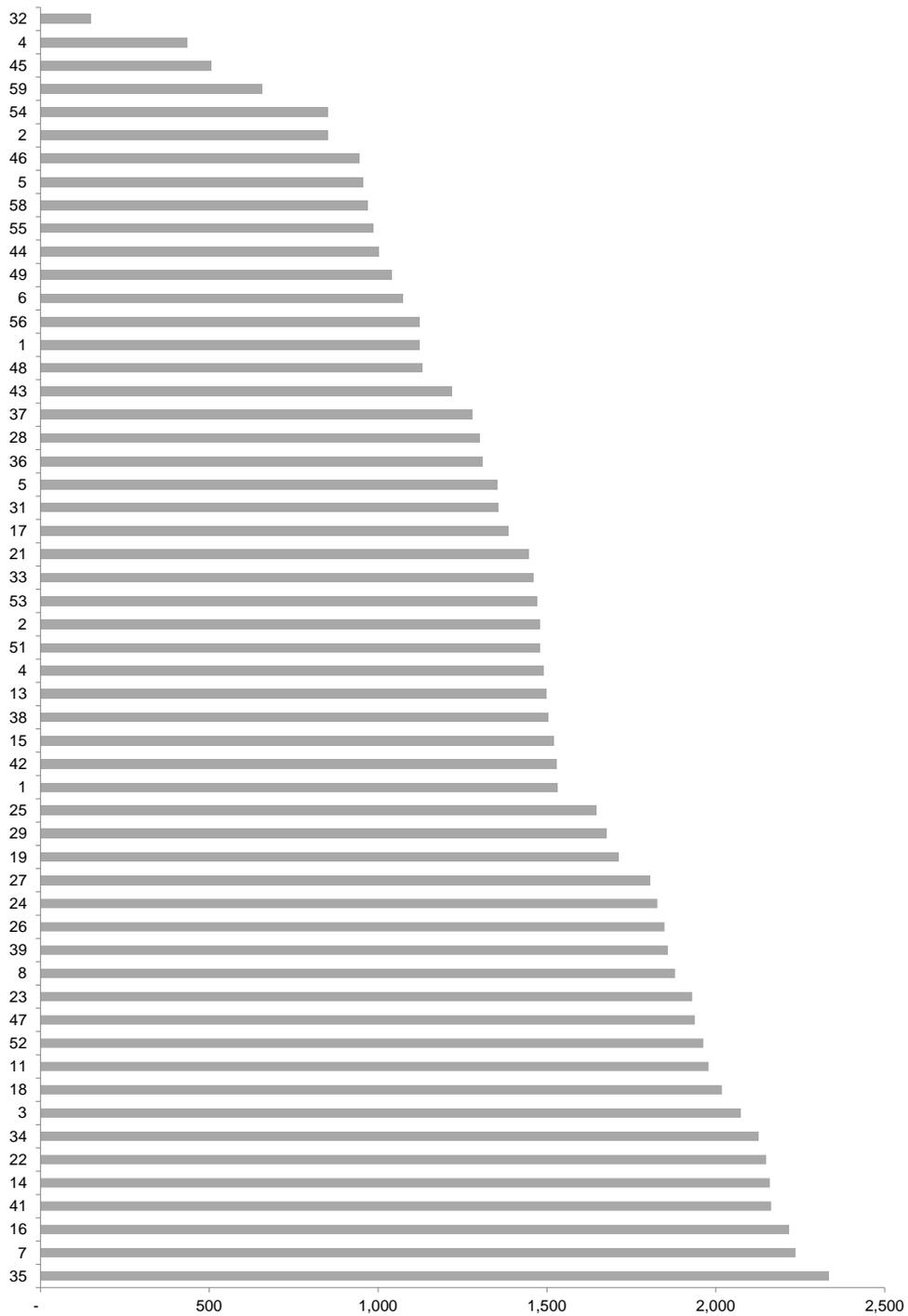
MFD units experience a varying workload. In 2012, engines averaged 4.0 runs per day, ladder trucks averaged 2.2 runs per day and ambulances averaged 8.7 runs per day.

#### MFD Unit Runs, 2012

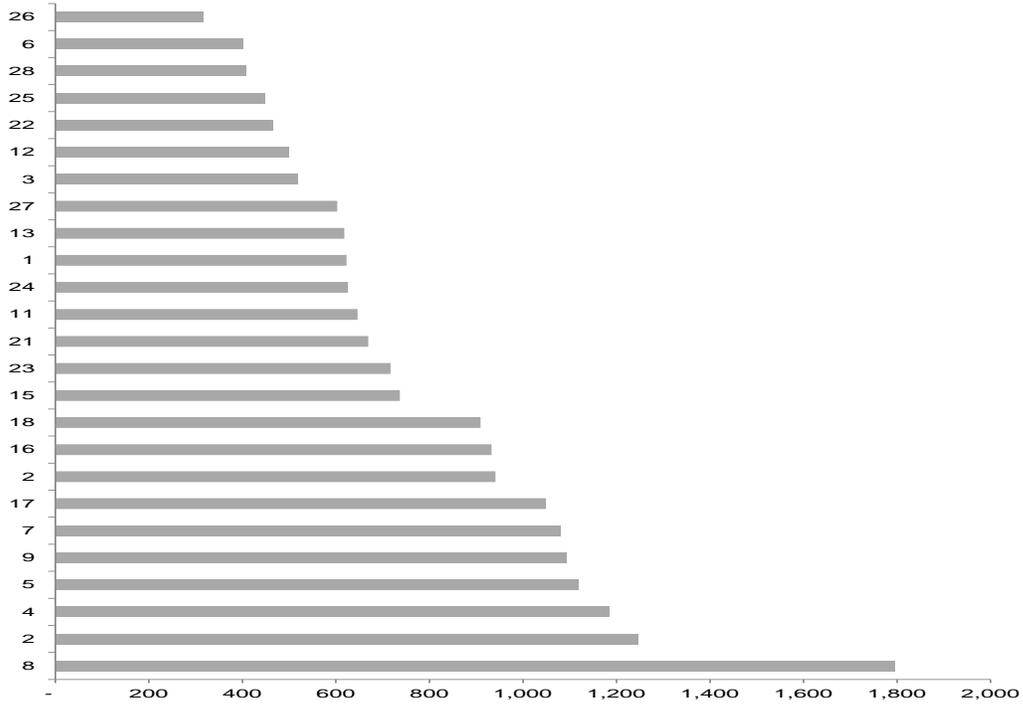
Unit	Total Runs	Average Runs	Median Runs	Total Runs per Day	Average Runs per Day	Median Runs per Day
Engines	81,894	1,486	1,480	224.4	4.0	4.1
Ladders	19,644	786	669	53.8	2.2	1.8
Ambulances	110,910	3,169	3,621	303.9	8.7	9.9

The three busiest engines (35, 7 and 16) averaged 6.1 to 6.4 runs per day. The least busy engine (32) averaged only one call every two to three days. The busiest ladders (8, 2 and 4) averaged 3.2 to 4.9 runs per day, while the seven least busy ladders averaged 0.9 to 1.4 runs per day. The four busiest ambulance units (1, 27, 16 and 3) averaged 12.1 to 12.6 runs per day, while the eight least busy ambulance units averaged 2.0 to 4.9 runs per day. It should be noted that engines and ladders respond to emergency medical calls as well as ambulance units.

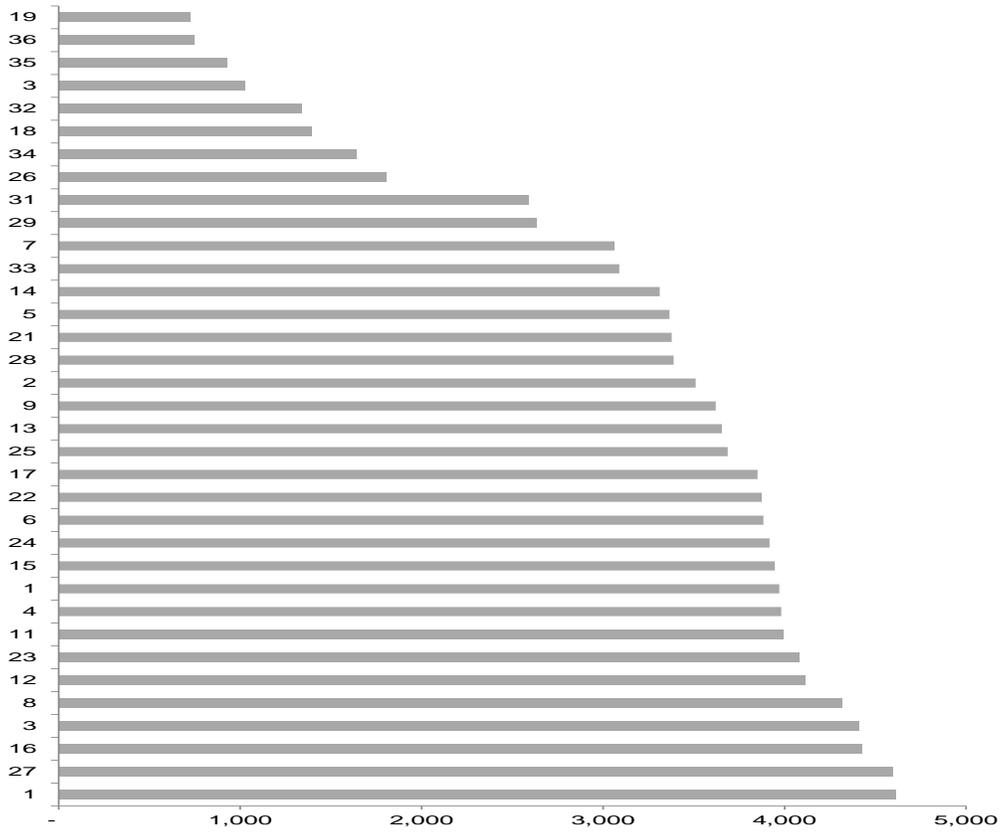
### Engine Company Runs Comparison, 2012



### Ladder Company Runs Comparison, 2012



### Ambulance Runs Comparison, 2012



### Engine Company Workload Overview

Engine	2012 Total Runs	2012 Runs per Day	2007-2012 Average Runs per Day
35	2,335	6.4	4.1
7	2,236	6.1	7.1
16	2,217	6.1	6.6
41	2,164	5.9	4.2
14	2,160	5.9	4.2
22	2,149	5.9	6.5
34	2,127	5.8	5.8
3	2,074	5.7	3.9
18	2,018	5.5	5.4
11	1,978	5.4	3.7
52	1,963	5.4	5.0
47	1,938	5.3	4.9
23	1,930	5.3	5.3
8	1,879	5.1	5.3
39	1,858	5.1	3.4
26	1,848	5.1	3.0
24	1,827	5.0	4.8
27	1,804	4.9	4.6
19	1,711	4.7	4.4
29	1,676	4.6	3.0
25	1,646	4.5	4.1
1	1,532	4.2	4.1
42	1,528	4.2	4.2
15	1,520	4.2	4.1
38	1,505	4.1	3.9
13	1,497	4.1	4.1
4	1,489	4.1	3.9
51	1,480	4.1	3.0
2	1,478	4.0	4.3
53	1,470	4.0	2.7
33	1,460	4.0	4.2
21	1,447	4.0	2.9
17	1,386	3.8	3.3
31	1,357	3.7	3.6
5	1,354	3.7	3.6
36	1,309	3.6	3.6
28	1,301	3.6	3.8
37	1,279	3.5	3.5
43	1,220	3.3	3.3
48	1,130	3.1	2.2
1	1,124	3.1	2.3
56	1,123	3.1	2.1
6	1,074	2.9	3.0
49	1,040	2.8	2.8
44	1,002	2.7	2.5
55	985	2.7	1.8
58	970	2.7	2.4
5	955	2.6	2.6
46	946	2.6	2.4
2	852	2.3	2.2
54	851	2.3	2.3
59	658	1.8	1.7
45	505	1.4	1.4
4	434	1.2	1.2
32	148	0.4	0.4
<b>Average</b>	<b>1,472</b>	<b>4.0</b>	<b>3.6</b>
<b>Median</b>	<b>1,479</b>	<b>4.1</b>	<b>3.6</b>

### Ladder Company Workload Overview

Ladder	2012 Total Runs	2012 Runs per Day	2007-2012 Average Runs per Day
8	1,794	4.9	5.6
2	1,245	3.4	3.0
4	1,184	3.2	3.9
5	1,118	3.1	2.9
9	1,093	3.0	4.2
7	1,080	3.0	2.8
17	1,049	2.9	3.9
2	941	2.6	3.6
16	933	2.6	2.2
18	909	2.5	4.2
15	737	2.0	3.0
23	717	2.0	2.3
21	669	1.8	2.8
11	646	1.8	3.4
24	626	1.7	1.9
1	623	1.7	3.0
13	618	1.7	3.5
27	603	1.7	1.5
3	518	1.4	4.3
12	500	1.4	4.3
22	465	1.3	2.4
25	449	1.2	2.0
28	408	1.1	1.3
6	402	1.1	2.2
26	317	0.9	2.3
<b>Average</b>	<b>786</b>	<b>2.2</b>	<b>3.1</b>
<b>Median</b>	<b>669</b>	<b>1.8</b>	<b>3.0</b>

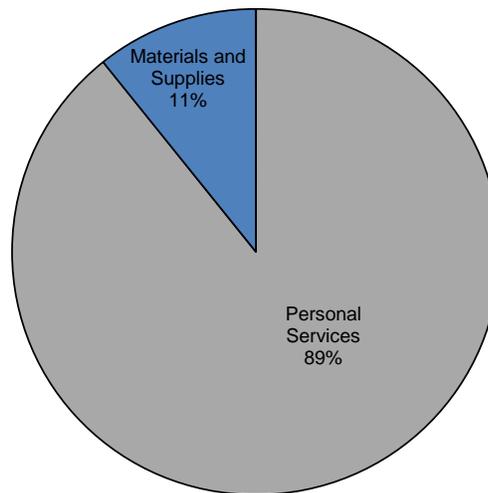
### Ambulance Company Workload Overview

Ambulance	2012 Total Runs	2012 Runs per Day	2007-2012 Average Runs per Day
1	4,613	12.6	12.2
27	4,599	12.6	7.9
16	4,431	12.1	12.5
3	4,410	12.1	12.2
8	4,321	11.8	11.9
12	4,114	11.3	11.9
23	4,083	11.2	10.8
11	3,997	11.0	10.2
4	3,982	10.9	11.2
1	3,971	10.9	10.3
15	3,947	10.8	10.1
24	3,917	10.7	10.7
6	3,884	10.6	10.6
22	3,874	10.6	9.9
17	3,851	10.6	10.1
25	3,687	10.1	10.1
13	3,655	10.0	9.5
9	3,621	9.9	9.7
2	3,510	9.6	9.0
28	3,389	9.3	8.6
21	3,378	9.3	9.5
5	3,366	9.2	8.9
14	3,312	9.1	8.0
33	3,090	8.5	7.6
7	3,064	8.4	8.2
29	2,634	7.2	6.6
31	2,590	7.1	6.5
26	1,805	4.9	4.4
34	1,641	4.5	2.4
18	1,397	3.8	3.3
32	1,343	3.7	3.4
30	1,030	2.8	2.5
35	930	2.5	1.4
36	747	2.0	2.0
19	727	2.0	2.3
<b>Average</b>	<b>3,169</b>	<b>8.7</b>	<b>8.2</b>
<b>Median</b>	<b>3,621</b>	<b>9.9</b>	<b>9.5</b>

## Expenditures

The MFD's FY2013 adopted budget totals \$153.8 million in expenditures. After taking into account \$22.6 million in revenues, the department's net expenditures are \$131.3 million. The personnel services budget of \$137.3 million represents 89 percent of total expenditures, while \$16.6 million in materials and supplies represents 11 percent of total funding.

### Department Expenditures, FY2013 Adopted



Source: City of Memphis, FY2013 Adopted Budget

From FY2008 to FY2012, the average cost of personnel services was \$140.1 million, or 90 percent of average total expenditures and the cost of materials and supplies was \$14.7 million, just 9 percent of average total expenditures. Over this period, the personnel services budget increased by one percent and materials and supplies budget increased 30 percent.

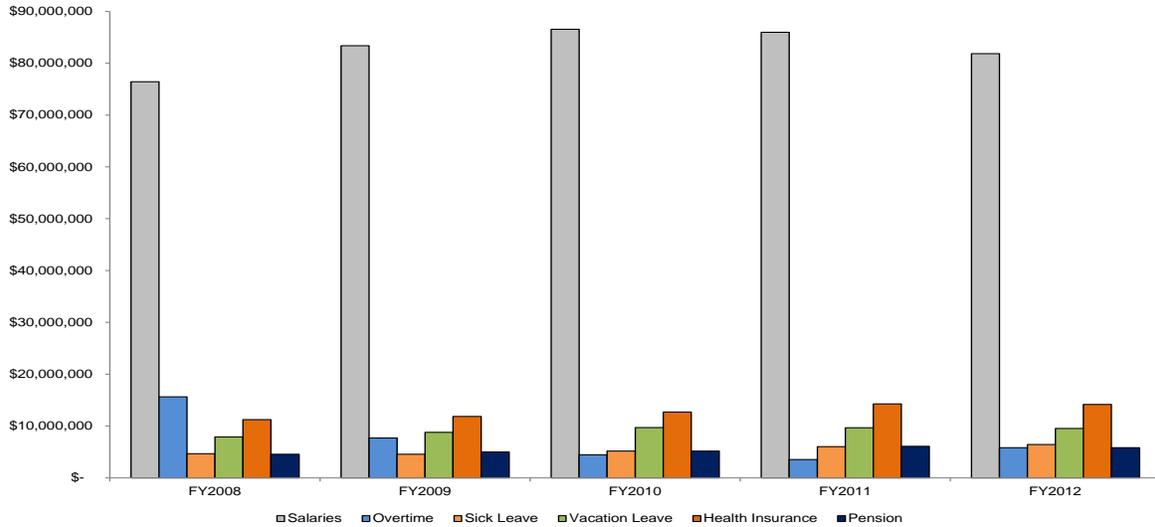
### MFD Expenditures, FY2008–FY2013

Expense	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Personnel Service	\$137,593,000	\$140,249,000	\$141,635,000	\$144,873,000	\$136,303,000	\$137,288,427
Materials and Supplies	\$11,624,000	\$16,911,000	\$14,670,000	\$15,232,000	\$15,157,000	\$16,539,449
Capital Outlay	\$621,000	\$597,000	\$659,000	\$161,000	\$397,000	\$-
Expense Reimbursement	\$(223,000)	\$(267,000)	\$(252,000)	\$(235,000)	\$(317,000)	\$-
<b>Total</b>	<b>\$149,615,000</b>	<b>\$157,490,000</b>	<b>\$156,712,000</b>	<b>\$160,031,000</b>	<b>\$151,540,000</b>	<b>\$153,827,876</b>

The division's personnel services budget is driven primarily by salaries and health insurance for its workforce. From FY2008 to FY2012, the cost of base salaries – not including supplemental wages such as bonus pay, longevity pay or college incentive pay – increased seven percent from \$76.4 million to \$81.8 million. Over the same period of time, the cost of health insurance increased 26 percent from \$11.3 million to \$14.2 million. Combined, these two items have comprised roughly 70 percent of the MFD's personnel services expenditures and 60 percent of its total expenditures from FY2008 to FY2012.

The MFD experienced a significant decrease in overtime during this period, declining from \$15.6 million FY2008 to \$5.8 million FY2012, a 63 percent decline. Over the same period, wages paid for sick leave increased 39 percent, from \$4.6 million to \$6.5 million, and wages paid for vacation leave increased 21 percent from \$7.9 million to \$9.5 million. Pension costs increased from \$4.5 million in FY2008 to \$5.8 million in FY2012, a 28 percent jump. The combined value of all other personnel service items declined over this period, from \$17.2 million in FY2008 to \$12.7 million FFY2012.

### Personal Services Expenditures, FY2008–FY2012



The materials and supplies budget is for shop charges for repair and maintenance of its fleet, professional services, medical supplies for its emergency response personnel, fuel and utilities.

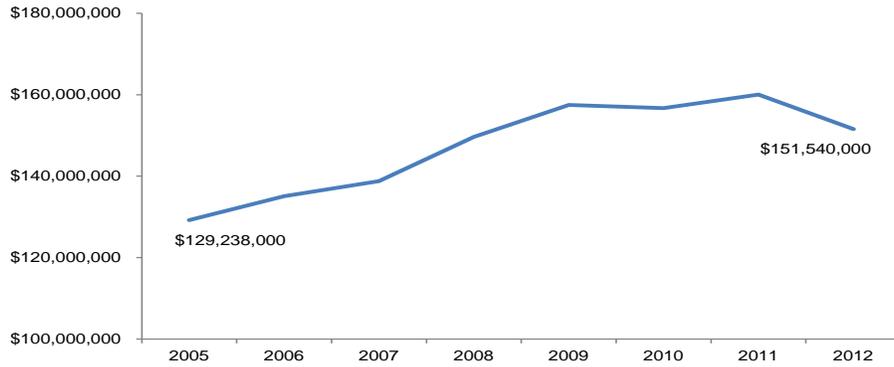
### Materials and Supplies Expenditures, FY2008–FY2013

Expense	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
City Shop Charges	\$442,093	\$3,561,199	\$4,061,386	\$3,356,524	\$3,840,623	\$300,000
Professional Services	\$2,408,671	\$3,304,743	\$2,193,000	\$2,485,129	\$2,380,233	\$2,602,530
Medical Supplies	\$1,221,103	\$1,491,791	\$1,711,237	\$1,743,688	\$2,006,599	\$2,050,000
City Shop Fuel	\$1,931,022	\$1,647,380	\$1,534,504	\$1,820,919	\$1,938,199	\$2,040,000
Utilities	\$1,629,848	\$1,657,024	\$1,694,526	\$1,819,047	\$1,688,053	\$1,734,284
All Other	\$3,991,263	\$5,248,863	\$3,475,347	\$4,006,693	\$3,303,293	\$7,812,635
<b>Total</b>	<b>\$11,624,000</b>	<b>\$16,911,000</b>	<b>\$14,670,000</b>	<b>\$15,232,000</b>	<b>\$15,157,000</b>	<b>\$16,539,449</b>

Though staffing levels remained relatively stable with an average of 1,873 FTEs from FY2008 to FY2012, staffing levels grew from 1,679 FTEs in FY2003 to 1,889 FTEs in FY2008, a 13 percent increase. This

growth in staffing has impacted expenditures after FY2008, such as the increased growth in salaries and decline in overtime. From FY2005 to FY2012, the MFD's total expenditures increased 17 percent, from \$129.3 million to \$151.6 million. Over this period, personnel services expenditures increased 15 percent, from \$118.6 million to \$136.3 million, while materials and supplies expenditures grew 42 percent from \$10.7 million to \$15.2 million.

### Fire Department Expenditures, FY2005–FY2012

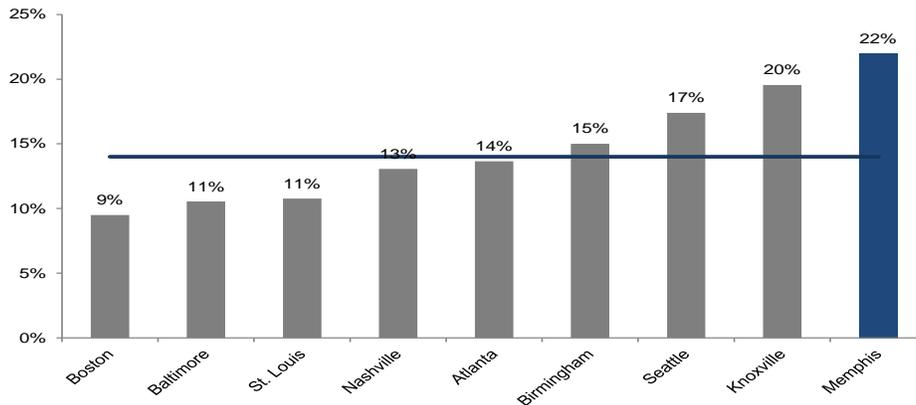


Source: City of Memphis, Comprehensive Annual Financial Report, FY2005-FY2012

The MFD's expenditure growth has outpaced growth in citywide spending over this period as well, as General Fund expenditures grew 13 percent from FY2005 to FY2012. The MFD's expenditure growth has not been as significant as the Police Division's expenditure growth, which has increased 23 percent over the same period.

When compared to benchmark cities, the MFD's expenditures consume a higher percentage of total citywide expenditures. Based on FY2012 adopted expenditures, the MFD was allocated 22 percent of total General Fund revenues, while the average allocation for the comparison cities was 14 percent. For FY2012, the MFD's allocation of General Fund expenditures was at least double the proportion of general fund expenditures provided to the fire departments in St. Louis, Baltimore and Boston.

### Fire Department Expenditures as Percentage of Total General Fund Expenditures (FY2012 Adopted)



Source: FY2012 Adopted Budgets

## Revenues

The MFD generates revenue for the City primarily through charges for ambulance services, reimbursement for service at the Memphis International Airport and for fines related to the City's commercial anti-neglect ordinance. In FY2012, the City collected an estimated total of \$24.1 million in MFD revenues and in FY2013 the City budgeted \$22.6 million in MFD related revenue.

### MFD Revenues, FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate	FY2013 Budgeted
Ambulance Service	\$15,205,463	\$16,025,068	\$18,097,161	\$19,066,443	\$20,132,530	\$18,700,000
International Airport	\$3,556,901	\$3,577,712	\$3,802,197	\$3,800,931	\$3,630,059	\$3,630,060
Anti-Neglect Enforcement Program	\$238,105	\$221,506	\$175,949	\$185,713	\$173,343	\$200,000
Misc. Collections	\$79,813	\$66,534	\$83,052	\$60,436	\$116,432	\$20,000
Federal Grants	\$352,971	\$2,327,493	\$13,329	\$13,725	\$24,257	\$-
Local Shared Revenue	\$1,698,222	\$2,410	\$8	\$246	\$24,396	\$-
Recovery of Prior Year Expense	\$-	\$97,200	\$-	\$-	\$-	\$-
State Grants	\$6,500	\$-	\$325,393	\$-	\$-	\$-
Miscellaneous Income	\$795	\$-	\$-	\$126.00	\$-	\$-
<b>Total</b>	<b>\$21,138,770</b>	<b>\$22,317,922</b>	<b>\$22,497,089</b>	<b>\$23,127,621</b>	<b>\$24,101,018</b>	<b>\$22,550,060</b>

The Memphis International Airport reimburses the MFD for the salaries and benefits for personnel stationed there, which has resulted in reimbursement amounts ranging from \$3.6 million to \$3.8 million from FY2008 to FY2012. The current agreement, however, may not fully cover indirect costs or pension costs. In FY2013, the budgeted amount of reimbursement for the 33 FTEs at the airport fire station was set at \$3.6 million. Additionally, the department's Anti-Neglect Inspectors, part of the Fire Prevention division, generate fine revenue that results from their inspections of abandoned or potentially dangerous multi-family housing, commercial and industrial buildings and structures. From FY2008 to FY2012, the revenue generated through these inspections averaged \$199,000 annually and was budgeted for \$200,000 in FY2013.

#### *EMS Reimbursement*

The most significant revenue source for the department is charges for ambulance transports performed by the EMS division. From FY2008 to FY2012, the average amount of EMS revenue has been \$17.7 million and the FY2013 budgeted amount of EMS revenue was \$18.7 million. In comparison, the FY2013 cost of operating the EMS division is \$36.4 million, representing a recovery of just 51 percent of the cost of providing these services.

The MFD is not alone in its struggle to achieve cost recovery for EMS. EMS systems typically receive revenue from various sources including commercial insurers, Medicare and Medicaid, patients, managed care providers, and earmarked tax revenues. Like many other EMS systems, the MFD has tried to adjust in recent years as changes by Medicare, Medicaid, and insurance companies have limited reimbursements for EMS and produced a continually changing set of reimbursement policies and procedures. Nationally, Medicare is the leading source of reimbursements, followed by private insurance, Medicaid and direct patient charges. These trends do not hold completely in Memphis, where Medicaid and direct patient charges account for roughly the same amount of revenue as Medicare. From January 1, 2010 to February 29, 2012, the EMS division generated \$126.5 million in gross charges. Over this

period, Medicaid accounted for 32 percent of gross charges, Medicare accounted for 29 percent and direct patient charges comprised 27 percent.

**EMS Cash Receipts and Adjustments from Jan. 1, 2010 – Feb. 29, 2012 (as of July 10, 2012)**

Primary Financial Group	Gross Charges	Gross Charges (%)	Contractual Adjustments	Net Charges	Paid	Gross Collections (%)	Net Collections (%)
Facility	\$1,175,026	1%	\$(224,702)	\$950,324	\$316,564	27%	33%
Insurance	\$13,376,571	11%	\$(521,330)	\$12,855,241	\$12,733,187	95%	99%
Medicaid HMO	\$40,010,350	32%	\$(31,073,264)	\$8,937,086	\$8,770,889	22%	98%
Medicare	\$27,453,690	22%	\$(15,899,759)	\$11,553,931	\$11,456,049	42%	99%
Medicare HMO	\$8,292,911	7%	\$(4,506,120)	\$3,786,791	\$3,773,254	45%	100%
NFWC	\$2,012,822	2%	\$(30,804)	\$1,982,018	\$1,858,637	92%	94%
Patient	\$34,212,788	27%	\$(411,691)	\$33,801,097	\$1,740,864	5%	5%
<b>Total</b>	<b>\$126,534,158</b>	<b>100%</b>	<b>\$(52,667,670)</b>	<b>\$73,866,488</b>	<b>\$40,649,444</b>	<b>32%</b>	<b>55%</b>

Direct patient charges are primarily generated by individuals who do not have health insurance and often have a limited ability to pay. In many cases, public EMS providers subsidize transports for patients without insurance as a public service, and this is essentially the case in Memphis. After accounting for contractual adjustments, such as receiving reimbursements from Medicare or Medicaid, direct patient charges represent 46 percent of net charges during this period. Unsurprisingly, the collection rate of 5 percent of these charges is almost nonexistent. As previously stated, the MFD has suggested that Memphis' economically distressed neighborhoods, and the many impoverished residents living in those neighborhoods, drive its EMS workload demand. Based on 2011 data, Memphis has 134,473 non-elderly residents without health insurance coverage, representing approximately 21 percent of Memphis' total population.<sup>54</sup>

Memphis' overall collection rate exceeds the national standard. Nationally, the average collection rate for EMS systems is 44 percent to 52 percent depending on whether the transport is for BLS, ALS-1 or ALS-2 transports.<sup>55</sup> The MFD's 55 percent net collection rate suggests that, while it is only recouping about half the cost of its EMS services, the collection rate is in line with other EMS systems nationally. Nonetheless, recovering only half the cost of service has resulted in an escalating amount of unpaid receivables. For example, from February 2010 to January 2012, the total value of outstanding receivables for EMS charges rose 194 percent from \$4 million to \$11.8 million.

The MFD's billing and collections are outsourced. Since January 2010, billing has been performed by Digitech Computer, Inc. and for approximately one year collections has been handled by Affiliated Computer Services, Inc. (ACS). Before ACS, a different local firm handled collections.

<sup>54</sup> U.S. Census Bureau, 2011 American Community Survey 1-Year Estimates

<sup>55</sup> Michael Ragone. "2011 JEMS 200-City Survey." Journal of Emergency Medical Services. February 2012.

### EMS Revenue Receivables Feb. 2010 – Jan. 2012

Month	Ending Value of Accounts Receivable
Feb-10	\$4,019,807
May-10	\$7,166,054
Aug-10	\$8,947,614
Nov-10	\$9,724,949
Feb-11	\$9,230,524
May-11	\$9,638,614
Aug-11	\$10,629,138
Nov-11	\$11,828,499
Jan-12	\$11,831,472

Source: Memphis Fire Department

## Initiatives

The City has identified the following high impact initiative areas for action:

- Define core services for Police, and Fire
- Develop and implement cost savings/efficiency measures for public safety
- Consolidate back office functions and dispatching for Fire and Police Divisions
- Immediate review of public safety operations in light of zero based budgeting
- Finding alternatives to EMS/emergency room transports
- Increase false alarm fees

<b>PS01.</b>	<b>Explore Cost Savings Measures for the Police Division</b>	
	<b>Target outcome:</b>	Cost reduction; improved performance
	<b>Five-year financial impact:</b>	\$20.7 million
	<b>Responsible party:</b>	Mayor, CAO/COO, Police Director, Fire Director, Human Resources Director

As discussed in this chapter, there are a significant number of sworn police officers who perform civilian duties. Civilianization enables police agencies to better ensure the safety of the public by deploying the optimal number of sworn officers to patrol. It does this by redeploying sworn personnel in administrative capacities to the field, and hiring civilian personnel to perform traditionally “back-office” functions such as information technology, administration, human resources, supplies, financial management and training. In addition, the PERF study suggests that as many as one in ten calls for police service could be handled by civilians as well.

The City should maximize the number of sworn officers performing patrol and/or related police-specific tasks and minimize the number of sworn personnel performing administrative, back office or non-police functions.

Memphis should take a series of steps to freeze the hiring of new sworn officers and increase the hiring of civilians and Police Service Technicians (PSTs).

The MPD had a PST program until 2011 when it was discontinued. Previously, the MPD PSTs served as entry level, non-permanent positions that primarily handled crash investigations, issued non-moving traffic citations and acted as support personnel. PSTs did not carry weapons or respond to crime scenes unless called to do so for traffic enforcement reasons. Service as a PST was also meant to assist an individual in preparing for a career as a sworn police officer through education, training and work experience. This initiative proposes that the MPD reinstate the PST program, utilize differentiated response – staffed in large part by PSTs – to handle lower priority calls. Costs associated with the hiring of additional civilian PSTs will be offset by savings achieved from reducing the need to hire higher cost new officers.

Civilians are, on average, \$15,200 less expensive than sworn personnel.

Over the next five years, the MPD should reduce its sworn headcount by 280 officers – and replace those officers on a one for one basis with a combination of lower cost civilian clerical employees and PSTs.

Assuming 100 separations annually due to normal attrition, this goal can be achieved by the end of the third year of the plan. While the number of sworn officers will decline, the number of officers available for patrol will likely increase as the number of sworn officers assigned to civilian roles is greatly reduced.

<b>PS02.</b>	<b>Explore Cost Savings Measures for Fire Division</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five-year financial impact:</b>	\$7.5 million
	<b>Responsible party:</b>	Fire Director

Ideally, any recommendations for reduction in MFD staffing levels would be based on a comprehensive workload and deployment analysis performed by emergency response subject matter experts. However, given the City’s strained financial context, it may be required to look for immediate savings opportunities, and the MFD’s workforce represents a significant portion of the City’s total workforce. In this case, one potential path towards reducing the cost of the MFD is to reduce the minimum manning for engines and ladder trucks for units that have low workload demand.

The MFD’s response unit staffing minimums of four personnel on engines, ladder trucks and quints meet standards set by the NFPA. Most metro fire departments have four staff on engines and ladder trucks, and there are sound operational and safety considerations that support this level of minimum staffing. Since Memphis does have areas of legitimate fire risk it is important that units stationed to respond to these areas maintain their current staffing levels. There are, however, stations that house units with lower workload. The tables that follow identify a number of engines, ladders and ambulance units with workloads that fall well below department-wide averages.

### Low Workload Engines

Engines	2012 Total Runs	2012 Runs per Day	2007-2012 Average Runs per Day
49	1,040	2.8	2.8
44	1,002	2.7	2.5
55	985	2.7	1.8
58	970	2.7	2.4
5	955	2.6	2.6
46	946	2.6	2.4
2	852	2.3	2.2
54	851	2.3	2.3
59	658	1.8	1.7
45	505	1.4	1.4
4	434	1.2	1.2
32	148	0.4	0.4
<b>Department Average</b>	<b>1,472</b>	<b>4.0</b>	<b>3.6</b>
<b>Department Median</b>	<b>1,479</b>	<b>4.1</b>	<b>3.6</b>

### Low Workload Ladders

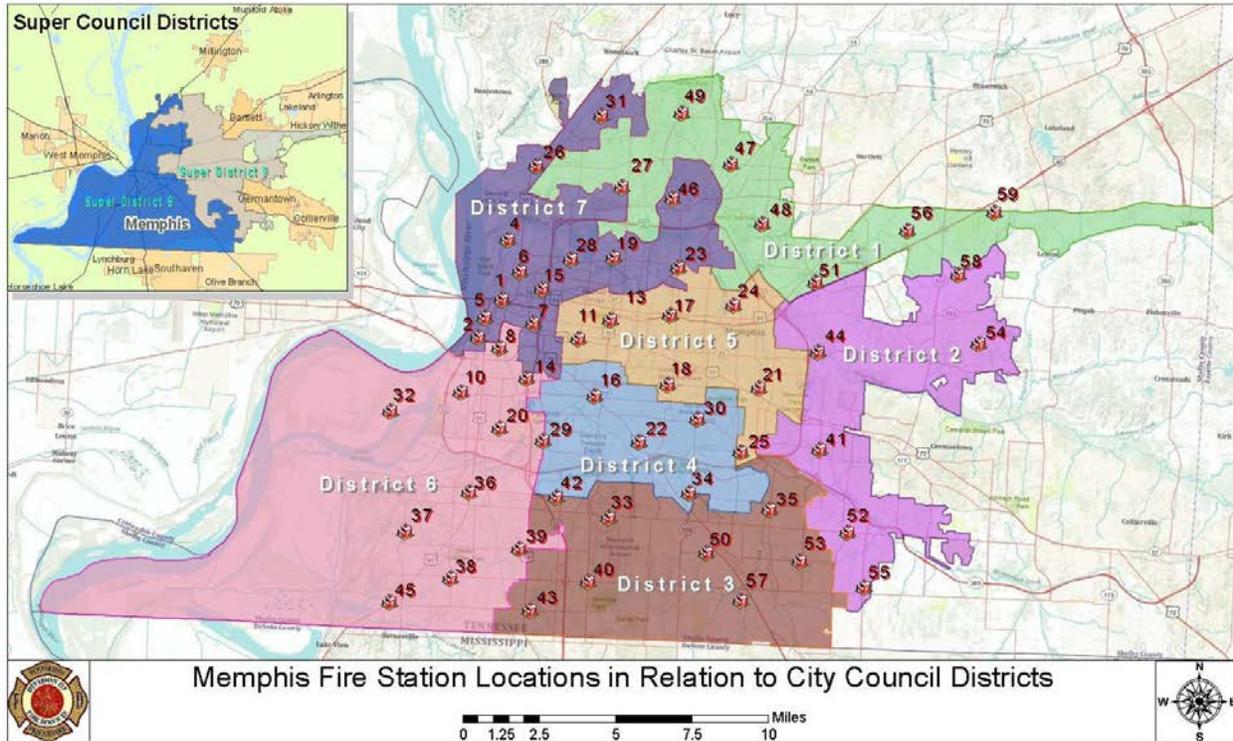
Ladders	2012 Total Runs	2012 Runs per Day	2007-2012 Average Runs per Day
27	603	1.7	1.5
3	518	1.4	4.3
12	500	1.4	4.3
22	465	1.3	2.4
25	449	1.2	2.0
28	408	1.1	1.3
6	402	1.1	2.2
26	317	0.9	2.3
<b>Department Average</b>	<b>786</b>	<b>2.2</b>	<b>3.1</b>
<b>Department Median</b>	<b>669</b>	<b>1.8</b>	<b>3.0</b>

### Low Workload Ambulances

Ambulances	2012 Total Runs	2012 Runs per Day	2007-2012 Average Runs per Day
26	1,805	4.9	4.4
34	1,641	4.5	2.4
18	1,397	3.8	3.3
32	1,343	3.7	3.4
30	1,030	2.8	2.5
35	930	2.5	1.4
36	747	2.0	2.0
19	727	2.0	2.3
<b>Department Average</b>	<b>3,169</b>	<b>8.7</b>	<b>8.2</b>
<b>Department Median</b>	<b>3,621</b>	<b>9.9</b>	<b>9.5</b>

Of these units with lower workloads, there are a number that are based out of the same fire station. While a more detailed demand analysis would provide a more in-depth analysis, the workload data suggests that these low-workload fire stations could experience a reduction in total staffing – across the multiple units housed at those stations – without posing a severe risk to public safety.

### Fire Station Locations



It is the fire stations on the outer rings of the city that have lower workloads than those stations located closer to the areas in the “C” that outlines Memphis’ most distressed neighborhoods. The table below shows six stations that house an engine, ladder and/or ambulance with lower workloads than department averages. Stations 55 and 57 are located in the southeast part of the city and stations 48, 54, 56, 58 and 59 are located in the northeast part of the city. The current total staffing for each station is based on the MFD’s staffing minimums of 4 personnel on engines and ladders and 2 personnel on ambulances.

### Incident Response Unit Staffing

Station	Engine	Ladder	Ambulance	Current Daily Staff	Proposed Daily Staff	Daily Change	Total Change
48	48	22	N/A	8	7	(1)	(3)
54	54	N/A	18	6	5	(1)	(3)
55	55	27	N/A	8	7	(1)	(3)
56	56	25	26	10	8	(2)	(6)
58	58	28	32	10	8	(2)	(6)
59	59	N/A	30	6	5	(1)	(3)
<b>Total</b>	-	-	-	<b>48</b>	<b>40</b>	<b>(8)</b>	<b>(24)</b>

Since a large portion of the department’s emergency response personnel are cross-trained as firefighters and paramedics and since at least 42 engines across the city are staffed by at least one paramedic

fighter as well, there is potential to reduce the total staff based in these stations and still provide adequate emergency response. For example, at station 48, the scenario suggests that instead of having four personnel for Engine 48 and Ladder 22 (for a total of eight), these low-demand units could likely provide adequate emergency response with seven total personnel, most likely with four personnel on the engine and three personnel on the ladder. The total change shown reflects the reduction in daily staffing across the MFD's three platoons. It should be noted, however, that reducing staffing across these stations will require additional operational analysis and consideration outside the scope of this report.

In FY2013, the average cost of a Firefighter (Private Fire II) was approximately \$63,000. This figure includes wages, health insurance, pension contributions and other benefits. By reducing 24 positions across these six stations, the City can achieve savings on personnel of approximately \$7.5 million over five years.

<b>PS03.</b>	<b>Perform Fire Division Workload Demand and Deployment Analysis</b>	
	<b>Target outcome:</b>	Efficient, demand-driven staffing and deployment
	<b>Five-year financial impact:</b>	Initial cost of plan will be offset by projected cost reduction on implementation in changes in deployment
	<b>Responsible party:</b>	Fire Director

In order to appropriately determine the best deployment of resources for the MFD over the long term, the City should complete a detailed workload demand and deployment analysis. Memphis does have legitimate fire risk and the City does need to maintain a strong fire protection response system. However, it is likely that a risk-based approach to staffing and deployment would enable the MFD to meet the emergency response demands of Memphis with fewer personnel at less cost.

The MFD's senior leadership has already taken a number of steps aimed at restructuring the division's operations to meet its workload demand, including:

- An attrition plan that resulted in the reduction of daily minimum staffing from 444 to 423 positions and a total compliment reduction of 77 positions
- Added four quint apparatus, which function as both an engine and ladder truck
- Eliminated four engines, three ladder trucks and one heavy rescue
- Added eight alternative response vehicles that allow for EMS response without the use of engines or ladder trucks
- Implemented policy directive that ambulances will only respond to critical medical emergencies when the department only has five of its 34 ambulances available

These types of staffing and operational changes show that the division's leadership recognizes that its primary function has shifted from responding to fires to responding to medical emergencies. It also shows that the division is taking steps towards reducing its operational costs. The MFD should be commended for taking these steps, and an in-depth analysis of its demand and deployment would allow the division's senior leadership to develop a proactive, long-term vision for the division.

The City should invest in a detailed workload demand and deployment analysis performed by third-party subject matter experts. The types of analysis that should be performed include a detailed analysis of existing station locations, demand for service and the ability of alternatives to meet weight of response requirements. The results of this analysis should identify:

- Geographic differences in fire risk and EMS demand
- Peak-demand periods based on hour of day
- Unit hour workload analysis for every engine and ladder company

- Detailed analysis of alarm handling time
- Opportunities to change fire station locations and deployment

The cost of performing this type of analysis is approximately \$100,000 and given the significance of the MFD in the City's budget context, it should seek to complete this study in FY2014.

<b>PS04.</b>	<b>Consolidate Back Office Functions for Police and Fire Divisions</b>	
	<b>Target outcome:</b>	Cost reduction; improved accountability
	<b>Five-year financial impact:</b>	\$7.6 million
	<b>Responsible party:</b>	Mayor, CAO

The City's budget for FY2013 included civilian positions in administration, support services, logistical services, financial services and personnel in both the Fire Division and Police Division. In total, there were 107 civilian positions across both departments in these functional areas.

Increasingly, public safety agencies across the nation have looked to consolidation as a means of maximizing resources. A 2012 analysis by Michigan State University funded by the Department of Justice found that there were 130 agencies that had nominal levels of consolidation. In some cases, departments had cross-trained firefighters and police officers as public safety officers. More common, however, is the case where departments maintain independence but share back office support.

The cities of Cleveland and Columbus, Ohio, and Indianapolis, Indiana all have combined Departments of Public Safety with separate divisions of police and fire. FY2012 data from these three cities suggest that an average sworn FTE to administrative/civilian FTE ratio was 1 civilian FTE to 10.4 sworn FTE. In FY2012, the same data for Memphis yielded an average of 1 civilian FTE to 7.2 sworn FTEs.

Under a combined back office support for Police and Fire, it is reasonable to assume that the number of civilian staff in purely administrative functions could be reduced by as much as one-third. These savings could be achieved independent of the proposed civilianization of positions in the MPD. The analysis necessary for civilianization may yield additional positions where consolidation would be possible – producing still further savings.

Under this initiative, there would be a reduction of 35 positions through consolidation – with the equivalent of approximately 9 FTEs eliminated in Year 1 and the remainder eliminated in Year 2 and continued through the Plan. Savings are based on an average fully-loaded public safety civilian FTE cost of \$51,329.

<b>PS05.</b>	<b>Create Comprehensive Crime Reduction Plan</b>	
	<b>Target outcome:</b>	Crime reduction; improved accountability; cost reduction
	<b>Five-year financial impact:</b>	Plan will result in improved allocation or resources for crime reduction
	<b>Responsible party:</b>	Mayor, City Council, CAO, Police Director

Fundamentally, the best way to achieve savings in public safety costs in Memphis is to adopt a comprehensive, long term approach to crime reduction. A comprehensive crime reduction plan would focus on cost-effective elements of prevention as well as policing.

The comprehensive crime reduction plan would be built off of the crime reduction strategies outlined in *Operation: Safe Community*. Some of the strategies have been adopted and others have not been fully implemented for a variety of reasons.

The comprehensive crime reduction plan would identify critical challenges, including:

- Availability of firearms
- Levels of juvenile crime
- Activity by gangs
- Drug market activity
- Offenders returning to the community from prison or jail
- Incidence of family violence, including domestic violence and child abuse
- Incidence of substance abuse and addiction
- Police Community Relations

The Strategic Plan should identify citywide and geographically specific strategies to reduce crime that may include, but are not limited to:

- Continued utilization of data in decision-making and problem solving
- Partnerships with communities and other governmental and non-profit organizations
- Aligning deployment with crime reduction strategies

The work of *Operation: Safe Community*, along with efforts by the City such as the Bloomberg Initiative, and participation in efforts related to offender re-entry and the recently announced Memphis Gun Down, point to a recognition that policing is just one tool in the City's crime-fighting tool kit. Other crime reduction strategies have been proven to have a significant impact in the reduction of crime and – in most cases – are generally less expensive than hiring additional police officers.

From a cost perspective, at a minimum, if the City's work through the Bloomberg Initiative proves effective (and all indications point toward that occurring), it would cost the City approximately \$900,000 to fund key elements and costs associated with the current "as-is" program beginning in FY2015 when grant funding expires. If the City wishes to expand the program due to programmatic and policy successes, it could cost the City approximately \$1.1 million to nearly double the current operations.

A 2011 evaluation by the Washington State Institute for Public Policy (WSIPP) identified a series of crime prevention initiatives with a proven record of high return on investment. For example, according to WSIPP, a family-based therapy model designed for juveniles on probation produces benefits of \$37,739 per participant – a return on investment of \$11.86 per dollar invested. The benefits are generated primarily from reduced juvenile crime, but also contain labor market and health benefits due to increased likelihood of high school graduation. A portion of the projected savings is attributable to cost avoidance (those who were not victims of crime as a result of no recidivism) and savings to the government's budget.

With a comprehensive crime reduction plan, the City would be able to more strategically allocate dollars to programs seeking a common outcome – crime reduction. The result would likely be a more balanced approach that might maintain total overall funding at current levels, but maximize the effectiveness of funding through investments in non-policing strategies. Ideally, the City would have a single criminal justice budget that accounted for spending – and performance – across a full range of crime reduction activities.

<b>PS06.</b>	<b>Explore Alternatives for EMS</b>	
	<b>Target outcome:</b>	Service delivery elimination and cost reduction
	<b>Five-year financial impact:</b>	\$17.7 million
	<b>Responsible party:</b>	Fire Director

EMS systems across the country have adopted dramatically different ways of delivering emergency medical services. These models generally fall into four categories: fully-integrated fire, fire based with stand-alone EMS, third service and private service.

A fully integrated fire based system – the model that the MFD currently employs – is an all hazards system capable of responding to multiple different types of emergencies with a single force. These departments tend to see EMS as a natural extension of their public safety mission, as there has been a long-term decline in the number of fire emergencies.

Another model is for fire departments to have a semi-independent EMS division with single-role EMS trained responders that accompany firefighter first responders on emergency calls. These responders perform the traditional functions of a stand-alone EMS operation, such as on-scene patient care and transport. Under this system, there are different job titles and careers for firefighters and EMS personnel; however they exist under the same organization.

The third service model relies on a uniformed civilian city-operated EMS service that can operate as a city department, ambulance authority, or ambulance district. City governments typically provide funding, oversight, purchasing, maintenance, and other support functions for the EMS system.

Private service is one of the most commonly used models for EMS service delivery. Under this model, the department serves as the first responder and a competitively-selected private firm provides emergency medical care and transport. Private service generally functions in three models:

- Public utility model, which involves contracting the EMS function out to a nonprofit provider
- For-profit ambulance service with exclusive or nonexclusive contracts to provide EMS services within the city’s boundaries
- Hospital-based service, which involves emergency medical services provided by a local hospital, typically a large regional medical center

Nationally, 40 percent of respondents to the Journal of Emergency Medical Services annual 200-City Survey indicated that private service provides EMS services in their respective jurisdictions, followed by some type of fire-based service for 37 percent of respondents and third service or hospital based service for 21 percent of respondents.<sup>56</sup>

The following table presents a basic overview of the strengths and weaknesses associated with these models.

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<sup>56</sup> Ragone

## EMS System Design Overview

System	Strengths	Weaknesses
Fire Based Service	<ul style="list-style-type: none"> <li>Easier to deal with large scale emergencies and events</li> <li>Fully integrated first response and ambulance transport</li> <li>Economies of scale from multi-role personnel</li> <li>Single set of rules and pay for first responders and EMTs</li> <li>Integrated command and control</li> </ul>	<ul style="list-style-type: none"> <li>Less attention paid to medical and clinical issues potentially higher labor costs</li> <li>Less emphasis on performance</li> </ul>
Fire Based with Stand Alone EMS	<ul style="list-style-type: none"> <li>Easier to deal with large scale emergencies and events</li> <li>Allows specially-trained firefighters to provide high quality care to patients</li> <li>First response and ambulance transport integrated</li> <li>Some integration of command and control</li> <li>Leverages fire department assets on behalf of EMS</li> </ul>	<ul style="list-style-type: none"> <li>Fewer care advancement opportunities for EMS within Fire</li> <li>Separate work rules and agency culture for EMS within Fire</li> <li>Lack of equity between Fire and EMS personnel</li> <li>Potential EMS morale problems</li> <li>Bifurcated command structure</li> </ul>
Third Service	<ul style="list-style-type: none"> <li>Workforce focused on single mission</li> <li>Single set of rules for employees</li> <li>Heightened public awareness of EMS</li> <li>More scheduling flexibility and lower labor costs than fire-based option</li> </ul>	<ul style="list-style-type: none"> <li>Can lead to redundant administrative personnel and costs</li> <li>Inhibits seamless integration of first response and emergency medical care</li> <li>Can lead to on-scene conflicts over patient care</li> <li>Greater possibility of dispatch communications errors</li> <li>Less focus on performance than with private service</li> </ul>
Private Service	<ul style="list-style-type: none"> <li>Performance mandated by contract</li> <li>Can provide both emergency and nonemergency services</li> <li>Easier to implement peak demand staffing</li> <li>Capability to improve billing and collections</li> <li>Flexibility to engage other regional providers in regional approach</li> <li>Labor costs often lower than public options</li> <li>Lower overall cost structure</li> </ul>	<ul style="list-style-type: none"> <li>Can lead to increased ambulance fees</li> <li>Can lead to reductions in service</li> <li>May require city subsidy</li> <li>Reduced city control of EMS services</li> <li>Decrease in response capacity in the event of a disaster</li> <li>Limited number of qualified bidders</li> <li>Potential for lack of oversight</li> <li>Competition could reduce quality of care</li> <li>Accountability and transparency issues</li> </ul>

Though there are many advantages to the fire based service currently used by the MFD, it is an expensive model to operate. At \$36.4 million, funding for the EMS division comprises 24 percent of total budgeted department expenditures in FY2013 and is scheduled to require a General Fund subsidy of \$17.7 million. Given the City's challenging financial constraints, shifting to a private EMS model could lead to a significant amount of savings simply by reducing staffing over time. Shifting to a private model would require detailed and careful consideration, as well as emergency response expertise, beyond the scope of this report.

As the City considers the best model to provide EMS services, it must also take into consideration the potential impacts of the Patient Protection and Affordable Care Act, generally known as the Affordable Care Act (ACA). This landmark overhaul of America's health care system is likely to have a significant impact on EMS systems, though the exact outcomes are still unknown. In Memphis, the biggest issue to consider is the impact on Medicaid, since it appears that the bulk of the MFD's EMS workload is driven by individuals who do not have health insurance. There are four main issues that the City needs to consider:<sup>57</sup>

- What happens to insurance coverage in Memphis?: Based on 2011 data, Memphis has 134,473 non-elderly residents without health insurance, or 21 percent of the city's total population. It is likely that many of the individuals driving the MFD's EMS workload are part of the 21 percent of Memphians without insurance coverage. A 2010 analysis of the impact of the ACA on Shelby County by the University of Memphis and the Methodist Le Bonheur Center for Healthcare Economics projected a 51 percent increase in coverage for uninsured residents of Shelby County through eligibility changes that allow young adults to remain on their parents' insurance through

<sup>57</sup> McCallion, Teresa. *Healthcare Reform Seen as Unparalleled Opportunity for EMS*. Journal of Emergency Medical Services. August 17, 2012.

the age of 26, the expansion of Medicaid to cover qualifying individuals or the implementation of insurance exchanges where subsidized coverage can be purchased by low-income individuals.<sup>58</sup> Applying this projection specifically to Memphis, a 51 percent increase in the amount of coverage for those previously uninsured would result in approximately 68,581 newly insured non-elderly residents. This would result in approximately 65,892 remaining non-elderly residents without insurance coverage, or 10 percent of the city's total population.

- What happens to demand for service?: It is likely that the MFD is serving as the entry point to the health care system for many residents who do not currently have insurance coverage. As a result, calls for transport could decline over time as a greater portion of residents gain access to primary care and will not need to depend on EMS for access to medical care.
- What happens to Medicaid reimbursements?: While MFD senior leadership and national experts suggest that Medicaid does not cover the full cost of services, if the number of covered individuals in Memphis does increase, then it is quite possible that the MFD's 55 percent collection rate will improve.
- What will be the incentives for EMS providers?: According to Dr. Bill Atkinson, the CEO of the Wake Med health care system in North Carolina, "there seems to be universal consensus that there's going to be a move toward encouragement of prevention, wellness and primary care."<sup>59</sup> Medicare program rules that have been completed suggest that the quality of care provided will be important,<sup>60</sup> and emphasizing and measuring outcomes instead of response times would be a major shift for most fire departments nationally. Once details such as these become clear, it will provide much needed insight on whether a system that is almost completely responsive – such as the MFD's current model – will continue to make sense moving forward.

Based on data from 2010 to 2012, Memphis bills uninsured patients approximately \$16.2 million annually for EMS and has a collection rate of five percent. Assuming that half of those patients obtain Medicaid-like coverage, the City's collection rate would go up to 20 percent. Based on these assumptions and no change in utilization, annual collection would increase from approximately \$800,000 per year to \$2 million per year – or a net increase of \$6 million over five years.

For the purposes of costing, this initiative assumes that the first two years of the plan will be spent developing a plan to wind-down the MFD's EMS services and that a gradual elimination of the function will take place after that. This would result in the eventual reduction of approximately 375 Paramedic Firefighter positions – a reduction of 125 positions per year. In FY2013, the budgeted net expenditures for EMS transport – the amount of funding required by the General Fund to cover personnel and operating costs not covered by ambulance revenue – was \$17.7 million. Savings are based on holding this amount of budgeted expenditures constant and reducing EMS by 125 positions per year (roughly a third) during the last five years of the plan.

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<sup>58</sup> Chang, Gnuschke, et. al. Impacts of Health Reform in Shelby County, Tennessee. December 2010.

<sup>59</sup> Doyle, Jennifer. Health-Care Reform Will Impact EMS Revenues. Journal of Emergency Medical Services. May 21, 2010.

<sup>60</sup> Ragone

# High Performing Government

In order to make strategic investments in Memphis' future and truly become a city of choice, Memphis must reduce the cost of government. But the test for City government going forward should not just be whether it is spending more or less, but whether taxpayers are getting the service quality they demand at an affordable price. In other words, smaller government alone is not enough – the City should provide smarter, more efficient and more effective government.

This chapter reviews many of the non-public safety divisions of City government and details initiatives – both cutting across City government and specific to individual divisions – that aim to help the City improve operational efficiency, identify opportunities to reduce expenditures or raise new revenues, and make necessary investments that will lead to long-term savings.

## City Attorney

The City Attorney's Office provides legal research, opinions, and advice to all divisions of the City government. The division litigates on behalf of the City in lawsuits filed in all courts, agencies or commissions. It also provides advice and counsel on municipal processes and counsel regarding ordinances, resolutions, agreements, contracts and other legal documents. The division's units are organized in departments as follows:

- **City Attorneys:** responsible for providing all necessary legal support to the City – primary counsel to City divisions. Included within this division is the City Prosecutor function.
- **Claims:** receives, investigates, processes and resolves third-party claims filed against the City of Memphis and tracks and monitors lawsuits filed against the City and recovers claims on behalf of the City.
- **Risk Management:** identifies, plans, implements, and monitors exposures to losses in order to alleviate or reduce the amount paid which ultimately preserves and protects the City's financial assets.
- **Permits:** bills, collects and issues permits as mandated by controlling ordinances, monitors permit holder compliance with city ordinances and state law, and serves as the administrative office for both the Alcohol Commission and the Transportation Commission.
- **Grants Compliance:** provides comprehensive oversight of all City grants to ensure compliance and the proper administration of federal, state and private grant funds. Identifies grant opportunities and provides assistance to all city divisions with the processing of grant applications.
- **Ethics Office:** supports Ethics Board which has jurisdiction over all ethics complaints lodged against city employees and appointed officials (regardless of whether paid compensation).
- **Civilian Law Enforcement Review Board:** independent, non-police entity consisting of public appointed board members and one staff member that has authority to investigate accusations of misconduct by City police officers.

## Staffing

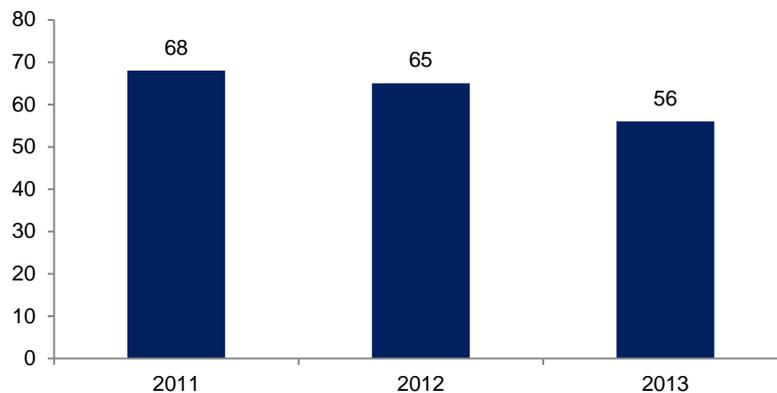
Staffing in the division is driven primarily by the legal staff of the office, the City Attorneys, which represent 64 percent of budgeted FTEs for FY2013. Included within the 36 city attorneys are the city prosecutor's staff of 4 FTEs. Permits and Claims account for 20 percent of FTEs. The remaining 16 percent of the division's FTEs are spread across Contract Compliance, Risk Management, Ethics and the Civilian Law Enforcement Review Board.

### City Attorney FTEs FY2013 Adopted Budget

Department	FTEs
City Attorney	36
Claims	6
Risk Management	3
Permits	5
Grants Compliance	4
Ethics Office	1
Civilian Law Enforcement Review Board	1
<b>Total</b>	<b>56</b>

The division uses legal interns to help alleviate some of the demand placed on its staff attorneys. Currently, the division uses upwards of 30 legal interns to assist in operations. The division also places several "in-house" attorneys on site within various high-need divisions, such as the Police Division and Housing and Community Development. Recent division staffing trends, like those of many other city divisions, saw the division doing more with less as available resources became increasingly scarce, decreasing the division's headcount by 13 FTEs in the last three fiscal years.

### City Attorney FTEs, FY2011-FY2013



Source: City of Memphis – FY2013 Adopted Budget

## Budget

The division's FY2013 budget does not assume any revenue generation. Historical revenue was principally generated from property insurance recoveries.

### City Attorney Revenues – FY2008 to FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Property Insurance and Other Revenues	\$418,577	\$421,405	\$433,244	\$248,245	\$468,356	-
All Other	\$1,292	-	(\$355)	-	-	-
<b>Total</b>	<b>\$419,869</b>	<b>\$421,405</b>	<b>\$432,889</b>	<b>\$248,245</b>	<b>\$468,356</b>	<b>\$0</b>

The division's expenditures are driven primarily by employee wages and benefits, which when combined represent 92 percent of the division's FY2012 net expenditures. From FY2008 to FY2012, the division's total expenditures declined 8 percent from \$10 million to \$9.2 million, and cost recovery declined 79 percent from \$4.9 million to \$1.0 million, resulting in net expenditure growth of 59 percent.

### City Attorney Expenditures – FY2008 to FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Personnel Services	\$4,023,726	\$4,438,811	\$4,689,022	\$4,892,995	\$4,284,173	\$4,309,140
Materials and Supplies	\$9,920,924	\$13,350,116	\$9,816,958	\$10,084,778	\$9,841,703	\$5,371,916
Grants and Subsidies	\$0	\$0	\$0	\$0	\$0	\$0
Capital Outlay	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$13,944,650</b>	<b>\$17,788,928</b>	<b>\$14,505,980</b>	<b>\$14,977,773</b>	<b>\$14,125,876</b>	<b>\$9,681,056</b>

## City Court Clerk

The City Court Clerk maintains records pertaining to the office and the courts. This division, under the direction of an elected Court Clerk, also manages the Traffic Violations Bureau (TVB), which is responsible for collecting traffic violation fines and fees and providing outstanding ticket information to the State and other departments. The City Court Clerk provides three divisions of the City Court with dockets for citizens' hearings in open court. The division consists of the following departments:

- **Court Clerk & TVB:** responsible for the collection of all fines, costs, and fees assessed against tickets issued by the City of Memphis Police officers and the disbursement of these payments to the proper accounts.
- **Red Light Camera:** installation of red light cameras to improve the safety on roadways by decreasing red-light running, resulting in fewer collisions and injuries

### Staffing

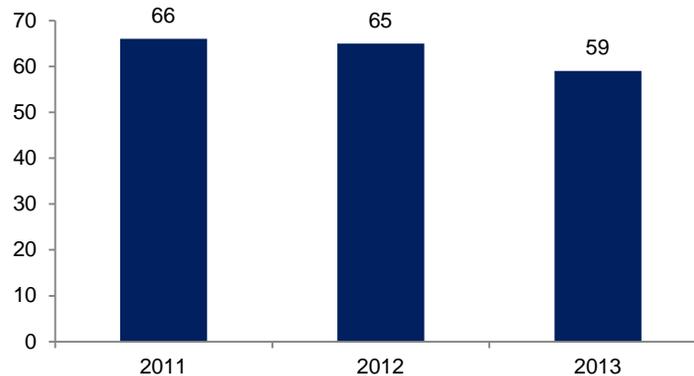
Staffing in the division is primarily driven by the City Court Clerk & TVB, which represents 95 percent of budgeted FTEs for FY2013. The other 5 percent of FTEs serve in the Red Light Camera department.

### Division FTEs, FY2013 Adopted

Department	FTEs
City Court Clerk & TVB	56
Red Light Camera	3
<b>Total</b>	<b>59</b>

The Clerk's staff is primarily organized to collect revenue associated with court and ticket fees, fines and other charges. Staffing demand appears to be at least partially driven by technological challenges that are currently being addressed with the implementation of a new information system developed to better track and maintain data regarding outstanding fine/fee assessments and payments.

### City Court Clerk FTEs, FY2011-FY2013



Source: City of Memphis – FY2013 Adopted Budget

### Budget

The Court Clerk's revenues consist primarily of fines and forfeitures, with an annual average of approximately \$1.6 million. Revenue generated from the charges for services refers to revenue from credit card fees.

### Court Clerk Revenues FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Charges for Services	-\$7,216	-\$10,105	-\$22,453	\$76	\$0	\$0
Other Revenues	\$7,722	\$4,561	\$2,868	\$2,614	\$2,951	\$0
Fines and Forfeitures	-\$767	\$0	\$1,097,081	\$2,079,060	\$1,617,014	\$1,400,000
<b>Total</b>	<b>-\$262</b>	<b>-\$5,544</b>	<b>\$1,077,496</b>	<b>\$2,081,749</b>	<b>\$1,619,965</b>	<b>\$1,400,000</b>

The Court Clerk's expenditures are driven primarily by personnel services, which represented 67 percent of the division's FY2012 net expenditures. The Court Clerk was budgeted to spend approximately \$1.4 million in outside professional services in FY2013, comprising the majority of the Clerk's spending in material and supplies.

### Court Clerk Expenditures FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Personnel Services	\$2,868,418	\$3,021,280	\$2,933,044	\$3,081,946	\$3,062,730	\$2,997,734
Materials and Supplies	\$398,179	\$344,785	\$1,093,022	\$1,593,174	\$1,488,528	\$1,759,619
Grants and Subsidies	\$0	\$0	\$0	\$0	\$0	\$0
Capital Outlay	\$126,674	\$11,697	\$15,559	\$0	\$0	\$0
<b>Total</b>	<b>\$3,393,271</b>	<b>\$3,377,762</b>	<b>\$4,041,625</b>	<b>\$4,675,120</b>	<b>\$4,551,258</b>	<b>\$4,757,353</b>

## Engineering

The Engineering Division is responsible for the engineering and project management for planning, design and construction of public infrastructure projects, such as construction of streets and bridges, traffic signals and City facilities. The departments within the division are organized as follows:

- **Civil Design and Administration:** includes the City Engineer and other personnel that are responsible for the fiscal and operational management of the division, as well as the City Engineer for Civil Design, Senior Engineers, Coordinators and other staff that provide design for public construction projects and review of private development projects.
- **Building Design and Construction:** includes the Project Managers and other staff that manage construction projects for other City departments.
- **Mapping and Property:** includes Engineers that maintain the official mapping records for the City.
- **Construction Inspections:** includes the Construction Inspectors who review all construction activities in public “rights-of-way.”
- **Traffic Engineering:** includes the Engineers that are responsible for the design and operation of the City’s traffic control devices and the Parking Enforcement Technicians that are responsible for the City’s parking meters.
- **Sewer Design:** includes the Engineers and Inspectors that provide sewer design services and review development plans that impact the City’s sanitary sewer collection system.
- **Drainage Design:** includes the Engineer that provides drainage design services and review development plans that impact the City’s storm water collection system.
- **Signs and Markings:** includes the Painters that maintain the City’s street signs and street markings.
- **Signal Maintenance:** includes the Signal Technicians and Signal Aides that maintain the City’s traffic signals.

## Staffing

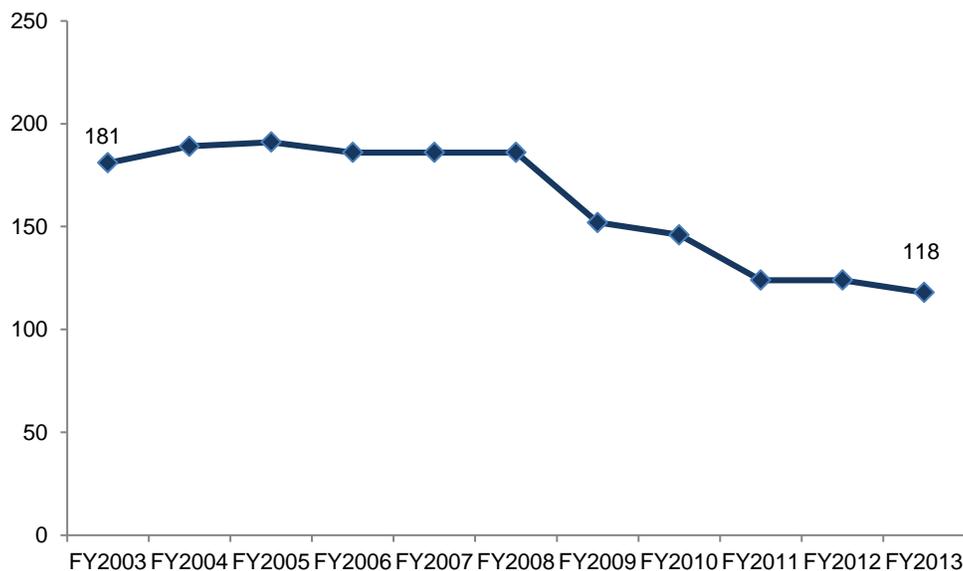
Staffing in the division is driven primarily by Signal Maintenance and Signs and Markings, which each represent 21 percent of budgeted FTEs for FY2013. Fifteen percent of FTEs serve in Traffic Engineering, 13 percent in Construction Inspections and 13 percent in Civil Design and Administration. The remaining 16 percent of the division’s FTEs are spread across Sewer Design, Building Design and Construction, Mapping and Property, and Drainage Design.

### Division FTEs, FY2013 Adopted

Department	FTEs
Civil Design and Administration	17
Building Design and Construction	5
Mapping and Property	3
Construction Inspections	17
Traffic Engineering	20
Sewer Design	11
Drainage Design	3
Signs and Markings	28
Signal Maintenance	28
<b>Total</b>	<b>132</b>

The division's staffing is related to demand, so as public and private construction projects have declined as a result of the recession, so has the division's staffing. The division has experienced a 35 percent decline in General Fund FTEs from FY2003 to FY2013, with the most significant decrease occurring from FY2008 to FY2009. In some areas with relatively low demand, such as Drainage Design, the division has used part-time employees as well.

### City Engineer FTEs, FY2003-FY2012



Source: City of Memphis – Comprehensive Annual Financial Report, FY2012  
 Note: does not include Drainage Design and Sewer Design FTEs which are supported by the Storm Water Fund and Sewer Fund

### Budget

Revenue generated from the City's 1,237 parking meters averaged roughly \$460,000 annually from FY2008 to FY2011. The division also generates revenue from fees for activities such as conducting street cut inspections, issuing sidewalk permits, and performing signal maintenance for surrounding jurisdictions. Overall, the division's revenues declined 45 percent from \$1.6 million in FY2008 to \$0.9 million in FY2012.

### Revenues, FY2008 – FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate	FY2013 Budgeted
Parking Meters	\$476,873	\$429,267	\$462,960	\$453,529	\$-	\$-
Street Cut Inspection Fee	\$227,828	\$218,060	\$236,982	\$294,498	\$256,419	\$250,000
Traffic Signals	\$233,198	\$156,779	\$256,851	\$275,534	\$220,426	\$200,000
Subdivision Plan Inspection Fee	\$309,886	\$125,894	\$95,920	\$87,674	\$155,992	\$90,000
St TN Highway Maintenance Grant	\$112,533	\$151,540	\$155,064	\$52,600	\$119,585	\$95,000
Sidewalk Permit Fees	\$191,295	\$138,618	\$76,381	\$25,490	\$79,188	\$88,000
Sale Of Reports	\$17,428	\$12,645	\$11,354	\$22,523	\$9,289	\$14,363
Signs-Loading Zones	\$18,106	\$15,876	\$21,659	\$16,052	\$24,428	\$15,000
Arc Lights	\$4,823	\$1,767	\$1,015	\$3,674	\$3,786	\$4,000
Miscellaneous Income	\$100	\$-	\$-	\$562	\$7	\$-
MLG&W Rent	\$-	\$400	\$200	\$-	\$2,400	\$2,400
Court Reimbursement	\$-	\$97	\$100	\$-	\$-	\$-
<b>Total</b>	<b>\$1,592,070</b>	<b>\$1,250,943</b>	<b>\$1,318,486</b>	<b>\$1,232,137</b>	<b>\$871,518</b>	<b>\$758,763</b>

The division's expenditures are driven primarily by employee wages and benefits, which combined represent a combined 92 percent of the division's FY2012 net expenditures. From FY2008 to FY2012, the division's total expenditures have declined 8 percent from \$10 million to \$9.2 million.

### Expenditures, FY2008 – FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate	FY2013 Budgeted
Wages	\$7,044,344	\$7,473,430	\$7,337,483	\$7,150,718	\$6,224,199	\$6,157,172
Benefits	\$1,257,734	\$1,454,492	\$1,390,209	\$1,655,605	\$1,310,126	\$1,395,931
Other	\$1,722,411	\$2,115,381	\$1,602,346	\$1,773,116	\$1,660,433	\$1,785,782
Expense Recovery	\$(4,878,710)	\$(4,819,043)	\$(5,003,152)	\$(4,598,332)	\$(1,028,084)	\$(1,031,000)
<b>Total</b>	<b>\$5,145,779</b>	<b>\$6,224,261</b>	<b>\$5,326,886</b>	<b>\$5,981,107</b>	<b>\$8,166,675</b>	<b>\$8,307,885</b>

### Findings

#### *Reduction in Staffing Has Impacted Service Delivery*

As the division's staffing has been reduced over recent years, it has experienced a similar reduction in production. For example, the Signs and Markings unit has shifted from a three-year repainting cycle to essentially focusing on "big yellow lines," while crosswalks, stop bars and other markings are generally not repainted until the City receives complaints. In particular, the division's ability to deliver services at previous levels for Signs and Markings and Signal Maintenance – all of which are performed by in-house crews – has been squeezed as staffing has been reduced.

#### *Large-Scale Staff Retirements Looming*

Looking ahead, a sizable portion of the division's staff are either currently eligible for retirement or already enrolled in the City's DROP program. As of August 2012, 13 staff members were retirement eligible and 16 staff members are enrolled in DROP, which will require their retirement no later than July 2014.

Combined, these two groups of personnel represent 22 percent of the division's current staffing. This potential reduction in staffing is particularly significant for the division because engineering and inspection jobs require a significant amount of on-the-job training and experience before employees are independently operating at a high level. Currently there is no succession plan for the division.

#### *Lack of Technology Impacts Recordkeeping*

The division's Mapping and Property unit serves as the City's record-keeper for infrastructure-related plans of all types. The unit is still very reliant on hard copies, though the division has begun a process of scanning hard copies so the documents can eventually be available electronically. Ensuring that infrastructure recordkeeping is both accurate and easily accessible is important for divisions throughout City government, including emergency response crews that need to understand the specific details of the infrastructure below and around them when responding to an emergency.

## **Finance and Administration**

The Finance and Administration (Finance) Division's responsibilities include preparation and maintenance of accounting records and financial reports, including budgets; disbursement of payments to employees/retirees, vendors, contractors and others; procurement of materials, products and construction services; implementation of the City's performance-based budgeting and accountability initiative; investment of the City's cash and pension funds; debt management; and effective management of tax and other revenue collections. The division is structured as follows:

- **Administration:** prepares and monitors scheduled debt payments to custodian banks and third party payees from the City; administers all transactions related to compliance with federal arbitrage rules and regulations; works with the outside consultants who calculate the arbitrage rebate liability as it pertains to the investment of bond proceeds; prepares invoices for various vendors; administers the preparation of bond sale and closing documents with financial advisor and bond counsel and provides effective customer service to the citizens of Memphis in all Treasury and related operations.
- **Prevailing Wages:** monitors the City of Memphis Prevailing Wage Policy in accordance with City of Memphis Ordinance to ensure that all contractors and workers employed on City of Memphis qualified projects will be treated equitably and fairly, and will be compensated.
- **Financial Accounting – Government Activities:** maintains the financial transactions associated with primary government accounts, such as the expenditures of General Fund resources by divisions.
- **Accounts Payable:** responsible for monitoring and issuing payment to vendors for goods and services delivered to the City.
- **Payroll:** prepares paychecks for City employees and ensures proper deductions and withholdings of taxes, premium shares and other monies as appropriate.
- **Records Management:** responsible for the organization and maintenance of transactional records and payee accounts.
- **Financial Accounting – Business Type Activities:** maintains the financial transactions associated with specialty, business-type accounts – such as the City's enterprise accounts.
- **Purchasing:** procures materials, products and services for the City of Memphis while adhering to the procurement laws of the State of Tennessee and the City Charter.

- **Budget Office:** preparation and presentation of the City's operating and capital budgets; develops and communicates the key budget assumptions and guidance for budget development by the City's Operating Divisions and Agencies, identifying specific tasks and deadlines for producing the Adopted Budget as mandated by City Ordinance; coordinates the compilation of data, publication of final Budget documents and submission of documents to the State Comptroller.
- **Debt Management:** considers and implement debt solutions.
- **Operations/Collections/Investment – Treasury:** maximizes collections with optimal utilization of resources, while providing effective customer service to the citizens of Memphis in all Treasury and related operations.

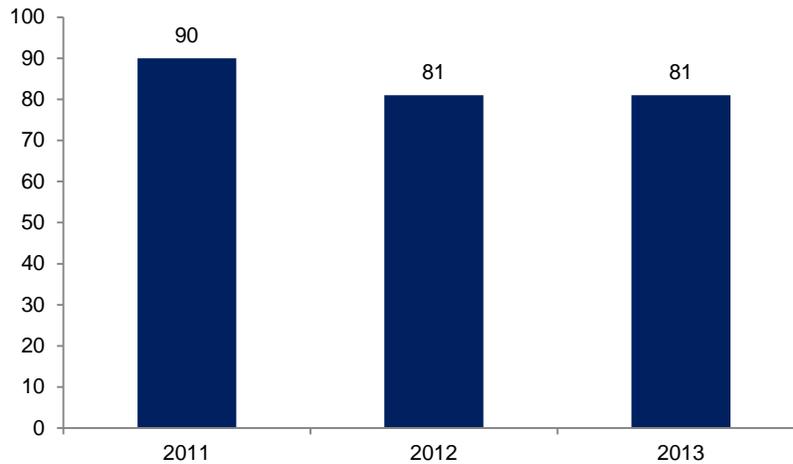
### Staffing

Staffing in the Division of Finance is driven primarily by the Purchasing and Operations / Collections / Investment - Treasury, which represent 37 percent of budgeted FTEs for FY2013 (17 FTEs in total). The City's purchasing office has 11 FTEs dedicated to procurement activities for City goods and services from outside vendors.

#### Finance and Administration Division FTEs FY2013 Adopted

Department	FTEs
Administration	3
Prevailing Wages	2
Financial Accounting – Government Activities	7
Accounts Payable	7
Payroll	6
Records Management	3
Financial Accounting – Business Type Activities	7
Purchasing	11
Budget Office	7
Debt Management	4
Operations/Collections/Investment - Treasury	17
Financial & Strategic Planning Office	1
<b>Total</b>	<b>75</b>

### Finance and Administration FTEs FY2011-FY2013



Source: City of Memphis – FY2013 Adopted Budget

### Budget

The Finance and Administration division does not generate significant revenue. In FY2013, the division was projected to generate only \$10,000 in revenue, generally from rezoning ordinance publication fees. Historically, the division has generated revenue from credit card fees.

### Finance and Administration Revenues FY2008–FY2013

Finance & Admin.	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Charges for Services	\$111,966	\$132,334	\$25,266	\$0	\$0	\$0
Other Revenues	\$11,349	\$33,238	\$22,741	\$23,307	\$13,319	\$10,000
<b>Total</b>	<b>\$123,315</b>	<b>\$165,572</b>	<b>\$48,007</b>	<b>\$23,307</b>	<b>\$13,319</b>	<b>\$10,000</b>

The division's expenditures are driven primarily by personnel services, which represent 82 percent of the division's FY2012 net expenditures. The division's personnel services expenditures increased 15.5 percent from FY2008 to FY2012, while the division's overall expenditures grew by only 0.6 percent during the same period.

### Finance and Administration Expenditures FY2008–FY2013

Finance & Admin.	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Personnel Services	\$3,320,292	\$3,840,709	\$4,183,592	\$4,331,095	\$3,833,736	\$3,816,514
Materials and Supplies	\$1,307,056	\$1,300,281	\$834,776	\$865,120	\$818,812	\$948,944
Grants and Subsidies	\$0	\$0	\$0	\$0	\$0	\$0
Capital Outlay	\$0	\$0	\$213	\$0	\$3,751	\$0
<b>Total</b>	<b>\$4,627,348</b>	<b>\$5,140,990</b>	<b>\$5,018,581</b>	<b>\$5,196,215</b>	<b>\$4,656,299</b>	<b>\$4,765,458</b>

### General Services

The Division of General Services provides maintenance and repair for buildings and vehicles and other crucial support services for the Administration, City divisions, and other governmental organizations in a cost-effective and efficient manner to assist them in accomplishing the City's mission. The division's units

are organized into the following departments:

- **Administration:** responsible for general direction and oversight of all division operations, management and personnel.
- **Property and Maintenance:** provides maintenance and repairs to over 250 City-owned facilities; administers warranties for City facilities; reviews, comments and makes recommendations on all plans regarding new construction and major repairs; and provides preventive maintenance to facilities.
- **Real Estate:** assists the Administration, other divisions, agencies and service centers in providing analyses involving feasibility studies, preparation of land valuations and direction in accomplishing planned projects; acquiring real property or interests in real property, including in-leasing of land and improvements and management of real property; and sale of surplus City parcels.
- **Fleet Maintenance:** maintains the City's automobile fleet – including performing repairs, fleet procurement, and dispensing of fuel (*note: Fleet Maintenance is funded through an Internal Service Fund and not the General Fund*).
- **City Hall Operation:** maintains City Hall, including City Council Chamber, Council committee room and offices.
- **Printing and Mail:** responsible for City print jobs, inter-office delivery and postal mail, administers the copier contract, and handles the purchasing of all paper for City divisions.
- **Park Operations:** responsible for cutting 166 Parks with a total of 3,219 acres, seventeen Libraries, twenty-eight local Community Centers and four Senior Centers, and 162 medians.
- **Motor Vehicle Inspection Bureau:** operate four Inspection facilities and conduct Weights and Measures inspections annually.

### Staffing

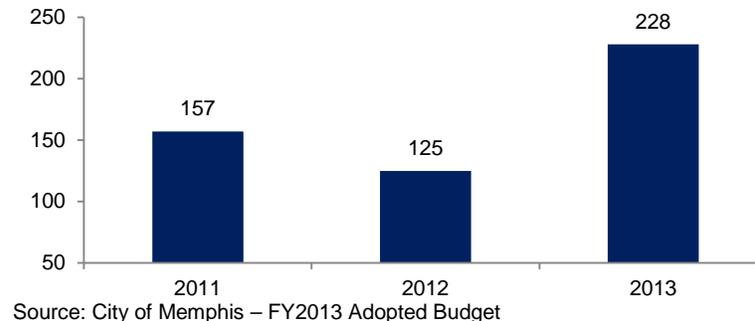
Staffing in the Division of General Services is driven primarily by Property and Maintenance, which represents 37 percent of budgeted FTEs for FY2013. This function was assumed from Parks and Neighborhoods and caused a staffing increase in the General Services Division – with an equal decrease in Parks and Neighborhoods Division staffing.

#### Division FTEs, FY2013 Adopted

Department	FTEs
General Services Administration	7
Property and Maintenance	85
Real Estate	5
City Hall Operation	15
Printing Services	10
Park Operations	60
Motor Vehicle Inspections	46
<b>Total</b>	<b>228</b>

The division absorbed Park Operations and the Motor Vehicle Inspections into their FY2013 budget, which explains the 63 percent increase in FTEs in FY2013. Park Operations and Motor Vehicle Inspections combined account for 46 percent of the total number of FTEs for the division.

### General Services FTEs, FY2011-FY2013



### Budget

### General Services Revenues FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Local Taxes	\$927,158	\$456,692	\$565,720	\$644,514	\$584,678	\$444,842
Charges for Services	\$132,472	\$2,130,167	\$2,048,308	\$1,939,286	\$189,612	\$1,797,436
Other Revenue	\$0	(\$38)	(\$401)	\$32,160	\$0	\$0
State Grants	\$0	\$0	\$0	\$0	\$0	\$111,372
<b>Total</b>	<b>\$1,059,629</b>	<b>\$2,586,821</b>	<b>\$2,613,627</b>	<b>\$2,615,960</b>	<b>\$774,291</b>	<b>\$2,353,650</b>

Fiber optic franchise fees comprise the division’s revenue categorized as local taxes. Other revenue is predominantly from recovery of prior year expenses.

The division’s expenditures are driven primarily by personnel services, but also consist of significant spending on materials and supplies. The notable increase in FY2013 personnel services is due to the division’s addition of parks maintenance responsibilities and associated FTEs.

### General Service Expenditures FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Personnel Services	\$6,793,264	\$7,110,858	\$7,319,431	\$8,625,842	\$7,035,096	\$14,581,556
Materials and Supplies	\$3,870,321	\$5,237,149	\$4,409,992	\$4,301,707	\$4,520,757	\$7,883,145
Grants and Subsidies	\$0	\$0	\$0	\$0	\$0	\$0
Capital Outlay	\$170,017	\$0	\$325	\$13,450	\$0	\$0
<b>Total</b>	<b>\$10,833,602</b>	<b>\$12,348,007</b>	<b>\$11,729,747</b>	<b>\$12,940,999</b>	<b>\$11,555,853</b>	<b>\$22,464,701</b>

## Parks and Neighborhoods

The Division of Parks and Neighborhoods is responsible for a wide range of community oriented services, including the management, programming and operations of the City's community and senior centers, golf courses, animal shelter and libraries. The division also serves as a liaison to a diverse group of community organizations and houses personnel that serve in multi-jurisdictional outreach entities. The departments within the division are organized as follows:

- **Administration:** includes the Director, Deputy Directors, and other staff that are responsible for the performance and fiscal management of the division.
- **Park Facilities:** includes the City funded personnel that serve at the Pink Palace Museums, including the Nature Center and Historic Homes.
- **Recreation:** includes the Deputy Director, Community Center Directors, Assistant Community Center Directors, Custodians and other staff that are responsible for the operations, programs and other services provided at the City's 24 community centers.
- **Golf:** includes the Golf Enterprise Administrator, Golf Supervisors, Golf Course Maintenance Foremen and other staff responsible for management and operations of the City's eight golf courses.
- **Special Services:** includes staff that operates the Office of Community Affairs, which interacts with neighborhood and civic associations, multicultural and immigrant populations, faith-based organizations and related community groups, as well as personnel that serve in the Memphis and Shelby County Music Commission and the Memphis and Shelby County Office of Re-Entry.
- **Animal Shelter:** includes the Administrator, Animal Services Officers, Animal Care Technicians and other staff that operates the City's animal shelter and provides related animal services, such as pet adoption, for both the City and Shelby County.
- **Libraries:** includes the Director, Librarians, Clerks and other staff that are responsible for the management, operations and services provided at the City's 18 public libraries.

The division is also responsible for coordination of the City's funding of the Fairgrounds, Zoo and Brooks Museum of Art. In FY2013, the division was in its first operational year after the merger between what were formerly the Parks Services Division – which comprised the current Parks Facilities, Recreation and Golf service centers, as well as responsibility for coordinating with City funded museums and related entities – and the Public Services and Neighborhoods Division – which comprised the current Office of Community Affairs, Office of Re-Entry, Music Commission, Animal Shelter and Libraries.

### Staffing

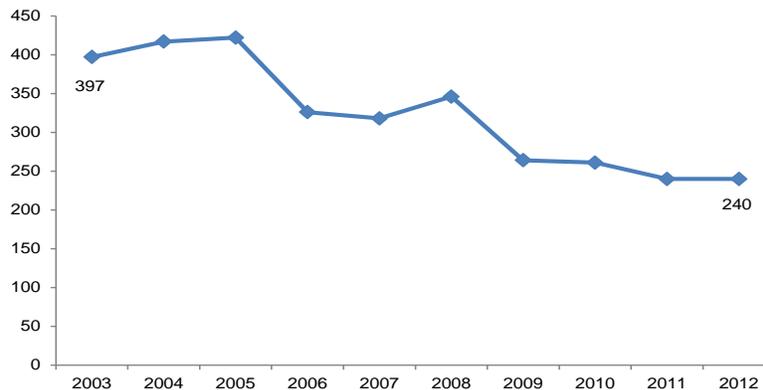
Staffing in Parks and Neighborhoods is driven by Library personnel, which until FY2013 was classified under the Public Services Division, representing 57 percent of the division's total FTEs in FY2013. Staff members in Recreation comprise the next largest unit within the division, at 18 percent of personnel, followed by the Animal Shelter at 10 percent of the division's staff. Seven percent of the division's FTEs work in one of the City funded park facilities and the remaining 8 eight percent serve in the Administration, Golf or Special Services units.

### Funded Division FTEs, FY2013 Adopted

Department	FTEs
Administration	15
Park Facilities	32
Recreation	84
Golf	14
Special Services	7
Animal Shelter	45
Libraries	263
<b>Total</b>	<b>460</b>

Due to the recent restructuring of the division and the complex classification of employees that serve in the division, it is difficult to look at staffing trends based on the division's current structure. However, the City does have data that shows trends in the total FTEs assigned to "culture and recreation", which can serve as a barometer for parks and recreation staffing (likely excluding animal services and library personnel). Using data found in the City's FY2012 Comprehensive Annual Financial Report, the number of FTEs dedicated to culture and recreation services declined by 157 positions from FY2003 to FY2013, a 40 percent decline.

### Culture and Recreation FTEs, FY2003–FY2012



Source: City of Memphis, Comprehensive Annual Financial Report FY2012

### Budget

From FY2008 to FY2012, the revenues for Parks Services were primarily driven by revenues generated by the City's golf courses. During this period, greens fees averaged \$1.5 million and fees, golf cart fees and concessions each averaged an additional \$0.9 million. Though Parks Services revenue fluctuated a fair amount during this period, it experienced an overall increase of 4 percent from FY2008 to FY2012.

During this same period, revenues for Public Services were comprised mainly of Library and Animal Shelter fees. The City of Bartlett provides funding for the Bartlett Library, which averaged \$1 million. Library fees and fines, which averaged \$0.7 million, experienced a 35 percent decline. Dog license fees, which averaged \$0.3 million, increased 6 percent while shelter fees declined 31 percent. Overall, Public Services revenue declined 28 percent from FY2008 to FY2012.

In FY2013, Parks and Neighborhoods revenues were budgeted at \$8.7 million. This total represents a 12 percent decline from the \$9.8 million in combined Parks Services and Public Services revenue in FY2012.

### Parks Services Revenues, FY2008–FY2012

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate
Green Fees	\$1,645,791	\$1,312,813	\$1,411,248	\$1,526,971	\$1,796,382
Golf Car Fees	\$647,125	\$956,395	\$956,567	\$953,055	\$1,197,152
Concessions	\$966,837	\$357,453	\$1,626,623	\$293,515	\$1,143,756
Rental Fees	\$1,189,451	\$283,707	\$1,948,211	\$304,668	\$708,290
Parking	\$214,665	\$(1,955)	\$305,642	\$-	\$351,898
Local Shared Revenue	\$103,581	\$75,401	\$255,840	\$327,889	\$220,563
All Other	\$1,665,874	\$1,673,455	\$1,511,082	\$2,694,420	\$1,257,200
<b>Total</b>	<b>\$6,433,323</b>	<b>\$4,657,270</b>	<b>\$8,015,213</b>	<b>\$6,100,545</b>	<b>\$6,675,240</b>

### Public Services Revenues, FY2008–FY2012

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate
City of Bartlett	\$1,051,233	\$979,023	\$1,019,657	\$992,334	\$1,035,265
Library Fees and Fines	\$903,195	\$740,791	\$711,145	\$673,249	\$583,191
Local Shared Revenue	\$705,232	\$607,683	\$651,169	\$634,334	\$376,726
Dog License	\$305,516	\$341,576	\$279,563	\$316,780	\$323,673
Weights/Measures Fee	\$201,886	\$248,365	\$168,679	\$144,241	\$239,659
Shelter Fees	\$201,376	\$175,238	\$155,340	\$142,177	\$139,475
State Reimbursement	\$553,999	\$474,573	\$(26,308)	\$-	\$-
All Other	\$550,519	\$329,990	\$414,818	\$484,178	\$514,092
<b>Total</b>	<b>\$4,472,954</b>	<b>\$3,897,238</b>	<b>\$3,400,450</b>	<b>\$3,387,294</b>	<b>\$3,212,081</b>

### Parks and Neighborhoods Revenues, FY2013

Source	2013 Budgeted
Green Fees	\$1,605,000
Outside Revenue	\$1,579,758
Golf Car Fees	\$1,052,976
City of Bartlett	\$1,034,000
Local Shared Revenue	\$706,709
Library Fines & Fees	\$500,000
Concessions	\$323,200
Rental Fees	\$322,500
Dog License	\$274,965
Admissions - General	\$269,900
Day Camp Fees	\$212,700
Shelter Fees	\$181,239
All Other	\$680,327
<b>Total</b>	<b>\$8,743,274</b>

From FY2008 to FY2012, expenditures in Parks Services were led by employee wages and benefits, which when combined averaged 52 percent of total annual expenditures during this period. Other significant expenditure items included utilities, which averaged \$3.2 million and professional services, which averaged \$3.1 million. Overall expenditures for Park Services declined eight percent during this period.

#### Parks Services Expenditures, FY2008–FY2012

Item	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Estimate
Wages	\$13,437,113	\$13,772,759	\$12,603,354	\$12,621,631	\$12,714,075
Benefits	\$2,457,347	\$2,674,379	\$2,378,040	\$2,628,923	\$2,588,497
Utilities	\$3,305,036	\$3,147,373	\$3,099,913	\$3,281,361	\$3,152,773
Professional Services	\$2,798,925	\$2,049,400	\$4,184,595	\$3,277,446	\$3,408,374
Rent	\$667,771	\$910,477	\$981,383	\$698,420	\$1,221,139
Shop Charges	\$1,647,648	\$1,476,937	\$1,388,426	\$1,055,410	\$1,529,035
All Other	\$7,465,843	\$6,236,249	\$5,709,644	\$5,382,014	\$4,654,321
<b>Total</b>	<b>\$31,779,683</b>	<b>\$30,267,574</b>	<b>\$30,345,355</b>	<b>\$28,945,204</b>	<b>\$29,268,215</b>

From FY2008 to FY2012, expenditures in Public Services also were driven primarily by employee wages and benefits, which averaged 74 percent of total annual spending. Utilities, which averaged \$1.4 million, a 23 percent increase, and spending on library books, which averaged \$1 million, a ten percent decline, were other major cost drivers. Overall, Public Services expenditures increased six percent from FY2008 to FY2012.

#### Public Services Expenditures, FY2008–FY2012

Item	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate
Wages	\$13,388,951	\$14,149,233	\$13,630,493	\$13,802,325	\$13,213,841
Benefits	\$2,658,763	\$2,739,423	\$2,828,575	\$3,149,100	\$3,170,749
Utilities	\$1,284,281	\$1,368,214	\$1,363,382	\$1,448,422	\$1,581,128
Library Books	\$1,080,037	\$1,155,902	\$980,160	\$1,046,959	\$974,154
Security	\$673,204	\$765,004	\$765,981	\$885,689	\$783,477
Janitorial Services	\$655,378	\$678,072	\$682,838	\$697,356	\$620,738
All Other	\$1,886,770	\$1,701,205	\$1,569,376	\$1,630,829	\$2,599,334
<b>Total</b>	<b>\$21,627,383</b>	<b>\$22,557,054</b>	<b>\$21,820,804</b>	<b>\$22,660,681</b>	<b>\$22,943,421</b>

In FY2013, Parks and Neighborhoods expenditures were budgeted at \$43.3 million, with employee wages and benefits representing 58 percent of total expenditures. \$43.3 million in expenditures represents a 17 percent decline from the \$52.2 million combined Parks Services and Public Services expenditures in FY2012.

## Parks and Neighborhoods Expenditures, FY2013

Item	FY2013 Budgeted
Wages	\$20,471,241
Benefits	\$4,816,836
Utilities	\$4,309,376
Professional Services	\$2,649,503
Security	\$1,196,586
Library Books	\$989,290
Janitorial Services	\$897,585
Rent	\$735,750
All Other	\$7,232,195
<b>Total</b>	<b>\$43,298,362</b>

### Findings

#### *Division's Restructuring Results in Mixed Mission*

After the merger of Parks Services and Public Services, the Parks and Neighborhoods Division functions as a "catch all" division without a clear vision and mission. Service centers such as Libraries, Recreation and Animal Services do not have similar organizational missions or operational structures. This can present challenges for senior leadership, because the skills and expertise required to successfully manage an animal shelter are not necessarily the same set of skills required to successfully manage 24 community centers. In terms of staffing, the division will be able to present a suggested organizational structure for the FY2014 budget based on its experience in FY2013.

#### *Golf Course Revenue Does Not Cover Expenditures*

The City's eight golf courses require a subsidy because the revenue generated through fees and concessions do not cover operational and staffing costs. In FY2013, total budgeted expenditures of \$3.7 million are greater than \$3 million in budgeted revenues, requiring an anticipated subsidy of \$0.7 million. In FY2011, the golf courses required a \$1.2 million subsidy and in FY2012 the subsidy was forecasted at \$1.4 million.

#### *Varying Utilization Across Community Centers*

There is a varying level of attendance across the City's 24 community centers (management and operations of four community centers have been outsourced to a local nonprofit organization and do not have attendance data). Overall, community center attendance increased 10 percent from FY2011 to FY2012, from 1.6 million to 1.8 million system-wide.

### Community Center Attendance Count, FY2011-FY2012

Community Center	Area	FY2011 Total	FY2011 %	FY2012 Total	FY2012 %	FY2011-FY2012 % Change
Hickory Hill	South-East Memphis-Cordova	248,277	15%	358,595	20%	44%
Bert Ferguson	South-East Memphis-Cordova	266,120	16%	223,154	12%	-16%
Gaisman	North Memphis-Frayser Raleigh	73,054	5%	149,319	8%	104%
Ed Rice	North Memphis-Frayser Raleigh	121,950	8%	108,799	6%	-11%
Lester	Downtown-Midtown	86,597	5%	108,551	6%	25%
Hollywood	North Memphis-Frayser Raleigh	58,749	4%	81,457	5%	39%
Davis	South-East Memphis-Cordova	72,339	4%	76,776	4%	6%
Orange Mound	Downtown-Midtown	68,790	4%	66,465	4%	-3%
Bickford	Downtown-Midtown	59,907	4%	63,354	4%	6%
McFarland	South-East Memphis-Cordova	55,064	3%	61,305	3%	11%
Glenview	Downtown-Midtown	54,808	3%	60,510	3%	10%
North Frayser	North Memphis-Frayser Raleigh	49,149	3%	55,489	3%	13%
Cunningham	North Memphis-Frayser Raleigh	43,772	3%	44,070	2%	1%
Marion Hale	South-East Memphis-Cordova	37,034	2%	40,478	2%	9%
Riverview	South-Southwest Memphis	27,360	2%	39,645	2%	45%
Raleigh	North Memphis-Frayser Raleigh	35,387	2%	37,713	2%	7%
Gaston	South-Southwest Memphis	33,531	2%	32,761	2%	-2%
Charles Powell	South-Southwest Memphis	38,785	2%	29,541	2%	-24%
Mitchell	South-Southwest Memphis	29,837	2%	29,214	2%	-2%
Katie Sexton	North Memphis-Frayser Raleigh	28,492	2%	28,893	2%	1%
Douglass	North Memphis-Frayser Raleigh	38,098	2%	28,654	2%	-25%
Dave Wells	North Memphis-Frayser Raleigh	28,883	2%	26,838	1%	-7%
Whitehaven	South-Southwest Memphis	40,282	2%	23,672	1%	-41%
Pine Hill	South-Southwest Memphis	26,855	2%	23,252	1%	-13%
<b>Total</b>	<b>N/A</b>	<b>1,623,120</b>	<b>100%</b>	<b>1,798,505</b>	<b>100%</b>	<b>11%</b>

The Hickory Hill and Bert Ferguson centers, the City's largest "Mega Centers," comprised 32 percent of total community center attendance in FY2012, and Hickory Hill experienced a 44 percent increase in attendance from FY2011 to FY2012. Seven centers attracted between 63,000 to 150,000 attendants each, representing 37 percent of total attendance. The remaining 31 percent of attendance was spread across 15 centers that each averaged one to three percent of total attendance.

#### *Declining Utilization Across Library System*

The Memphis Public Library system has experienced a decline in key utilization indicators from FY2007 to FY2012. Over this period, total customers have declined 10 percent, circulation has declined 23 percent

and computer use has declined 20 percent. However, the total number of programs offered and attendance at those programs have increased 21 percent and 13 percent respectively.

### Library System Metrics, FY2007-FY2012

Library Branch	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2008 - FY2012 % Change
Customer / Turnstile Visits	3,037,198	3,066,585	3,028,061	2,903,067	2,880,669	2,622,590	-14%
Circulation	2,102,092	1,850,437	1,832,423	1,805,242	1,696,652	1,617,184	-23%
Programs Offered	2,172	1,809	1,928	2,036	2,169	2,632	21%
Program Attendance	55,013	44,687	47,513	53,882	51,609	62,107	13%
Computer Use	1,164,592	1,189,370	1,189,269	1,123,706	1,143,880	932,214	-20%

The City's 18 library branches show a pattern similar to that of the City's community centers, where a high percentage of total customers are served by a small number of individual branches. The Central branch represented 29 percent of total customers in FY2012, followed by Whitehaven at 11 percent, Bartlett at 10 percent and Cordova at 7 percent. The remaining 43 percent of total customers were spread across 14 branches that each averaged between 5 percent and 2 percent.

### Library Branch Customer Count, FY2007-FY2012

Library Branch	Region	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012 %	FY2008 - FY2012 % Change
Central	Central	857,313	875,731	840,040	813,344	779,198	770,898	29%	-10%
Whitehaven	South	300,325	295,666	311,436	344,773	326,350	296,720	11%	-1%
Bartlett	East	216,169	216,914	290,906	282,649	273,927	260,994	10%	21%
Cordova	East	256,831	263,830	264,896	246,515	235,184	187,570	7%	-27%
East Shelby	South	188,334	187,118	180,077	158,187	154,674	138,131	5%	-27%
Raleigh	East	186,889	183,791	162,227	149,980	153,245	135,224	5%	-28%
Pop-White	East	136,564	133,556	128,820	124,287	123,923	111,145	4%	-19%
Pkwy Village	South	116,863	122,794	118,101	114,573	120,049	97,643	4%	-16%
Frayser	East	114,643	118,958	116,178	109,898	107,973	91,424	3%	-20%
Hollywood	East	105,311	109,677	98,538	91,224	97,387	86,926	3%	-17%
South	South	108,368	114,862	93,734	87,374	93,023	72,183	3%	-33%
North	East	89,685	85,592	84,212	82,860	96,893	71,034	3%	-21%
Cherokee	South	72,657	80,146	66,775	58,039	69,495	64,207	2%	-12%
Cossitt	South	49,875	45,192	53,044	48,711	55,818	58,007	2%	16%
Randolph	East	89,902	74,936	70,177	64,569	64,621	54,189	2%	-40%
Gaston Park	South	35,560	45,015	40,396	43,396	43,841	44,316	2%	25%
Levi	South	45,767	46,591	41,979	37,007	39,986	41,215	2%	-10%
Crenshaw	South	66,142	66,216	66,525	45,683	45,087	40,767	2%	-38%
<b>Total</b>	<b>N/A</b>	<b>3,037,198</b>	<b>3,066,585</b>	<b>3,028,061</b>	<b>2,903,067</b>	<b>2,880,669</b>	<b>2,622,590</b>	<b>100%</b>	<b>-14%</b>

Staffing reductions and reduced hours system-wide has likely impacted utilization. For example, from FY2007 to FY2011, the average number of total hours of availability system-wide was approximately 49,000 hours. In FY2012, that average was approximately 40,000 hours, a decline of 18.4 percent.

## Public Works

The Division of Public Works (PW) is responsible for a wide range of services that relate to the operations and maintenance of Memphis' public infrastructure, including streets, bridges, storm drains and sewers.

The division is also responsible for the collection and disposal of solid waste, treatment of wastewater, and enforcement of the City's housing code and related anti-blight activities. The departments within the division are organized as follows:

- **Administration:** includes the Director, Deputy Director for Maintenance and other staff that are responsible for the performance and fiscal management of the division.
- **Maintenance:** includes the Foremen, Equipment Operators, Crewpersons and other skilled personnel that repair potholes, lay asphalt, repair drains, and perform other services related to repair and maintenance of the City's roadways and infrastructure.
- **Solid Waste Management:** includes the Crew Chiefs, Crewpersons, Drivers and Equipment Operators that provides weekly trash and recycling collection and disposal.
- **Neighborhood Improvement:** includes the Deputy Director for Neighborhood Improvement, Coordinators and Code Enforcement Inspectors that enforce the City's housing code, weed mitigation and vacant lot maintenance, and related community enhancement activities.
- **Environmental Engineering:** includes the Inspectors, Crewpersons, Mechanics, Foremen, Operators and other skilled personnel that operate and maintain the City's two wastewater treatment facilities.

The departments within PW are funded through multiple sources. The primary funding source is the General Fund, which funds Administration, Neighborhood Improvement and the personnel in the Maintenance department that perform street repair and maintenance. Environmental Engineering, funded through the Sewer Fund, operates as an enterprise fund because its' staffing and operations are funded through a fee assessed on residential, commercial and industrial wastewater customers. The Storm Water Fund, through a fee assessed on residential and non-residential facilities and properties, funds the personnel in the Maintenance department that perform drain maintenance, flood control and related functions. Solid Waste Management is funded primarily through a fee assessed to residential customers for waste and recycling collection.

### Staffing

Staffing in Public Works is driven primarily by personnel in Solid Waste Management, which represents 62 percent of the division's total budgeted FTEs for FY2013.

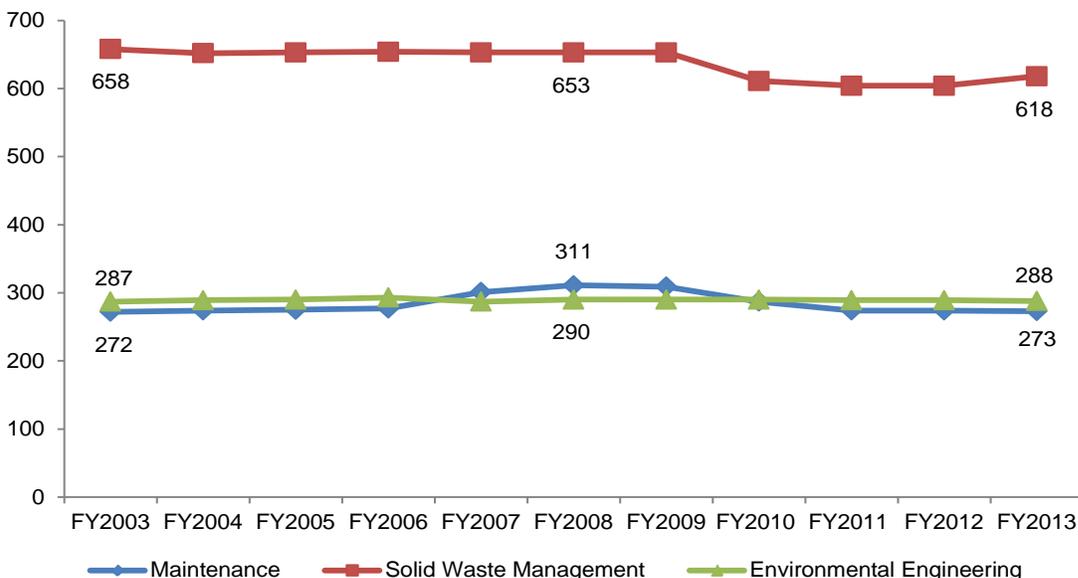
#### Funded Division FTEs, FY2013 Adopted

Department	FTEs
Administration	12
Maintenance	273
Solid Waste Management	618
Neighborhood Improvement	74
Environmental Engineering	288
<b>Total</b>	<b>992</b>

Following Solid Waste Management, Environmental Engineering represents 30 percent of budgeted FTEs and Street Maintenance represents 28 percent of budgeted FTEs. While there are 618 budgeted FTEs in Solid Waste Management for FY2013, the actual amount is closer to 500 FTEs according to division leadership because of the use of part-time employees to supplement service.

Since FY2003, Solid Waste Management has experienced a six percent decline in FTEs, while Street Maintenance and Environmental Engineering have remained essentially flat. However, since FY2008, Street Maintenance FTEs declined 12 percent from 311 FTEs to 273 FTEs in FY2013.

### Maintenance, Solid Waste and Environmental Engineering FTEs, FY2003-FY2013



Source: City of Memphis, Comprehensive Annual Financial Report FY2012 and FY2013 Adopted Budget

Public Works' General Fund revenues are generally reliant on state grants and other state funding. The revenue generated by Solid Waste Management and Environmental Engineering are not reflected in this analysis. From FY2008 to FY2012, General Fund revenues for the division have averaged only \$513,874 per year.

### Budget

#### General Fund Revenues, FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate	FY2013 Budgeted
St TN Highway Maint Grant	\$546,549	\$490,221	\$486,696	\$589,160	\$449,854	\$691,859
Miscellaneous Income	\$3,884	\$-	\$-	\$-	\$-	\$-
Miscellaneous Revenue	\$683	\$307	\$-	\$-	\$2,014	\$-
Special Assessment Tax	\$-	\$-	\$-	\$-	\$-	\$398,000
St TN Interstate	\$-	\$-	\$-	\$-	\$-	\$750,000
<b>Total</b>	<b>\$551,116</b>	<b>\$490,528</b>	<b>\$486,696</b>	<b>\$589,160</b>	<b>\$451,868</b>	<b>\$1,839,859</b>

The division's General Fund expenditures are primarily driven by employee wages and benefits, asset amortization, utilities and asphalt. After netting out cost recovery associated with their activities, the total General Fund expenditures for the division, primarily driven by Street Maintenance, averaged \$7 million from FY2008 to FY2011.

### General Fund Expenditures, FY2008–FY2013

Source	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Estimate	FY2013 Budgeted
Asset Amortization	\$6,115,868	\$5,760,657	\$5,980,571	\$6,475,695	\$6,207,200	\$6,966,000
Wages	\$5,322,082	\$5,663,228	\$5,555,055	\$5,586,783	\$4,924,121	\$8,353,034
Utilities	\$4,881,988	\$5,046,603	\$5,223,778	\$5,132,302	\$5,696,971	\$5,432,639
Asphalt	\$2,413,994	\$2,708,877	\$2,102,477	\$3,326,269	\$4,885,603	\$5,056,250
Benefits	\$1,432,123	\$1,492,345	\$1,433,867	\$1,686,749	\$1,891,727	\$2,445,164
Other	\$1,284,933	\$2,186,189	\$1,288,725	\$994,882	\$937,477	\$4,449,424
Cost Recovery	\$(14,774,949)	\$(14,397,809)	\$(15,126,352)	\$(16,882,056)	\$(7,555,885)	\$(7,656,270)
<b>Total</b>	<b>\$6,676,039</b>	<b>\$8,460,090</b>	<b>\$6,458,121</b>	<b>\$6,320,624</b>	<b>\$16,987,214</b>	<b>\$25,046,241</b>

For FY2012, it is estimated that the total value of General Fund expenditures will be roughly \$17 million, representing a \$10.7 million increase, or 168 percent, from FY2011.

#### Findings

##### *Decreased Production*

Recent trends show decreasing production from maintenance crews. According to data provided by the division, number of lane miles paved has dropped from 236 in 2007 to 105 in 2011, a decline of 56 percent. Since street paving is done by in-house crews, it is likely that the reduction in 38 budgeted FTEs for Street Maintenance since FY2008 has impacted the division's ability to provide this service. In previous years, approximately half of the work for street paving was performed by private vendors, but as the department's resources have been squeezed it has shifted to performing this service with City employees. The number of potholes filled has declined slightly from 2007 to 2011 and the number of complaints received by the department has increased significantly over this period.

### Street Maintenance Metrics, FY2007–FY2011

Item	FY2007	FY2008	FY2009	FY2010	FY2011	FY2007 to FY2011 % Change
Lane Miles Paved	236	177	101	100	105	-56%
Potholes Filled	55,475	57,899	52,183	51,104	50,583	-9%
Complaints	1,061	1,589	1,694	2,259	2,819	166%

##### *Lack of Technology*

Currently, work crews do not have GPS in their vehicles, they do not use a work order system that would allow them to track performance and data, and there is a lack of compatibility across the various software systems that the department uses.

##### *Inefficient Solid Waste Collection Process*

There are approximately 86 garbage routes per day for collection of waste placed in the carts that residents receive as part of their monthly collection fee, 43 trash routes per day for excess waste that is not placed in these carts, and 43 routes for recyclables. To perform collection on these routes, a combination of conventional trucks, which require 3 personnel, low-entry trucks, which require 2 personnel, and automated trucks, which require 1 person, are used.

The average customer will see a garbage truck collect waste in a cart, a trash truck for other debris that is not placed in the cart and a recycling truck specifically for recyclables. This system is inefficient because two trucks are required for waste collection (cart and debris) instead of simply one truck that could handle all non-recyclable waste. Additionally, Solid Waste Management also collects appliances and bulky items such as refrigerators, yard waste and dead animals. The range of items that residents have grown accustomed to having collected often requires trips from additional apparatus for special collection.

#### *Existing Capacity on Solid Waste Collection Routes*

In 2009, solid waste collection routes were changed to concentrate manpower and equipment in certain areas of Memphis rather than have them spread out throughout the city. As of early 2013, there were 86 garbage routes for collection of carts. Solid Waste Management leadership estimates that there are approximately 470 stops per garbage route and approximately 940 stops per trash route and recycling route. Based on proposals received in response to opportunities for private waste collection, Solid Waste Management leadership estimates that the average number of stops for private haulers in Memphis is approximately 800 stops per garbage route. These estimates suggest that there is capacity existing in the current routes for more stops. There may be a varying number of stops based on the type of truck used, the condition of streets and related factors.

#### *Neighborhood Improvement Adjusting to Reorganization*

In FY2013, the Division of Community Enhancement was reorganized as a department within the Division of Public Works. Currently known as Neighborhood Improvement, the department is still trying to find its footing after being reclassified within Public Works. The core function of Neighborhood Improvement is to perform housing code inspections on all single family, low-density properties such as duplexes, triplexes and apartment buildings with fewer than 30 units. Other primary responsibilities of the department include vacant lot mitigation and managing the City's vacant structure demolition process. The department is currently undergoing its own internal review process to determine the best structure for its operations.

#### *Success of 25 Square Initiative*

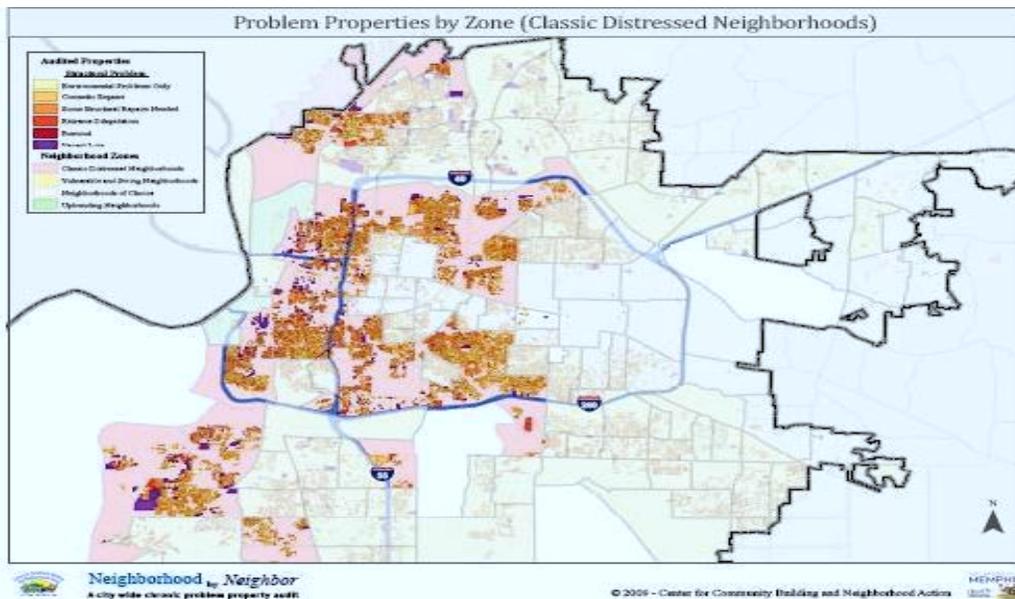
In FY2013, Neighborhood Improvement implemented the "25 Square" initiative to improve performance and reduce costs for weed and grass mitigation in vacant lots. Previously, the process for weed mitigation in vacant lots was driven primarily by resident complaints and was performed by in-house employees. Now, a team from a local small grass cutting business will be given a location by Neighborhood Improvement and instructed to mitigate all of the lots within a radius of 25 square blocks. The 25 Square program is a more proactive approach to lot mitigation that outsources these services to private vendors and targets their efforts to enhance geographic impact. Department leadership estimates that this has reduced the average cost of a work crew from approximately \$200 per crew to approximately \$60 per crew. Though data was not available, department leadership also estimates that the program has produced a significant increase in the number of vacant lots that have been mitigated over previous years.

#### *Lack of Coordination for Anti-Blight Activities*

Neighborhood Improvement currently operates in a relative silo as the entity responsible for anti-blight activities and there is a lack of coordination across City government on an anti-blight strategy. In general, the City's approach on blight is focused on compliance, such as mitigating vacant lots, rather than fixing its problem by taking steps to reduce blight. The lack of inter-divisional coordination is important because blight affects other divisions, especially Police and Fire. For example, in 2011, Memphis had 49 arsons per 100,000 residents, the fourth highest rate nationally for cities with more than 100,000 residents that reported arson data. In 2012, Memphis averaged almost seven fires per day, more than twice the regional and national averages for cities of comparable size. Fire Division leadership suggests that the

bulk of these fires take place in Memphis' classically distressed communities (highlighted in the map below).

### Classic Distressed Neighborhoods in Memphis, 2009



Source: Buchanan, Betts, et. al. *Neighborhood-by-Neighborhood: A Citywide Problem Property Audit*. Center for Community Building and Neighborhood Action. April 15, 2010.

It is likely that these areas are also drivers for the Police Division's workload, so addressing blight issues in these areas can have positive impacts beyond the scope of Neighborhood Improvement's responsibilities.

There is also a lack of data on the current number of blighted and vacant structures in Memphis. Neighborhood Improvement suggests the most recent and reliable work on the subject is a 2010 study done by the University of Memphis which estimated that 22 percent of the City's residential structures are blighted in some fashion and that there are approximately 7,500 vacant lots.

## Initiatives

The City identified a series of high priority initiatives that impact this area:

- Complete conversion to zero based budgeting
- Implement 311 throughout city government with accompanying performance management component
- Implement KPI's throughout city government
- Complete conversion to zero based budgeting
- Create Financial Advisory Board
- Create a grants office (to seek grants, not merely manage grants)
- Review all fines, fees and collections in order to increase revenues
- Complete facilities and space study
- Review policies of car allowances, fleet management (across all divisions and fund), reduce the total fleet, in particular the number of take home cars
- Define core services for Solid Waste
- Review joint service opportunities with Shelby County, MHA, MLGW and others
- Develop a strategic plan for parks and golf courses

<b>HPG01.</b>	<b>Use Performance Management to Achieve Budget Savings</b>	
	<b>Target outcome:</b>	Improved services and operations and increased efficiency
	<b>Five-year financial impact:</b>	Minimum of \$3.2 million
	<b>Responsible party:</b>	CAO

Memphis has taken a series of recent steps to increase the role of performance measurement and management in City government. The City's 311 system will provide a steady stream of data on how City divisions respond to public requests for service. The CAO has also designated a Strong Cities Strong Communities Fellow to design and begin to implement a system where key performance indicators are regularly reviewed.

In taking these steps, Memphis is following a national trend among local governments to make better use of data in managing the day to day operations of local government. Local governments across the nation have adopted "PerformanceStat" models, where mayors, county executives and department heads regularly use performance data to drive organization change, improvement and efficiency. While performance measurement is hardly new – its history in local government dates back to as early as the turn of the last century – technology has made timely and accurate data more available in the last twenty years.

The next step for Memphis will be to begin to hold regular performance management meetings. The current "PerformanceStat" revolution started with the New York Police Department's adoption of CitiStat in 1990. The NYPD used regular, data-driven meetings to identify crime problems, develop strategies to reduce crime and hold precinct commanders accountable for results. Under then-Mayor Martin O'Malley, Baltimore became one of the first cities to employ a similar approach to all government agencies through CitiStat. Other cities and counties, as well as state governments, have adopted similar efforts.

Former Indianapolis Mayor and Deputy Mayor of the City of New York Stephen Goldsmith has identified a series of strategies that are critical to the success of PerformanceStat efforts in improving performance:

- Strong executive leadership of the process
- A focus on measuring value, not just activities
- Involving the public
- Making sure to measure the right things

Bob Behn of Harvard's Kennedy School of Government offers somewhat more practical advice. Stat meetings must have a clear purpose, one person who regularly runs the meetings, an analytical staff to support the process and relentless follow-up. Regular monitoring of performance allows for continuous improvement of service and the identification and remediation of inefficiencies in government. It is a critical tool for holding department heads and employees accountable. Better performance and better measurement of performance can also aid the City's efforts to identify budget savings on an ongoing basis in several ways. There are two primary strategies for how improved performance and management can lead to budget savings.

*Align service provision level/affordability with actual neighborhood need and demand for service*

City government must recognize neighborhood to neighborhood differences in the level of core services desired and delivered. All parts of a city may require the same core service (e.g. police, fire, trash and recycling, etc.), but different parts of a given city may require and/or desire different levels of different services. These intra-city differences are crucial to understand in determining what constitutes a basic,

core-function service for city government. This directly results in how much residents are willing to pay for certain levels of service through taxes and fees.

For instance, one neighborhood may collectively value trash and recycling collection more than one time per week ahead of a fire department response time of four minutes or less. Similarly, the inverse may be true for another neighborhood within the city. Understanding these demands, will help the City assess what service levels it can and should augment to balance resident demand with resident willingness to pay.

To a certain extent, Memphis already does this. Library hours and MATA service are not uniform and are based on demand/utilization. However, opportunities exist to further align demand to offerings – for example, the city’s community centers are currently open from 9am until 2pm on Saturdays even though monthly attendance varies from center to center.

Determining service level usage is an area where the City’s 311 data can have a significant impact. For instance, Knoxville, TN used to provide city services on an equal basis across neighborhoods. For instance, it paved streets and picked up brush equally across the city. Once the City began using 311 data to drive its resource deployment, however, it found that resources were deployed evenly, but demand was uneven. As a result, the City shifted its resources to more accurately align resource deployment with demand. A similar process will assist Memphis in identifying service provision levels that could be revised.

Regular review of performance data should allow the Mayor, the CAO and division directors to move toward more effective models of service delivery across divisions.

#### Use performance data to control vacancies and overtime

More information about demand for service and about performance should greatly aid the City in efforts to control overtime utilization and to limit the number of vacant positions that are filled. Absent data on performance, it is difficult for administrators to make decisions about when to approve overtime and when to fill vacancies.

As previously noted, overtime constitutes a significant cost center for the City. In 2012, the City expended nearly \$16.7 million in overtime – with \$15.8 million in spending on fire and police services. A more data-driven decision making process should enable division heads and senior administrators to reserve the use of overtime to those cases where it is absolutely necessary. Just a one percent reduction in 2012 overtime would have produced savings of \$167,000 in direct overtime costs.

Similarly, every time a position in City government becomes vacant, it is an opportunity for senior administrators and division heads to determine whether the position really needs to be filled. Absent data, it is difficult for division heads to justify filling the position and difficult for others to challenge the need to fill the position. During the first seven months of the fiscal year, the City has hired 106 new employees with a total annual salary of approximately \$4.1 million (62 of the new hires were in the Fire and Police Divisions).

The City already has a process for reviewing vacancies but, again, a more informed process based on performance and other data may result in fewer vacancies being filled. More data would enable division heads and senior leaders to make better decisions about filling vacancies based on answers to the following questions:

- Will failure to fill the position result in an increase in cost or loss of revenue to the city?
- What, if any, impact will a decision not to fill the position have on public safety? If there is an impact, provide sufficient detail and justification to demonstrate proof.
- If the position is approved to be filled, is there another position in the division that can be eliminated – either by attrition or layoff?

- If the position is not approved, explain how the division will continue to do the work that the current employee performs?

Based on actuals during the first seven months of FY2013, there will be a total of 180 new hires by the City at an average annual salary cost of \$38,797 (the average for the first seven months) and assumed benefit costs averaging \$13,000 – a total of \$51,797 per employee or a total annual cost for new employees of \$9.3 million in FY2013. If better use of data could reduce new hires by just five percent, the result would be annual savings of \$465,000.

Combined, the City should set a minimum target of overtime and vacancy control savings of \$632,000 recurring annually.

<b>HPG02.</b>	<b>Budget Process Improvement</b>	
	<b>Target outcome:</b>	Improved budget transparency and communication with internal and external stakeholders
	<b>Five-year financial impact:</b>	N/A
	<b>Responsible party:</b>	Finance Director, Budget Director

The budget document not only serves as a policy and planning tool, but also as a communication tool. A strong budget development process allows the City’s management team to more effectively track revenues, expenditures and reserve balances over the course of the year or over the course of multiple years. A strong budget development process also allows for clear communication of the City’s expected and actual financial outcomes with elected officials, constituents, bondholders, and other internal and external stakeholders.

Memphis has made progress in improving its budget development processes in recent years. For example, previous budget documents presented division expenditures at a summary level and net of revenues collected by those divisions. In recent years, the budget documents present revenues and expenditures distinctly so that each can be evaluated and properly understood. Despite progress made in recent years, there is still room for improvement in the City’s budget development process. Specific opportunities for improvement include:

- **Appropriate cost allocation:** The City currently charges certain personnel costs and material and supply costs back to the departments responsible for those costs. The chargeback process can be improved by increasing the specificity of the costs being transferred, especially with regard to personnel spending. For example, there is an expenditure account for personnel expense recovery that is used for these types of chargebacks. This account groups all personnel costs into a single budget line for the purpose of charging them to the appropriate division. Because of these chargeback accounts, the total personnel cost for each division is presented more accurately. However, the specific components of the personnel cost category (salaries, benefits, pension, etc.) would be overstated in each of these departments because the chargeback is not applied at this more detailed level.

Based on a preliminary review of the City’s budget data, it also appears that pension costs are not allocated consistently across the various City funds. General Fund accounts appear to carry a larger proportional share of the City’s pension contributions than do other funds based on the distribution of wages across those funds. Especially for funds that may be fee-based, it will be important to accurately capture the full cost of personnel services in order to ensure that fees are set at appropriate rates and general fund revenues are not unduly burdened by these costs.

- **Budget account classification:** There is also room for improvement in the way that the City classifies its revenue and expenditure accounts for the purpose of budget presentation. A few examples include:
  - The account called “Pensioners’ Insurance” represents the pay-as-you-go cost of retiree health benefits. This account is classified with “Grants and Subsidies” and the rationale for this classification is unclear. Presenting OPEB expenditures in this category understates the total cost of personnel services.
  - Materials, supplies, professional services, and expenses such as utilities and rent are all classified as “Materials and Supplies.” This classification overstates the cost of materials and supplies and provides limited information on the total amount of these other expenditure items.
  - The largest account in the “Materials and Supplies” category is called “Misc Professional Services.” This account is budgeted in FY2013 at almost \$30 million. The categorization of these expenditures in this account provides little information as to what services are being received for this cost.
  - The account code called “Attrition” includes not only estimated attrition savings but also estimated savings from adjustments to healthcare premium contribution rates. This impact is effectively hidden and instead the budgeted figures suggest a higher than actual anticipated attrition rate.

Addressing these account classification issues would greatly improve transparency in budgeting and facilitate the use of the budget document as an effective communication tool.

- **Legal level flexibility:** City Council has the authority to approve specific authorized positions at fairly granular levels within divisions, which can impact division directors’ ability to structure and manage their operations. For example, if the Parks and Neighborhoods Division Director determined that it would benefit the division’s operations to eliminate five clerical positions and replace them with five Community Center Director positions, the Director must request approval from Council. This additional level of approval does not provide the type of flexibility needed for managers to respond nimbly to changing service needs and also impedes managers’ ability to take advantage of opportunities for staffing efficiencies and related budget savings.

Relaxation of defined legal levels within the City’s budget may be necessary to provide the Executive branch with sufficient flexibility to manage its workforce to achieve efficiency and savings in a timely manner without the additional need for Council approval. Council would continue to have the authority to approve funded and authorized levels as part of the budget process, but not at as granular a level as currently exists. Council would also continue to have the ability to request information and ask questions about the City’s staffing and progress in any reorganization or changes to resource allotment.

The effort to further improve the City’s budget processes should be led by the Budget Director and the Finance Director. This effort should include a comprehensive review of budget development processes as well as account code structure and classification. Further, this effort should result in a written set of updated standard operating procedures for budget development.

<b>HPG03.</b>	<b>Create a Financial Advisory Board</b>	
	<b>Target outcome:</b>	Increase public support for budgeting process
	<b>Five-year financial impact:</b>	N/A
	<b>Responsible party:</b>	CFO, Finance

City officials have recognized the need for – and value of – an outside citizen body to help develop the Plan. Mayor Wharton named a 10-member panel to oversee and advise on the development of this plan. The Mayor has chaired the Executive Committee that has also included the Chair of the City Council Budget Committee, the Acting Chief Finance Officer and seven business and civic leaders from the community:

- Alan Graf, Executive VP/CFO, Federal Express Corporation
- Susan Stephenson, Co-Chair/President, Independent Bank
- Edythe Kelly-Green, Owner, Kelley-Green Enterprises, LLC/Retired VP & Chief Sourcing Officer-Federal Express Corporation
- Chris McLean, Executive VP of Finance, Memphis Health Care
- Blair Taylor, Executive Director, Memphis Tomorrow
- Eric Bolton, CEO of Mid-America Apartment Communities
- Floyd Tyler, President, Preserver Partners

In addition, business and civic leaders also served on the subcommittees that contributed to the specific recommendations of the Plan.

By involving leaders from the business and civic community, the City has worked to harness the best possible ideas for moving Memphis forward. It has also built a constituency for the implementation of the Plan. The recommendations come not from any one official or outside consultant, but reflect a larger community commitment.

As the City moves forward with the implementation of the Plan, ongoing support from the civic and business community will be critical to its success. Other cities have developed processes to continue citizen involvement in the budget process. In cases where cities are dealing with distress, formal mechanisms for citizen oversight have been created. For example, after New York City nearly went bankrupt in the 1970s, the State Legislature created an Emergency Financial Control Board that – while the city was still in financial control – had the power to review and modify City budgets. As the City emerged from financial control, the EFCB took on more of an advisory role, regularly reviewing city budgets and multi-year financial plans.

Budget and financial planning is not unique to local governments in distress. For example, Fort Lauderdale, FL is one of several cities that have formal Budget Advisory Boards or Committees to assist in the development, review and monitoring of budgets and financial plans. Fort Lauderdale’s ten-member advisory board reviews revenue and expenditure projections and estimates and advises City government on service levels and priorities. In Oakland, CA the 15-member Budget Advisory Committee (BAC) is appointed by the Mayor and confirmed from the Council with representation from every Council district. The BAC advises the City Council on expenditures and revenues for all general fund municipal services and assists with the development of a five-year financial plan. The Committee also occasionally issues reports on specific budget topics. For example, in 2011, the BAC issued reports on the need for a City rainy day fund and the City pension system.

Memphis should create a Financial Advisory Board charged with working with the Mayor, CFO, Finance and the City Council on the implementation and ongoing review of the Five Year Financial Plan.

<b>HPG04.</b>	<b>Create a Grants Management Office</b>	
	<b>Target outcome:</b>	Improved efficiency and increased revenue
	<b>Five-year financial impact:</b>	Savings to be based on potential staff consolidation and potential revenue based on enhanced competitiveness for grants
	<b>Responsible party:</b>	Finance Director

Grants are an important resource for the funding of programs in the City in many areas. Currently, the City's grant process is largely decentralized – though monitoring for compliance is centralized in the City Attorney's Office. As a result, in seeking grants, divisions do not always coordinate their efforts, may not involve other departments that could help win an award, may pursue grants that require the City to contribute substantial in-kind or ongoing funding, and may not apply for grants in high priority areas due to of a lack of grant development resources or coordinated planning.

At the end of the grant cycle, when funding support ends, the City should have a defined process for determining whether the City will continue to support a previously grant-funded effort with General Fund or other dollars.

To address these issues, the City should implement a centralized approach to grant management. Given the need for oversight and inter-divisional coordination, performance measurement, short- and long-term impact on General Fund expenditures, a preferred location for this function is within the Finance Division (while maintaining legal review/compliance within the City Attorney's office). The responsibilities of the grants management function should include:

- Researching and identifying grant opportunities and determining whether they should be pursued
- Coordinating grant applications and submissions
- Internal coordination among departments (streamlining, eliminate duplication of effort, leverage cross-silo resources)
- Overseeing grant compliance and audits
- Management of process and policies
- Tracking grant life cycles

Memphis should consider a two-stage process for consolidating its grants management activities. The first step should be reorganizing the grants management functions throughout the divisions into a centralized grants management office. The second step should be implementing an online grants resource system. There could be substantial negative financial consequences to the City, or any government, for the failure to effectively manage grants – some of which are already handled by the City Attorney's Office. They could include:

- Duplication of grants management functions in departments across the City, resulting in less efficient processes and additional staff time and related cost
- Financial exposure to the City of failing to comply with grants terms, including recordkeeping, demonstrating matching funds, and other grants requirements
- Uneven and inconsistent recordkeeping and reimbursement pursuit due to a lack of policies or oversight for agencies with grants
- Failure to maximize the use of indirect cost recovery
- Failure to seek all opportunities for grants that might be available and appropriate for the City and consistent with the City's priorities
- Failure to recognize and address subsequent requirements on the City's finances due to reporting, operational or other commitments that extend beyond the term of the grants

- Utilizing scarce grant development resources to apply for grants that are not priorities while other divisions may not have the resources to seek grant funding that falls within high priority areas

For the most part, the financial impact resulting from this recommendation will be in the form of additional grant revenue. While this may not produce direct cost savings for the City, it will allow the City to offer new or expanded grant-funded services and potentially utilize grant monies on programs currently funded by general fund or other county resources.

<b>HPG05.</b>	<b>Improve Efficiency of Court Clerk Operations and Increase Fine and Fee Revenue</b>	
	<b>Target outcome:</b>	Improved Services and Operations
	<b>Five-year financial impact:</b>	\$8.1 million
	<b>Responsible party:</b>	Court Clerk

A high-level analysis of the Court Clerk’s staffing suggests that its staffing level needs additional review and is likely less efficient than comparable offices. In FY2012, the City of Knoxville’s City Court processed 136,300 moving and non-moving violations with a staff of 13.5 FTEs – an average of nearly 10,100 per FTE. During the same period, Memphis’ Court Clerk’s office processed 289,249 moving, non-moving and ordinance violations with a staff of 59 FTEs – an average of nearly 4,900 per FTE.<sup>61</sup> While an in-depth review to explore precise comparability of functions, organization, caseload composition, and other factors is beyond the scope of this report, it appears that the Memphis Court Clerk’s office is half as efficient as its counterpart in Knoxville.

In FY2012, the Clerk’s Office total expenditures were approximately \$4.8 million with a staff of 59 FTEs and its total program revenue projected was nearly \$1.4 million. In other words, the cost per violation was \$16.54 and the revenue per violation was \$4.84.

The Clerk’s Office should reduce its staffing complement and achieve efficiency at the same level seen in Knoxville (approximately 10,100 violations per FTE). Using FY2012 violation volume, this would result in the Clerk’s Office having a total of 28 FTEs – a decrease of 31 FTEs from its July 2012 level.

To achieve the staff reduction, it is assumed the Clerk would separate 15 FTEs during FY2014 and another 16 in FY2015. The average fully-loaded court clerk FTE costs the City just over \$51,000 on an annual basis. The City would save approximately \$765,000 in FY2014 and a total of \$1.6 million from FY2015-FY2018, for a five-year total savings of nearly \$7.1 million. The staffing reduction should be achievable while enhancing revenue collection activities. Centralizing delinquent revenue collection under the City Attorney’s Office as required by City Council ordinance should also assist in achieving the reduction of Clerk staff.

The City recently launched a new information system that enables the Clerk’s office to better track, manage, and share data regarding cases, fine payments, and outstanding fees. With the introduction of additional technological resources, additional opportunities may exist to reduce the need for staffing.

In addition to the size of the Clerk’s staff, the City should also explore whether the challenges presented with revenue collection and operations suggest that it would be more efficient to have the Court Clerk operate as an appointed official. With the City’s move to centralize revenue collections, both current and delinquent, it may suggest enhanced efficiency (and reduced cost) would arise from integrating the Court Clerk within the Executive branch of City government. This would require a City Charter change. An

<sup>61</sup> Court Clerk FY2012 data indicate there were 77,398 citations issued, 207,920 summonses issued, 3,743 ordinance violations issues, and 188 animal tickets issued for a total of 289,249 violations.

appointed Court Clerk is found in other Tennessee cities, such as the Court Clerk in Chattanooga, an appointed official who reports to the City Finance Officer.

In addition to reducing the FTEs in the Clerk’s office, the implementation of 311 should also allow more calls to the Clerk to be diverted to the City’s centralized call center. In FY2005, Knoxville, TN used 311 to assume responsibility for all calls to its city court. Court staff, which previously had responsibility for all telephone calls to the Court, now had extra time. In fact, the City was able to dedicate 1.5 staff members to focus solely on revenue collection. This shift resulted in an increase in total court revenue of 37.5 percent over a five-year period.

Assuming a revenue collection increase over five years at the rate experienced by Knoxville (37.5 percent), Memphis could stand to increase its collections by \$8.1 million over five years.

<b>HPG06.</b>	<b>Complete a Facilities and Space Study</b>	
	<b>Target outcome:</b>	Budget savings and operational efficiencies
	<b>Five-year financial impact:</b>	Savings will offset cost of study and will be based on space consolidation
	<b>Responsible party:</b>	General Services Director

The City of Memphis maintains approximately 250 facilities. The City’s facilities are in varying degrees of condition and use. There has not been a recent systematic study of how best to manage these assets and it is likely that some facilities and assets are under-utilized and opportunities to reduce costs exist. The City likely could also dispose of certain properties and receive revenue from sales and avoid expenditures for property maintenance and upkeep. The City should undertake a broad-based review of assets, including building conditions, space utilization and market value to develop a policy for facility use and to assess opportunities to better use or dispose of assets to benefit the City.

There are a number of recent examples in other cities that suggest savings and/or new revenues can be achieved after performing this type of assessment. In December 2012, the City of Chicago’s Department of Fleet and Facilities Management announced a plan for the consolidation and reorganization of the City’s office space that is expected to generate \$4 million in savings beginning in 2014 by shifting some departments from leased office space to City-owned buildings. These moves are also expected to result in operational efficiencies, such as the Department of Finance consolidating all of its operations onto one floor in City Hall instead of its current structure where personnel are spread out across multiple locations. In February 2013, the City of Spokane announced that it will use the majority of the \$3.9 million generated through the sale of a 34,000 square foot tract of City-owned land and associated property to fund infrastructure and capital repairs. The sale was related to an inventory of Spokane’s 1,600 parcels of property commissioned by Mayor David Condon.

As the City reviews its “physical footprint” and conducts a space utilization review/needs assessment, it should incent divisions to view space utilization as a cost, not a centrally-absorbed expense. One way to do this is to charge divisions rent on a square foot basis for all of its space. If a Division rents space, the Division’s charge should include costs necessary to maintain the property (that the City provides and/or pays). With respect to those properties owned by the City, General Services should include property maintenance costs and depreciation in the Division’s square footage rent calculation. Divisions will ultimately “vote with their feet” if they have too much space and do not want to absorb additional overhead expenses.

<b>HPG07.</b>	<b>Review Fleet Management Policies</b>	
	<b>Target outcome:</b>	Improved Services and Operations
	<b>Five-year financial impact:</b>	\$11.6 million
	<b>Responsible party:</b>	General Services Director, Fleet Administrator

The City has a fleet of over 5,600 vehicles. The Division of General Services' Fleet Management office (Fleet Management) is responsible for almost all fleet maintenance activities – including repairs, preventative maintenance, and procuring vehicles. General Services estimates that Fleet Management performs nearly 80,000 repairs on city vehicles and equipment, conducts more than 1,500 preventative maintenance actions, and purchases over 200 vehicles in a given year.

To conduct its work, Fleet Management has 16 repair shops located throughout the City, including one at every Police precinct. Fleet Management is funded through an internal service fund with payments by every division to General Services for the services performed by Fleet Management. From FY2008 to FY2012, the MPD accounted for 51.6 percent of all shop charges. As the largest consumer of Fleet Management services, the MPD utilizes Fleet Management personnel at shops located in every precinct location in the City.

In FY2012, City divisions spent approximately \$10.5 million on shop charges. In FY2013, spending is projected to decrease – largely due to the Fire Division taking back responsibility for apparatus repair. Additional division level variance from FY2012 to FY2013 is the result of reorganization that saw General Services absorb park operations from Parks and Neighborhood and Community Enhancement join Public Works.

In addition to the Fire Division performing its own apparatus maintenance, Public Works previously had its own heavy equipment repair shop until 2012 at which point General Services took over the function. Public Works does purchase some of its own vehicles outside of the CIP process.

### City Shop Charges – FY2008 to FY2013

City Shop Charges	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Police Services	\$4,666,940	\$4,808,703	\$5,281,257	\$4,782,152	\$4,774,583	\$4,783,491
General Services	\$558,764	\$403,085	\$347,265	\$291,368	\$228,129	\$797,375
Public Works	\$199,434	\$80,095	\$87,583	\$95,476	\$63,790	\$395,405
Fire Services	\$442,093	\$3,561,199	\$4,061,386	\$3,356,524	\$3,840,623	\$300,000
City Engineer	\$155,944	\$193,540	\$303,317	\$304,854	\$244,551	\$204,329
Parks and Neighborhoods	\$959,540	\$935,769	\$970,190	\$584,612	\$897,946	\$184,776
Information Systems	\$5,503	\$6,900	\$10,817	\$13,337	\$4,304	\$8,700
Executive	\$25,947	\$33,390	\$29,077	\$22,718	\$33,189	\$7,030
Human Resources	\$1,746	\$2,062	\$831	\$4,435	\$2,850	\$4,000
City Attorney	\$439	\$1,906	\$3,227	\$2,059	\$6,827	\$2,946
Finance & Administration	\$100	\$0	\$737	\$978	\$1,368	\$1,200
Court Clerk	\$675	\$761	\$103	\$0	\$1,140	\$1,030
Public Services	\$111,639	\$110,282	\$84,277	\$62,452	\$96,978	\$0
Housing & Community Development	\$20,704	\$0	\$0	\$0	\$0	\$0
Community Enhancement	\$92,712	\$330,928	\$380,938	\$295,434	\$339,455	\$0
<b>Total</b>	<b>\$7,242,179</b>	<b>\$10,468,620</b>	<b>\$11,561,004</b>	<b>\$9,816,398</b>	<b>\$10,535,733</b>	<b>\$6,690,282</b>

### Develop Multi-Year Fleet Management Plan

The City's largely-centralized fleet management operation should be strategically managed by the Fleet Management office – with the support of the General Services Director and the CAO. The City should charge the Fleet Management office with developing a plan to centralize all fleet management operations and authority within General Services as part of a multi-year fleet management plan.

The plan should focus on reducing the size of the City's fleet, consolidating its 16 repair shop locations, standardizing fleet purchases, identifying life cycle replacement standards, and assessing its maintenance capabilities and costs against those available in the private sector.

- **Fleet Reduction and Utilization.** The plan will need to assess the existing utilization of the current fleet to identify potential vehicles that are under/over utilized to determine a targeted fleet size for each division and overall City operations. The plan should consider a “hot spot” approach, utilized by other large cities including New York City, where City vehicles are parked throughout the City and when an employee needs a vehicle he or she calls a central service that indicates where the nearest vehicle is to that employee at that moment. Alternatively, the plan may find that after a cost/benefit analysis, it is cheaper to rent cars from a vendor than maintain its own centralized (non-assigned) motor pool for on-demand usage. Anecdotal information suggests the State of Tennessee is exploring the same process and the plan should explore whether coordination and collaboration with the State could save money for both entities. To allay concerns over fleet reduction and vehicle availability, the City could contract with a vendor for pre-approved (by Fleet Management) use of rental vehicles.

The plan should reassign vehicles to divisions based on actual use (not perceived need) and surplus those vehicles that are out of repair or not in the long-term plans of the City. The surplus of vehicles, and potentially property, could be used to defray some of the costs associated with upgrades or additional space acquisition (if necessary).

- **Facilities.** A critical step in achieving fleet operation savings is to consolidate maintenance locations. The 16 current shops are in various states of repair with space and staffing concerns do not provide optimal services for the client divisions nor the most productive utilization of City-owned space. Fleet Management – in coordination with the division's Real Estate office – should explore the cost/benefit of maintaining current facilities if not utilized as a repair shop or disposing of the properties.

The consolidation of the 16 repair shops should result in a significant reduction in the number of shops and an increased work space for the Fleet Management repair and maintenance staff (currently very limited in some precincts). One potential idea for consideration is to have a large, central repair facility that would execute all larger jobs with one to three smaller, satellite locations that would perform preventative maintenance and smaller repair jobs. This would allow the Fleet Management staff to organize their employees and employees' time more efficiently, making them more likely to complete jobs more quickly and with less overhead.

- **Fleet Maintenance and Standardization.** Additionally, the plan should place responsibility with Fleet Management, for ownership of all vehicles, capital purchases, repairs and operations. Fleet maintenance, in conjunction with its customer divisions (especially Fire) should identify and assess the cost/benefit of Fire performing its own vehicle maintenance. It is likely there are specialty parts, knowledge and training that could result in better service and operations if apparatus maintenance is located within the Fire Division. Fleet Management should continue with the City's current practice of beginning to standardize fleet purchases. If possible, this should be accelerated. This will assist in the ease and speed of training and maintaining/repairing vehicles.
- **Lifecycle Plan.** The plan should address a life cycle strategy for the City's fleet. For instance, once a Police vehicle accrues a certain number of miles it should be evaluated based upon use

and repairs to date and, if deemed useful, refurbished if necessary for use by other City divisions. The Fleet Management office could explore the option of “selling” refurbished vehicles with a clean bill of health to other City divisions for significantly reduced fee to offset the need for new capital purchases of vehicles by those divisions.

- **Service capabilities.** The multi-year fleet plan should identify those services that the City can perform with relative ease and at an efficient price as well as those services that it may be better performed (from a cost and time perspective) by the private sector. For instance, an evaluation of whether a City employee’s time is better spent doing one significant body repair or multiple preventative maintenance actions may find that outsourcing the large body job saves a number of repairs due to the multiple preventative maintenance operations performed by an employee in the same amount of time as the body job. A similar theory may apply to transmission and engine jobs that generally require longer and more involved repair work.
- **Centralized Operations.** A centralized operation and strategic plan will help the City get a handle on how much it spends on its vehicle fleet. Currently, only shop charges and fuel charges can be tracked centrally. Additional costs, use of outside maintenance and other cost centers are tracked at varying degrees with no central entity truly driving the process. The multi-year plan should help to coordinate and consolidate responsibility within Fleet Management to identify the total spending and provide a baseline against which the City can measure savings associated with a leaner, centrally-managed fleet operation.

To the extent the City is able to achieve the goals set forth by the multi-year fleet plan, it could provide repair and maintenance for other government and quasi-government entities for a small commission to help defray any unexpected costs or invest in new technology and resources.

It is expected that a multi-year fleet management plan will identify significant opportunities to reduce the customer division’s spending on fleet repair as well as opportunities to create a more efficient staffing plan, space utilization and parts procurement operation – all of which are likely to generate General Fund savings for the City. Additionally, to the extent the City can extend the life span of vehicles, there could be out-year savings in the CIP budget if new purchases are not necessary. While this amount is not able to be accurately projected at present, the City should pursue this initiative no later than the beginning of FY2015 for implementation no later than FY2016.

#### Reduce fuel consumption by 10 percent across all divisions

The City purchases fuel in bulk as part of a cooperative endeavor with other local government entities and quasi-government entities (the City is the lead organization). The City’s contract locks in fuel costs at a fixed rate for a set period of time. General Services oversees this process and then charges divisions for fuel at an eight percent mark-up to cover some of its associated costs.

In FY2013, the City was projected to spend nearly \$10.2 million on fuel. The Police Division is responsible for over 64 percent of all fuel consumption in City government. Fuel utilization and conservation is a significant topic for many governments across the nation, especially police departments.

Recent efforts to reduce fuel consumption by law enforcement in other local governments have included:

- Strict standards to reduce idling time
- Increased use of foot and bike patrols – consistent with community policing concepts – also targeted minutes per hour of time to spend out of car walking/talking with citizens
- Increased use of telephone interviews
- Elimination of take-home vehicles
- Increased use of two-man cars for certain shifts
- Targeted mileage reduction per shift of 10 percent

- Phase out use of eight-cylinder vehicles
- Utilization of idling minimization technology in vehicles

### Division Fuel Charges – FY2008–FY2013

City Shop Charges	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Budgeted
Police Services	\$5,175,079	\$4,622,483	\$4,904,253	\$5,514,169	\$5,633,816	\$6,532,568
Fire Services	\$1,931,022	\$1,647,380	\$1,534,504	\$1,820,919	\$1,938,199	\$2,040,000
Public Works	\$408,057	\$348,652	\$312,829	\$418,949	\$317,112	\$606,888
General Services	\$228,422	\$176,542	\$141,752	\$280,539	\$279,724	\$541,701
Parks and Neighborhoods	\$688,109	\$541,169	\$418,235	\$470,798	\$631,089	\$262,415
City Engineer	\$179,021	\$137,299	\$122,812	\$175,246	\$197,937	\$166,791
Executive	\$21,791	\$14,871	\$12,087	\$27,201	\$26,804	\$10,100
Information Systems	\$2,914	\$1,035	\$5,260	\$13,593	\$4,560	\$6,000
Human Resources	\$1,187	\$1,464	\$725	\$2,495	\$2,850	\$3,000
City Attorney	\$1,135	\$1,278	\$932	\$2,718	\$2,433	\$2,452
Finance & Administration	\$0	\$0	\$577	\$1,538	\$1,368	\$1,200
Court Clerk	\$0	\$0	\$0	\$47	\$143	\$500
Housing & Community Development	\$32,748	\$0	\$0	\$0	\$100	\$93
Public Services	\$66,301	\$54,824	\$41,627	\$140,859	\$85,036	\$0
Community Enhancement	\$72,073	\$132,780	\$141,751	\$334,623	\$169,170	\$0
Grants & Subsidies	\$0	\$0	\$0	\$3,140	\$0	\$0
<b>Total</b>	<b>\$8,807,858</b>	<b>\$7,679,776</b>	<b>\$7,637,346</b>	<b>\$9,206,833</b>	<b>\$9,290,341</b>	<b>\$10,173,708</b>

The City's fuel costs are assumed to grow at an annual rate of 1.9 percent per year over the next five years. If City reduces fuel consumption by 10 percent in the next year, it would achieve savings of \$1.0 million. Assuming fleet standardization, a reduction in the amount of vehicles driven and requiring fuel, and enhanced preventative maintenance allows the City to reduce fuel expenditures by an additional 5 percent per year through the remainder of the plan, the City could save a five-year total of \$11.6 million.

<b>HPG08.</b>	<b>Implement Full Pay-As-You-Throw Program</b>	
	<b>Target outcome:</b>	Cost recovery and demand-based service delivery
	<b>Five-year financial impact:</b>	N/A
	<b>Responsible party:</b>	Solid Waste Director

One of the most effective mechanisms for increasing recycling diversion rates and reducing the overall amount of municipal refuse is through the implementation of a pay-as-you-throw ("PAYT") system, whereby households are charged for refuse pickup. Currently, Memphis employs a PAYT-type of system through the use of its carts. A true PAYT system can have a number of positive operational and budgetary outcomes:

- Reducing waste generation/increasing recycling: PAYT requires households to make more rational decisions about how much waste they generate and recycle. PAYT communities therefore typically reduce waste generation and increase recycling diversion rates.
- Enhancing equity: Under PAYT, residents pay for the refuse they generate, a more equitable system for charging citizens for trash collection based on the actual amount of waste they produce rather than charging people a flat fee as is current practice. Currently, individuals and households that generate a higher amount of waste are being subsidized by those who produce a

lower amount of waste. Some municipalities include PAYT exemptions for low-income households and senior citizens.

- Increasing recycling: Because household costs increase as more waste is generated, PAYT creates an incentive to increase recycling. For the City, increased recycling and commensurate waste reduction can mean enhanced recycling revenue and reduced waste disposal costs.

There are three basic PAYT pricing systems:

- Variable: residents are charged rates that correspond with the weight/volume of refuse produced
- Proportional: residents are charged a fee for each unit (i.e., trash receptacle) set out for collection, regardless of weight/volume
- Multi-Tiered: residents are charged one fee for a basic level of service, and then pay an additional fee related to the weight/volume of the waste they produce.

More than 7,000 communities nationwide use some type of PAYT program, including a number of cities that are similar to Memphis in terms of population size count and/or the geographic size of the city's footprint.

#### Comparison Cities with PAYT

City	Population	Land Mass (Sq. Ft.)
<b>Memphis</b>	<b>646,889</b>	<b>315</b>
Fort Worth, TX	741,206	342
San Jose, CA	945,942	177
Seattle, WA	608,660	84
Austin, TX	790,390	297

Fort Worth, TX uses a cart-based PAYT program where its customers pay a variable rate based on the size of their cart, from \$11.45 per month for a 32-gallon cart to \$21.45 per month for a 96-gallon cart, purchase specially labeled bags for items that do not fit in the cart and purchase an additional cart for yard trimmings. Customers are provided with a 64-gallon recycling cart at no cost. In the first year of its PAYT implementation, Fort Worth experienced a 32 percent increase in the number of households that recycle, 92 percent of its residents paid less for collection than in the previous year and the City's cost for solid waste disposal was reduced from \$32 million to \$24 million, a 25 percent decline.<sup>62</sup>

San Jose, CA's system is similar, with variable rates based on the size of the garbage cart, from \$18.98 for a 20-gallon cart to \$60.45 for a 96-gallon cart. An additional cart can be purchased for yard trimmings, bulky items are collected for \$25 to \$50 for three items and a recycling cart is also provided free of charge. In the first three years after transitioning to PAYT, 87 percent of customers shifted to using one 32-gallon garbage can from an average of three and the volume of items recycled almost tripled.<sup>63</sup> Austin, TX also uses a cart-based PAYT system with different costs for a 30, 60 or 90-gallon cart.

Memphis currently has a "light" version of PAYT because as part of the \$25.05 monthly solid waste fee, residents are provided with one 90-gallon cart for garbage disposal. Additional carts can be leased for \$5 per month. Customers that produce more waste can pay more than average customers. However, the

<sup>62</sup> Gershman, Brickner and Bratton, Inc. "Pay as You Throw Workshop." October 21, 2006.

<sup>63</sup> Ibid

pricing structure of this system and the common practice of residents placing additional items outside of their single cart essentially negate any benefits of a PAYT program.

Senior leadership in the Public Works Division has indicated that collection for tree trimmings, yard waste and bulky items, such as refrigerators, are challenges because collection of these items requires additional stops beyond normal garbage collection and there is no additional cost associated with these services. In order to implement a true PAYT system, the City should restrict the items that will be collected as part of weekly collection, impose fines for customers that continue to place garbage outside of the cart and ensure that solid waste crews do not collect items that are properly placed and/or not supposed to be collected.

In the long-term, the City should consider shifting towards a full PAYT program that is similar to the models used in Fort Worth and San Jose. The City can implement a program with variable rates for customers using different sized garbage carts, use City authorized bags for collection of items that do not fit in the cart and provide recycling carts at no charge. For example, Memphis residents could be offered the ability to purchase 30, 60 or 90-gallon carts as part of their monthly fee, with the cost escalating as the size of the cart increases. Considering the City's current system of collection based on 90-gallon carts, this structure would require a capital investment in smaller carts, but will not require a drastic change to the City's current collection process. Then, collection of any additional items would require residents to purchase authorized bags at retail outlets for items that don't fit their carts.

Collection of bulky items would require a scheduled pickup with an additional fee. In Seattle, each bulky item costs \$30 for collection, items containing CFC's (such as refrigerators) cost \$38 each and electronics recycling collection (such as a computer) costs \$20 per pickup with a limit of three items. Collection of yard waste could be provided at no cost, but would be shifted to a seasonal/quarterly collection schedule and collection at any other point would require the purchase of City-authorized bags.

#### Potential PAYT Pricing Schedule

Service	Monthly Fee
30-gallon garbage cart	\$15
60-gallon garbage cart	\$20
90-gallon garbage cart	\$25
90-gallon recycling cart	\$0
10 15-gallon garbage bags	\$10
Bulky items	\$20 - \$40
Yard waste	\$0 (quarterly)

Shifting to a full PAYT program will require that a new pricing structure covers the full cost of the service. In recent history, the revenue generated by Solid Waste Management has covered the full cost of operations, and if a subsidy is required, a transfer is made from the Solid Waste Fund (not from the General Fund). Memphis currently has approximately 180,000 customers, though this number can fluctuate. Over the course of a year the monthly fee generates \$300.60 per customer. This translates into a rough estimate of \$54.1 million in revenue. In FY2011, the solid waste fee generated \$58.6 million in revenue. Though it is difficult to exactly how Memphis residents will adjust to this program and what the cost impacts will be, especially without more details such as the number of bulky items collected, experience in other cities suggests that in the long-term customers will reduce the amount of waste they produce, which can lead to a reduction in landfill costs and increased recycling, which can lead to increases in recycling revenue. If fully implemented, it is also likely that a reduction in solid waste production may lead to a reduction in staffing.

Based on data from FY2008 through FY2011, Memphis generates approximately 250,000 tons of municipal solid waste, which has cost approximately \$6.8 million to send to two landfills, for an average

cost of roughly \$27 per ton. Assuming that a fully function PAYT system would reduce household waste production by 25 percent to 187,500 tons of solid waste generated,<sup>64</sup> the reduction of 62,500 tons of solid waste represents an annual savings of \$1.7 million. Assuming that it will take two years for PAYT to be fully implemented in Memphis and that adjustments will be required after implementation, a discount of 100 percent is applied in FY2014 and FY2015 and a 25 percent discount is applied in FY2016.

Shifting to a full PAYT will require careful consideration of how to educate the public on the change, strategies to reduce a potential increase in illegal dumping and how to ensure that the pricing structure produces full cost recovery, among other items. In the short-term, the City should focus on establishing a cost for collection of bulky items and shift to a quarterly collection yard waste, which can generate new revenue and reduce demand. One these changes have been phased in, the City should then proceed with implementing the variable-cart based PAYT described above. ***It is critical to note that saving attributable to PAYT would accrue to the Solid Waste Fund and not the General Fund.***

<b>HPG09.</b>	<b>Explore Joint Service Opportunities</b>	
	<b>Target outcome:</b>	Increased efficiency, improved service delivery, budgetary savings
	<b>Five-year financial impact:</b>	N/A
	<b>Responsible Party:</b>	Mayor, CAO, Finance Director

The impact of the national economic recession has been significant on the budgets of local governments across the country, and this has spurred additional pressure to share services in an effort to reduce costs and/or improve service delivery. As cities and counties have experienced significant challenges in balancing their budgets in recent years, it makes sense to seek ways to collaborate, cooperate and coordinate among governments and related entities facing similar challenges and providing similar services.

In general, shared services that present opportunities for savings and/or operational efficiency fit into four broad categories:

- **Economies of scale:** combined operations reduce per unit costs
- **Combined spend:** combined buying power can reduce per unit costs
- **Co-location:** overall costs can be reduced and/or service delivery improved
- **Additional capacity:** one entity has significant capability and capacity to provide services for other entities

Local government officials across the country have increasingly turned towards shared services. A recent survey of county-level officials by the IBM Center for the Business of Government found that 31 percent of county-level officials report that sharing or contracting services is common in their counties and that more than 50 percent of them have had discussions with other local governments about shared services in the last year. In Howard County, MD, the County was able to realize savings of more than \$4 million annually through jointly bidding health, dental and other employee benefits with their local school district.

Recently, City officials and County officials have had preliminary discussions about potential opportunities for shared services. The City already has a number of jointly funded agencies with Shelby County, such

<sup>64</sup> Mecklenburg County Land Use and Environmental Services Agency. "Best Practices for Local Government Solid Waste Recycling, Diversion from Landfill and Waste Reduction." December 2011.

as the Division of Planning and Development and EDGE. The City also has some partnerships for joint purchasing, such as its cooperative purchasing agreement for fuel with the County, the Sheriff's Office and MLGW. The City does not, however, have extensive partnerships with the County for other areas of service delivery.

In Memphis, opportunities exist for the City to partner with other governmental entities for more integrated shared services. Opportunities for shared services should not only be considered with the County, but with other entities including MATA, MLGW, MCS, MHA and the University of Memphis. A primary area of focus should be placed on back-office or administrative functions, such as human resources, technology and procurement, because these basic functions are required across all agencies. Additionally, there are also opportunities for increased collaboration for service delivery. For example, the Memphis Fire Division could be contracted to provide emergency response to areas of unincorporated Shelby County currently served by the County's Fire Department, which is projected to lose more than \$6 million from FY2013 to FY2016.

Moving forward, the City should establish a shared-services assessment working group to explore opportunities for sharing services with local entities. In Augusta County, VA, a shared services assessment team was established that identified 15 services for further analysis to create regional shared services. This group also allowed its members to "come to the table without fear of political 'whiplash,'" according to the County Administrator. As the City begins to identify potential shared services opportunities, it should make sure to consider the following principles:

- **Clear goals and measurable results:** metrics for success must be established and tracked to ensure that the partnership is achieving intended goals.
- **Seek the strengths in each participating government:** agencies need to make honest assessments of their strengths and weaknesses, identify commonalities in service needs, and then assess which existing unit of government does it best.
- **Consider pilot projects:** testing the waters can be a good start on developing trust and confidence in working relationships, starting with temporary sharing helps lower the costs of potential failures and if a sharing arrangement meets expectations, it can easily be expanded.

<b>HPG10.</b>	<b>Explore Public Private Partnerships for Park Facilities and Golf Courses</b>	
	<b>Target outcome:</b>	Increased efficiency, improved service delivery, budgetary savings
	<b>Five-year financial impact:</b>	N/A
	<b>Responsible Party:</b>	Mayor, CAO, Finance Director

The City provides funding for the Pink Palace Museums, including the Nature Center and Historic Homes. In FY2012, the net expenditures for these park facilities was budgeted at \$2.8 million, with \$1.8 million for personnel and \$1.4 million for operating costs offset by \$400,000 in program revenue. Similarly, the City's eight golf courses were budgeted for \$700,000 in General Fund subsidy in FY2013, with \$3 million in projected revenues not fully covering \$3.7 million in projected expenditures. In FY2013 the City also provided a General Fund subsidy of \$2.5 million for the Zoo, \$600,000 for the Brooks Museum, \$500,000 for the Botanic Gardens, and \$500,000 for the Fairgrounds/Stadium. The total combined budgeted value of the General Fund's subsidy for these services in FY2013 is approximately \$7.6 million, including 32 FTEs at the Pink Palace museums and the Botanic Gardens.

The City should eliminate the General Fund subsidy for these entities and shift them towards nonprofit management. Shifting formerly public entities such as museums towards nonprofit management, often

through a foundation, has become a popular method for ensuring valuable public resources can continue operating while reducing the cost for taxpayers that do not take advantage of the service. For example, formerly public zoos in Tulsa, Denver and Dallas have all shifted towards private management. In Tulsa, the City-owned zoo is now operated by the nonprofit Tulsa Zoo Management which contracts with the City to manage the zoo and is responsible for fundraising from public and private sources.

This national trend towards public private partnerships has already been implemented locally. In 2007, Shelby County established a partnership with the newly established Shelby Farms Park Conservancy (SFPC) for the management and operations of Shelby Farms Park. The SFPC is 501(c)3 nonprofit organization with a staff of approximately 20 employees that cares for the park's lands, maintains facilities and fundraises more than \$2 million per year.

The City should seek to establish similar partnerships to take over the management of the Parks Facilities where it funds personnel and it should eliminate the subsidy it provides to the Zoo, Fairgrounds/Stadium and Brooks Museum. This initiative assumes that the General Fund subsidies for these entities will remain flat in the first year of the plan and that the City may continue to fund these entities after the transition to nonprofit management. While elimination of the General Fund subsidy would save \$7.6 million, a discount rate of 75 percent is applied in Year 2, 50 percent in Year 3 and 25 percent in Years 4 and 5.

# Strategic Investments

## Overview

The strategic fiscal and management plan needs to align with plans that focus on how to grow the local economy and overall development strategy. Both the Metropolitan Business Plan and work under the Sustainable Communities Initiative will provide greater clarity about both – and will help to drive strategic investments going forward.

As noted in the Introduction, decisions about economic development – and related decisions about land use and development – are inextricably linked to the issue of fiscal sustainability. Memphis has grown from a city of approximately 50 square miles about 60 years ago to a city of 340 square miles today, a footprint that is larger than New York City and could be larger than Los Angeles with continued annexation. This type of growth – and a resultant decline in density – has directly affected the cost of services to Memphians.

Longer term plans for development and economic development can help shape how the City chooses to make strategic investments. To become a “City of Choice,” Memphis must focus its available resources, no matter how big or small, on those improvements that add real, measurable value to the neighborhoods and overall vitality of the City. Funds must be allocated only to those projects that maximize the public’s return on investment.

Physical structures such as roads, rails, docks, and other infrastructure are critical to the future of the City (and the region). Concurrent with efforts to fix the long-term financial challenges of the City, Memphis must fully understand its long-term infrastructure obligations and needs. Doing so will help inform the City’s long-term investment plan and provide a clearer understanding of potential available resources to implement the plan.

While there are a variety of “choice” investments that the City may choose to make, doing so without a coordinated and thoughtful plan will result in an outcome yielding “more of the same.” The City must focus on adopting and implementing a vision that supports the best of its ideas and ideals to unlock the untapped potential that can result.

## Capital Improvement Plan

The relationship between economic development, development policy and the budget should be clearest in the creation of the City’s Capital Improvement Plan (CIP). The CIP is a multi-year plan for capital expenditures. Presented annually, the CIP presents a five-year spending plan to maintain and replace the City’s infrastructure, vehicles and equipment. Every year, the CIP is presented to City Council for discussion and approval. The process for developing the CIP is outlined below:

- **CIP Committee:** A group of senior leaders throughout City government serves on the CIP Committee, which is responsible for reviewing and ranking the project requests submitted by divisions. The committee is chaired by the City Engineer and in FY2013 included the Fire Division, City Attorney, Planning and Development, Public Works, General Services, Parks and Neighborhoods, the Chief Administrator’s Office and Information Services. The committee also includes non-voting representatives from the Finance Division and City Council.
- **Project Types:** Each division is responsible for submitting CIP requests to fund one of three project types:
  - **Rehabilitation, Maintenance and Upgrade:** focus on preserving existing infrastructure and other assets, such as street resurfacing and maintenance, roof replacements and repair of fire stations.

- Capital Acquisition: purchase of multiple types of vehicles, such as police cars, dump trucks, or bull dozers, and mechanical equipment such as garbage carts or band saws.
- New Construction: examples include a new police precinct, community center or fire station.

The CIP Committee emphasizes rehabilitation and maintenance projects as well as capital acquisition.

- **Division Requests**: Divisions usually perform an internal prioritization process prior to submitting their high-priority requests to the CIP Committee. The submitted requests includes information related to the purpose of the project, related prior commitments or investments, project cost projections and related information.
- **Scoring Criteria**: The CIP Committee reviews division requests based on a well-developed scoring criterion that includes the project's useful life cycle, urgency related to health and safety, operating costs, capital costs, benefits to the community, and relation to the Mayor's strategic goals among other items.
- **Funding Availability**: The CIP Committee considers projected funding availability, including a review of anticipated cash flow and the project funding requirements, especially for those that have multi-year timelines. The CIP Committee also considers the potential to maximize the amount of capital purchasing power for projects from general obligation bond expenditures, enterprise fund expenditures and outside sources
- **Recommendations**: After a review and ranking of the submitted requests are considered in conjunction with the funding context, recommendations for funding are compiled and delivered to the Mayor for consideration before presenting a final proposal to City Council.

The CIP is primarily financed using GO bonds From FY2006 to FY2011, GO bonds represented an average of 97 percent of General Fund related CIP funding. The City has experienced significant decline in GO bond funding over this period, which declined 56 percent from FY2006 to FY2011 and 72 percent in the year between FY2010 and FY2011. Though Memphis receives funding for federal transportation projects through the MPO and some smaller CIP projects have been funded through these dollars, federal and state grants do not provide a major source of revenue for supporting the City's capital projects.

#### General Fund Related CIP Funding, FY2006 to FY2011

Source	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
GO Bonds	\$149,844,958	\$137,416,022	\$192,291,176	\$291,564,217	\$236,504,948	\$65,623,855
Federal	\$771,778	\$666,991	\$1,324,976	\$495,397	\$5,334,861	\$6,310,947
State	\$6,576	\$-	\$314,525	\$5,267,883	\$1,445,236	\$1,178,916
Other	\$14,636	\$8,819	\$22,735	\$277,763	\$6,855	\$434,661
Local	\$715,104	\$534,000	\$1,891,513	\$(209,435)	\$(4,547)	\$398,286
Taxes	\$343,018	\$347,068	\$354,522	\$355,671	\$360,280	\$364,179
<b>Total</b>	<b>\$151,696,070</b>	<b>\$138,972,900</b>	<b>\$196,199,448</b>	<b>\$297,751,497</b>	<b>\$243,647,633</b>	<b>\$74,310,844</b>

The FY2013 CIP anticipated an average of \$108 million per year in GO bond funding for capital projects from FY2014 to FY2017 even though recent levels have been closer to \$65 million. If recent trends

continue in the future, there could be at least \$170 million in unfunded priority capital projects through FY2017.

**CIP GO Bonding Financing Projections, FY2014-FY2017 (in millions)**

	FY2014	FY2015	FY2016	FY2017	Total
CIP Projection	\$115	\$107	\$106	\$104	\$432
Historical Trend	\$65	\$65	\$65	\$65	\$260
<b>Variance (\$)</b>	<b>\$50</b>	<b>\$42</b>	<b>\$41</b>	<b>\$39</b>	<b>\$172</b>
<b>Variance (%)</b>	<b>43%</b>	<b>39%</b>	<b>39%</b>	<b>38%</b>	<b>40%</b>

*Decline in Funding Has Serious Impacts*

The variance between the Adopted CIP and its actual funding level may represent worthy projects that would likely improve the fleet and facilities for service delivery divisions, many of which are in need of maintenance and repair. As investments in capital spending have been reduced and the City experiences a parallel reduction in infrastructure maintenance, such as road repaving, the long-term cost for making needed investments is likely to grow.

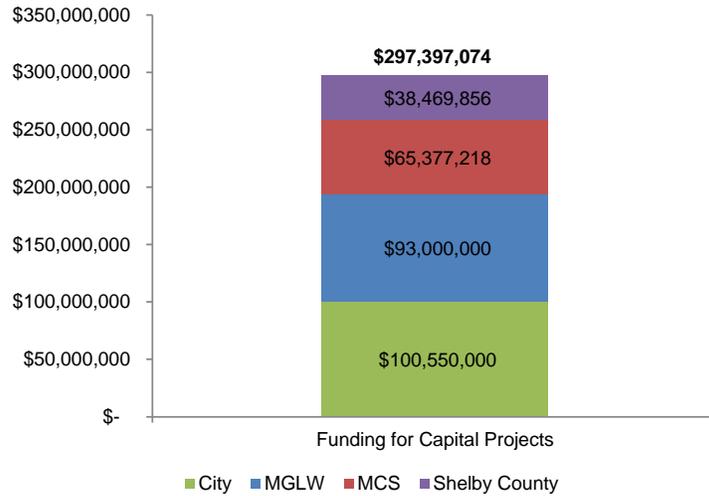
*Lack of Dedicated Process and Implementation Management*

The current CIP process, which meets a number of best practice standards, does not have dedicated management and oversight. The City Engineer serves as the de-facto manager, and this is largely due to precedent set by the previous City Engineer rather than a specific operational or management benefit. Managing the CIP review process creates an unnecessary burden for the City Engineer that takes him away from management of his division. Additionally, there are no dedicated personnel who continue to work with divisions after the CIP is adopted to support the divisions or manage the process.

*Lack of Intergovernmental Coordination*

Though the City does interact with other local government and related entities on some operational issues related to the CIP, such as with MLGW on its plans for street cuts, there is no formal communication or collaboration around infrastructure investments. While it is easy to think of the CIP solely within the context of the City's operations, related entities such as the school system, MLGW and Shelby County have their own capital plans that impact public infrastructure in Memphis. For example, in FY2011, almost \$300 million was spent on capital projects among these four entities. While not all of this spending took place in Memphis, it illustrates the potential for leverage in capital spending across these governmental entities.

### Estimated Capital Projects Spending, FY2011



Source: FY2011 Comprehensive Annual Financial Reports

### Initiatives

The City has identified a series of high priority initiatives in this area:

- Review all capital projects (including annual CIP and ad hoc projects) through a common analytical and policy framework
- Develop and have Council formally adopt a Growth Plan embracing major city projects
- Review all PILOTS and PILOT policy so as to create a more efficient, effective and equitable system of generating revenue while promoting growth in sectors of the local economy

<b>SI01.</b>	<b>Review CIP Policy and Analysis Framework</b>	
	<b>Target outcome:</b>	Improved management and accountability
	<b>Five-year financial impact:</b>	Depending on decisions related to the appropriate level of CIP funding and GO funding
	<b>Responsible party:</b>	Chief Development Officer

In order to ensure that projects in the CIP are active and completed on-time and within budget, management of the CIP should be assigned to a Chief Development Officer, who would focus on integration of the City’s capital planning with economic development and long range planning. In addition, there are a number of process improvements that can enhance the management, transparency and decision-making process of the CIP:

- The current capital budget process compiles a list of projects being requested over the five year period, but does not indicate which projects will actually be implemented. The City’s FY2013 adopted CIP includes \$115 million worth of FY2014 projects to be financed through general obligation bonds. According to the City’s financial management team, however, the actual GO bond issuance to finance capital improvements in FY2014 will likely be closer to half of this amount.

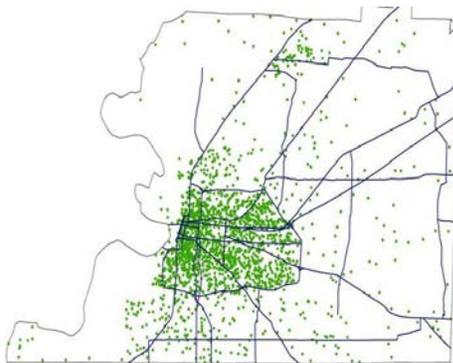
Due to the nature of long-term planning, it is inevitable for changes to occur in the adopted capital plan from year to year. Nonetheless, a plan that is developed based on actual investments that are expected to be made would be a great benefit to the City. Not only would this allow for better anticipation of capital costs and associated debt service, it would also facilitate the development of meaningful long-term capital investment strategies and prioritization of needed capital improvements in the current environment of constrained resources.

- The Chief Development Officer should require and monitor quarterly reports from divisions reporting on the status of all active, funded projects in the CIP. The reports should include the total funding spent to date from each source, details on any projected variance greater than five percent between budget to actual total cost of the project, details on project milestones that have been met or missed in comparison to the project schedule. The Chief Development Officer can compile a complete report of all active projects, along with an executive summary of the overall status of the CIP, a separate listing of likely procurements for projects in the next quarter and provide that report to the Mayor, divisions and Council.

<b>SI02.</b>	<b>Develop a Comprehensive Growth Plan</b>	
	<b>Target outcome:</b>	Improved collaboration and long-term planning
	<b>Five-year financial impact:</b>	Will facilitate more strategic investment of capital funds
	<b>Responsible party:</b>	Chief Development Officer, Planning and Development Director

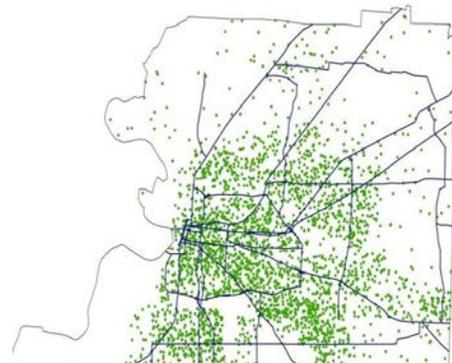
The City does not currently have a comprehensive plan that provides context to help it determine where, when and how to make community development investments. Over time, as Memphis has grown from a city of approximately 50 square miles about 60 years ago to a city of 340 square miles today, the City's service delivery footprint has become larger than New York City and could become larger than that of Los Angeles with continued annexation. As the geographic size of the City has grown, however, its population has essentially remained flat, resulting in a lack of density that requires a smaller population to support services over a larger footprint.

**Population Distribution, 1960 (627,019)**



*Dane Forline – The University of Memphis / Memphis Flyer*

**Population Distribution, 2000 (650,100)**



*Dane Forline – The University of Memphis / Memphis Flyer*

The City needs a clear vision and goals that drive planning, development and infrastructure investments moving forward. This type of comprehensive plan should evaluation potential growth, annexation or de-annexation in the context of regional economic development, transportation and infrastructure needs. The City should also identify targeted areas for investment. The Strategic Investments, Infrastructure and Amenities Subcommittee, convened as part of the development of this plan, has recommended that the

City develop a long-term, comprehensive plan (referred to as “Memphis 2035”) that can provide the vision and decision-making framework needed in this area.

<b>SI03.</b>	<b>Create a Unified Economic Development Budget</b>	
	<b>Target outcome:</b>	Improved resources for implementation of comprehensive economic development strategy
	<b>Five-year financial impact:</b>	A complement to the CIP, the UECD will allow more targeted investment in Economic Development
	<b>Responsible party:</b>	EDGE, CFO, Finance

Led by EDGE, the City and County are working with the Brookings Institution Metropolitan Policy Program to develop a Metropolitan Business Plan. Under the Metropolitan Business Plan, the City and County will jointly identify a series of target areas where the Memphis region is most competitive economically and where additional focus or investment would result in job growth, increases in income and other measures of improved overall economic prosperity in the region.

With the development of the Metropolitan Business Plan in its earliest stages, it is not yet clear exactly what types of investment will be necessary to advance its implementation. It is, however, clear that in future years investments in economic development will need to be focused on those areas where the potential for growth is greatest.

Right now, there is no single line or fund in the Memphis City budget that is dedicated to economic development. Moreover, the City currently pursues a variety of different strategies and investments that are tied to economic growth. As noted elsewhere, Memphis provides direct funding to both EDGE and the Chamber of Commerce. Memphis is also highly reliant on the use of tax abatements or PILOT agreements to induce economic development. Under these agreements, the City – with the County – foregoes certain tax payments as a means of inducing businesses to locate, expand or remain in Memphis. In some cases the City – often with the state and with the County – will agree to pay for project related costs, such as infrastructure.

At the same time, particularly at the neighborhood level, economic development can be incentivized through other types of investments – such as support for local organizations focused on workforce development or investments in infrastructure as basic as sidewalks.

The absence of a clear and comprehensive budget for economic development makes it hard for the City to make anything other than incremental decisions about how to invest its funds – both direct expenditures and tax benefits. In the development of this five year plan, efforts to determine the current value of foregone local revenue for Memphis due to tax abatements and PILOT agreements were unsuccessful.

Other state and local governments have a more transparent process for funding economic development. Vermont, Texas and Ohio have all adopted legislation providing for single budget reports on all spending on economic development. At the local level, in 2010, Washington D.C. adopted local legislation requiring a single Unified Economic Development Budget that reflects both tax benefits and incentives, as well as proposed direct funding for economic development. Under the New York City Charter, the City is required to produce a comprehensive annual report of tax expenditures.

As EDGE moves forward with the development of the Metropolitan Business Plan, the City should develop a Unified Economic Development Budget and dedicate funding for Plan priorities within the Budget – whether for use as tax expenditures or direct funding. The result will be greater transparency and improved allocation of limited resources to fund key initiatives designed to create economic development.

## Appendix A: Other Potential Initiatives

Initiatives contained in Appendix A are those developed by PFM for the February 2013 draft report that do not fall within one of the identified priority areas. The following initiatives offer alternate options that the City may consider as it contemplates its chosen path forward. While the initiatives in this appendix are not immediately identified as “high” priorities, the City may choose to pursue some, all or none in tandem with its multi-year plan or separate and apart from the Plan.

<b>RE03.</b>	<b>Review All PILOTs and PILOT Policy</b>	
	<b>Target outcome:</b>	Increased revenue through voluntary contributions from local non-profit organizations
	<b>Five-year financial impact:</b>	\$10.0 million in increased revenue over five years
	<b>Responsible party:</b>	Finance Division / Revenue Strategy Working Group

A number of governments across the country have negotiated with non-profit organizations to receive payments-in-lieu-of-taxes (PILOTs). PILOTs are financial contributions from entities that are legally exempt from paying property taxes. These contributions help to finance necessary public services and offset the tax revenue forgone due to the tax-exempt status of these organizations. According to a 2012 working paper from the Lincoln Institute of Land Policy, governments surveyed reported receiving over \$84 million in aggregate from almost 300 non-profit organizations nationally. The largest PILOT recipients include Boston, MA; New Haven, CT; Providence, RI; Palo Alto, CA; and Baltimore, MD. Based on the survey results, the vast majority of PILOT revenue received by local governments comes from larger non-profit institutions, such as hospitals and universities.

### Localities Receiving the Most PILOT Revenue

City	2012 PILOT Revenue
Boston, MA	\$19.4 million
New Haven, CT	\$9.1 million
Providence, RI	\$8.9 million
Watertown, MA	\$5.2 million
Cambridge, MA	\$5.0 million

Source: Lincoln Institute of Land Policy

There are a variety of ways that PILOTs can be structured. The Lincoln Institute of Land Policy identified three potential alternative PILOT mechanisms. These included voluntary contributions from non-profits, contributions on the basis of service fees, such as fire or police service fees, and compulsory contributions, such as special taxes on certain non-profit institutions. There is still ongoing debate on the legality and appropriateness of compulsory contributions in several states. Examples of successful municipal PILOT programs include:

- Boston, Massachusetts:** The City of Boston leads the nation in PILOT revenue receipts. The City implemented a new PILOT program in FY2012. In this year, the City requested \$21.5 million in voluntary payments from local non-profits, and received a total of \$19.4 million from 33 organizations. This represents a 28% increase over the PILOT revenue received in FY2011. Some of the non-profit organizations in Boston have even voluntarily chosen to keep their properties on the tax rolls.

- Pittsburgh, Pennsylvania:** The City of Pittsburgh received a \$2.6 million pledge from the Pittsburgh Public Service Fund in FY2011. The Pittsburgh Public Service Fund is an advisory board for almost 50 local non-profit organizations, which make voluntary annual contributions without revealing the amount contributed by each organization. According to budget records, the City actually received \$3.5 million from non-profits in FY2011 and expects to receive over \$5.2 million for FY2012.

Rather than receiving financial contributions, some governments partner with non-profits for the provision of services directly to constituents. Generally referred to as SILOTs (services-in-lieu-of-taxes), these arrangements can help to offset the cost of service provision by local governments.

- Nashville, Tennessee:** Vanderbilt University provides police protection to areas of Nashville surrounding its campus. While the University does not make financial contributions to the City, the provision of this service allows the City to avoid the cost of providing police protection in these areas.

The City of Memphis currently received PILOT revenue from city-owned utilities. Memphis Light Gas and Water contributes about \$50 million annually to the City based primarily on a formula established by state law. The City also receives PILOT revenue from the sewer utility. In addition to utility PILOTs, the City collects some PILOT revenue from businesses that have been granted tax exemption as a business development incentive. These PILOTs are based on contractual agreements with individual businesses and are typically set for specified number of years during which the business remains tax-exempt. Memphis does not currently budget for revenue generated through voluntary PILOTs from local non-profits.

Compared to other large governments in Tennessee, Memphis has a larger percentage of properties that are exempt from paying property taxes. Given the large proportion of tax-exempt properties, there is a potential for Memphis to enhance available revenues by soliciting voluntary PILOT payments from local non-profits.

#### Tax-Exempt Parcels in Tennessee Cities

City	Total Parcels	Exempt Parcels	Exempt %
Chattanooga	81,839	3,227	3.9%
Knoxville	83,970	2,902	3.5%
Nashville	169,410	5,971	3.5%
Memphis	263,489	15,995	6.1%

The City has recently expressed an interest in seeking voluntary contributions from local non-profits and a July 2012 letter from the Alliance for Nonprofit Excellence expressed a willingness to working cooperatively with the City to achieve better results for residents. The City should pursue the local non-profit community for their support of government services whether through financial contributions or through service provision. Engaging with and receiving support from the non-profit sector has the potential to augment service provision while also offsetting to some extent the revenue foregone due to property tax exemption of these entities.

Given the relatively high proportion of tax-exempt parcels and non-profit activity in the City of Memphis, it is estimated that the City would be able to achieve at least \$2 million in additional revenue annually through voluntary PILOT contributions. PFM believes that this is a fairly conservative estimate and that a very active campaign to engage with non-profit organizations could likely yield even higher levels of contribution.

<b>RE04.</b>	<b>Develop a Local Revenue Legislative Agenda</b>	
	<b>Target outcome:</b>	Increase local government flexibility by imposing locally based taxes for fiscal sustainability
	<b>Five year financial impact:</b>	\$9.25 million
	<b>Responsible party:</b>	Mayor, City Council, Legislative Delegation

In Tennessee, municipalities are greatly limited in their ability to impose new taxes without approval of the General Assembly. Article II, Section 29 of the State Constitution provides that “The General Assembly shall have power to authorize the several counties and incorporated towns in this state to impose taxes.” As a result, “[L]ocal governments in Tennessee have few taxing options available to them...”<sup>65</sup>

Tennessee cities in general – and Memphis, in particular – are limited in their ability to generate tax revenue through taxes now being imposed by local governments in other states. For example, parking taxes, over and above sales tax on paid parking are increasingly common in U.S. cities. One benefit of a parking tax is that it affects non-residents, as well as resident commuters who use local government services. A 2005 National Parking Association study conducted by George Mason University found that taxes on paid parking in private garages or lots were as high as 50 percent in Pittsburgh, 25 percent in San Francisco and 22 percent in the City of Miami. Baltimore, with a 20 percent tax on parking, generated \$25.1 million in FY2012. A 2012 parking rate survey by Colliers International found that pricing for CBD parking in Memphis was already significantly below the cost for peer cities. The monthly parking rate for Memphis – \$92.00 – was less than the national average of \$164.80.

State law can also impose limits on reasonable fees that are imposed by local governments. For example, a University of Chicago Law School analysis concluded that “increases in the number of pawnshops are shown to raise the rate of those crimes in which pawnable property is stolen and to have no impact on the rates of those crimes in which such property is not taken. The results support the hypothesis that pawnshops trade in ill-gotten merchandise.”<sup>66</sup> Given the relationship, the Division of Police Services has maintained a Pawn Detail to track stolen goods. In Tennessee, pawnbrokers are required to be licensed by county clerks. The cost per license in Shelby County is \$50. Despite the cost impact of the pawnbroker industry on local police, state law (Tennessee Code Annotated 45-6-219) specifically prevents local governments from imposing fees on pawnbrokers for receiving, reviewing or processing daily reports or pawn tickets. Other cities, such as Phoenix and Des Moines, have adopted fees that Memphis is prohibited from enacting by state law.

Other taxes imposed by local governments are the latest in the line of so-called “sin taxes” imposed on users of certain products or services, where the tax is both a means of collecting revenue and a disincentive for use. Local taxes have been adopted on disposable bags as a means of reducing waste flow, and junk food and sugared beverages as part of the effort to curb obesity.

One of the more common local “sin taxes” is on cigarettes. A 2013 analysis by the Campaign for Tobacco Free Kids found that, nationally, more than 450 local governments impose local taxes on cigarettes, with the highest rate in Cook County at \$3.00 per pack. Alabama has the highest number of local governments that impose a local tax on cigarettes. Tennessee already imposes a tax on cigarettes at the rate of \$0.62 per pack of 20. According to the Federation of Tax Administrators, Tennessee’s tax rate on cigarettes ranks 39<sup>th</sup> nationally. New York ranks first at \$4.35 per pack and both Arkansas (\$1.15) and Mississippi (\$0.68) have higher rates than Tennessee.

<sup>65</sup> Stanley Chervin, Local Taxing Authority, Tennessee Advisory Commission on Intergovernmental Relations, July 2007 available at [http://www.tn.gov/tacir/PDF\\_FILES/Taxes/local%20taxing%20authority.pdf](http://www.tn.gov/tacir/PDF_FILES/Taxes/local%20taxing%20authority.pdf).

<sup>66</sup> Thomas Miles, Markets for Stolen Property: Pawnshops and Crime available at <http://www.law.umich.edu/centersandprograms/lawandeconomics/workshops/Documents/Winter2008/miles.pdf>.

A 1955 Private Act passed by the General Assembly authorizes Shelby County and all local governments within the County to impose a one cent per pack local tax. Chapter 5-16 of the City Ordinance provides for its collection. Two State Attorney General opinions have raised issues related to enforcement of the tax, but to date the issue has not been settled by the courts.<sup>67</sup>

The City should work with other Tennessee cities and counties and lobby the General Assembly for authority to impose parking, environmental, health and other local taxes. Other Tennessee local governments are also seeking alternative sources of funding for local government. The General Assembly would not be asked to endorse specific taxes, but instead to give additional taxing authority to local governments.

At the same time, the City should work to enforce the existing cigarette tax. Based on an estimate that as many as 20 percent of Memphis adults smoke an average of 14 cigarettes per day, enforcement of the one cent per pack tax would generate \$250,000 per day. If the General Assembly granted no other taxing authority to Memphis but simply indexed the 1955 rate, it would increase to a tax of \$0.09 per pack and generate \$2.25 million annually.

<b>CB08.</b>	<b>Invest Portion of Pension Savings to Create Incentive-based Pay for Performance Compensation for Employees</b>	
	<b>Target outcome:</b>	Improve compensation, better service delivery
	<b>Five-year financial impact:</b>	Significant percentage of yearly ARC savings reinvested in employee compensation, no net cost or savings
	<b>Responsible party:</b>	Finance Director, Human Resources Director

Memphis should re-invest a portion of its yearly savings from pension reform to establish funding for an incentive-based compensation program for employees.

The City should designate a portion of savings to create an incentive-based compensation program. The City could establish the level of available funds and allocate them to the respective divisions as a percentage of total salary (i.e. 3 percent of total salary). The incentive-based compensation could be tied to an employee's annual performance review. The incentive increment could be in addition to any cost-of-living-adjustment (COLA) offered by the City.

For example, the City may choose to offer a 1.0 percent COLA.<sup>68</sup> Using an assumed three percent of salary per division as the incentive pool, each division would be capped at a maximum allotment of incentive-based funds and no employee could receive more than a six percent total increase in compensation (inclusive of any COLA). Divisions would be prevented from providing all employees with the maximum level of incentive compensation to all employees because there would a finite amount of funds that would not support such a distribution. With this example, employees meeting all requirements of their jobs and performing satisfactory services would be expected to receive between 2-4 percent in incentive compensation. Employees performing less than satisfactory work would be expected to receive 0-1 percent incentive compensation and employees performing above or well above satisfactory service would be expected to receive 5-6 percent incentive compensation.

<sup>67</sup> In the most recent opinion, from 1987, the Attorney General suggested that the Private Act was unconstitutional because "Article XI, § 8 of the Tennessee Constitution prohibits the suspension of the general law for the benefit of individual cities or counties unless there is a rational basis for the distinction." Yet the opinion goes on to note that "it could be shown that the legislature had valid reasons for singling out a particular county or city." Tenn. Op. Atty. Gen. No. 87-35 (Tenn.A.G.), 1987 WL 272978.

<sup>68</sup> The City should not offer any COLA until its budget is fundamentally sound, and it is making 100 percent of its ARC payments. At that time, COLAs should only be provided up to a maximum of the smaller of 2.0 percent or CPI in tandem with incentive compensation.

Moving toward a performance based compensation system is a critical component of transitioning the City to a more customer-focused organization. Incentive-based compensation could be allocated among divisions based on overall performance and satisfaction levels.

The City may find it easiest to begin its incentive compensation program with its non-unionized managerial employees. After a successful pilot, the City should extend it to all employees. Significant policies, rule and procedures would need to be adopted to ensure fair and equitable standards are used to measure employee performance and compensation. Division directors should be eligible for incentive compensation based upon a performance contract that each director would enter into with the Mayor, subject to the same limits described for general employees.

<b>CB09.</b>	<b>Establish Public Service University</b>	
	<b>Target outcome:</b>	Improved employee performance and career development
	<b>Five-year financial impact:</b>	\$0
	<b>Responsible party:</b>	Mayor, CAO, Human Resources Director

Memphis' high school attainment rate lags behind the nation, state, other large Tennessee cities, and the remainder of Shelby County. Memphis also lags other benchmarks with regard to its percentage of population possessing a Bachelor's degree or higher. Memphis' level of educational attainment impacts City government both in terms of its current and potential workforce.

Albuquerque faces similar challenges to Memphis, with a large portion of its residents without a high school diploma and the related issue of finding qualified applicants for entry-level positions. In response, Albuquerque created a Public Service University (PSU). PSU is charged with creating and implementing learning and training tools for City employees through a blended delivery system that includes classroom and online options. The unit is staffed by a Director, Learning Consultant and two Learning Analysts in the Human Resources Department. The PSU provides training in three main categories:

- **Management Development Institute:** focuses on skill-building for managers, such as a new manager training program
- **Employee-Career Development Institute:** focuses on building skills of current employees, such as new employee integration program and career counseling
- **Institute of Safety and Health:** focuses on employee health and safety, such as safety trainings and preventative health care classes

Additionally, the PSU is has also implementing a testing program, in partnership with the American College Testing (ACT) on skills assessment software that will allow the City to improve its ability to match current and future employees to specific jobs based not only on their educational background, but on their skills and experience. The PSU also works with public partners, such as the University of New Mexico and New Mexico Department of Workforce Solutions, and private partners, such as Global Classroom.

In Memphis, establishing a PSU would require an initial investment in additional staff and technology. Though it may take some time for the PSU to begin producing tangible results, in the long-term this type of program can benefit the City's performance – by engendering a more highly skilled workforce – and bottom line – by reducing the lag-time for employees to reach full efficiency, reduce training costs and potentially reduce health and wellness costs.

For financial costing, this initiative assumes an annual operating budget of \$500,000 and is cost-neutral by rededicating the \$500,000 annual expenditure on educational reimbursements to funding the cost of PSU.

<b>PS07.</b>	<b>Increase False Alarm Fees<sup>69</sup></b>	
	<b>Target outcome:</b>	Reduced demand and increased revenues
	<b>Five-year financial impact:</b>	\$4.2 million
	<b>Responsible party:</b>	Finance Director

With false calls responsible for one out of every ten calls to the MFD, the City needs to create a false alarm fee program to both generate revenue and deter false calls. Memphis has a false alarm ordinance, but it only applies to MPD response to burglar alarms. Under the current alarm ordinance, there is no penalty for the first four false alarms; fines then are capped at \$25 per false alarm. MPD’s recent PERF report suggests that the high number of burglar alarms may indicate that the City’s alarm ordinance is not having an effect in minimizing false alarm calls – which account for a sizeable percentage of all alarm calls.

The City should enact an ordinance decreasing the number of false alarms before receiving a fine. Additionally, the City should create a false alarm fine system for false fire alarms. Fees should be set at a level closer to the actual cost of responding to false calls based on an hourly cost for personnel and equipment.

False alarm fees are common practice in many places. In Phoenix after an initial false fire alarm, subsequent false alarms result in a fee of \$105 per alarm. In Houston the fee per false alarm is \$300 after five false alarms for systems with no more than 10 alarm actuating devices. Last year, Toronto, Canada imposed what may be the most stringent fee structure in North America: building owners are charged on the basis of actual cost to the fire department on an hourly basis, with some fees – even for the first false alarm – in excess of \$1,000.

As the following table shows, a number of comparable cities have fire false alarm fees. In addition to fees that escalate based on the number of false alarms in a calendar year, a number of these jurisdictions can suspend the operation of alarm systems for serious repeat offenders. St. Louis suspends the registration for any alarm system after the 8<sup>th</sup> false alarm in a given year.

#### False Alarm Fees in Comparable Jurisdictions

City	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	9 <sup>th</sup>	10 <sup>th</sup>
Atlanta	\$-	\$100	\$200	\$300	\$750	\$750	\$1,000	\$1,000	\$1,000	\$1,000
Boston	\$100	\$100	\$100	\$100	\$100	\$200	\$200	\$200	\$200	\$200
Louisville	\$-	\$-	\$100	\$100	\$100	\$100	\$100	\$200	\$200	\$200
St. Louis	\$-	\$25	\$50	\$50	\$100	\$100	\$100	\$100	N/A	N/A

In Tennessee, under T.C.A. § 62-32-321, penalties for false alarms are capped at \$25. A University of Tennessee’s Municipal Technical Advisory Service analysis suggests that a “remedial fee” can be established beyond the \$25 cap because it is a service fee rather than a punitive fine.<sup>70</sup> In 2010, the City

<sup>69</sup> <sup>69</sup> In July 2010, Memphis City Council passed an ordinance to increase fees and fines for false alarms. The increase in fines does not match the scenario described by PFM in its initiative, but it is an attempt to deter false alarms that waste valuable public safety resources. Based on news report as of December 12, 2013, it was unclear whether the County Commission had also approved the change, a requirement for the change to be implemented. Based on the steps taken by the City in this area, the initiative is presented in Appendix A rather than with the other initiatives related to Public Safety.

<sup>70</sup> <http://www.mtas.utk.edu/KnowledgeBase.nsf/PrinterFriendlyProductWeb?OpenForm&ParentUNID=D08436774DEAEB18852572BB0063FE7F>

of Knoxville announced that it will be shifting to a new schedule – which had previously capped all fees at \$25 – to a new schedule of \$10 for the first false alarm, \$20 for the second false alarm and \$30 for the third and any further false alarms.<sup>71</sup> Memphis could establish a fee more in-line with comparable jurisdictions outside of Tennessee – utilizing a service fee in addition to a fine to assist in reducing false alarm calls. It is important to note, the goal of this initiative is not to raise revenue, but rather to free police and fire employees to be available to respond to actual emergencies as opposed to false alarms – thereby enhancing public safety above current levels without additional staff resources.

In terms of costing, this scenario assumes that the City adopt a fire false alarm schedule identical to that of Louisville, with fees being applied beginning with the third false alarm in a calendar year at a rate of \$100 and escalating to \$200 beginning with the eighth false alarm. The scenario also assumes that 15 percent of the MFD's and MPD's combined total of approximately 56,000 false alarms (46,000 for MPD and 10,000) in 2012 are "frequent fliers," which are residences or businesses with a history of repeat false alarms. It is these frequent fliers that are likely to pay fees for false alarm violations. Using these assumptions, the scenario projects approximately \$4.2 million in new revenue over the course of the five-year plan.

<b>PS08.</b>	<b>Relocate the Memphis Police and Fire Divisions</b>	
	<b>Target outcome:</b>	More efficient use of City owned facilities and potential for public-private partnerships
	<b>Five-year financial impact:</b>	Will depend on ability to identify specific cost savings or revenue sources
	<b>Responsible party:</b>	CAO

The City's two largest divisions – Police and Fire -- are currently housed outside of City Hall. The Division of Police Services is headquartered in the County-owned Justice Center in what Police officials, and most objective observers, consider being cramped office space. Currently, the Department occupies approximately 79,000 gross square feet of space at an annual cost of approximately \$1.4 million – or approximately \$17.70 per square foot. By comparison, as of the fourth quarter of 2012, the average rate for Class A office space in Downtown Memphis was \$16.75 per square foot.<sup>72</sup> The Memphis Division of Fire Services is housed – along with a fire station – on Front Street, next to a parking facility and with a view of the riverfront.

The current locations are not ideal. The Justice Center headquarters of the Police Division is crowded and costly. The location of the Fire Division, in what could be a prime location for development, is not the highest and best use of the property. Moreover, if the City proceeds with the recommended initiative to consolidate back office staffing of the two divisions, neither location has sufficient space to do so.

The City should develop a plan for a new public safety headquarters for both divisions. One possibility that the City has already started to explore is to relocate the divisions in a restored 128 Adams Street, the former Police headquarters that has remained vacant for thirty years.

The estimated cost of restoring 128 Adams Street – likely to be between \$30 million and \$40 million – would be partially offset by eliminating the cost of renting space in the Justice Center. In addition to the cost of financing the restoration, the City would also need to fund costs related to utilities and building maintenance. Another source of funding for the restoration of 128 Adams would be revenue from the sale and redevelopment of 65 Front Street, the Fire Division headquarters. Alternatively, the City could assess whether the relocation and restoration process could best be achieved through a sale leaseback

<sup>71</sup> Ferrar, Rebecca. "City of Knoxville tackles false alarms." *Knoxville News Sentinel*. December 19, 2010.

<sup>72</sup> Some of this difference may be due to the cost of utilities included in the lease rate for the Justice Center.

of the facility – where the City would sell 128 Adams, restoration would be undertaken by the private developer/owner and the City would lease back the facility from the owner.

If the City is unable to proceed with relocation of the Police and Fire Divisions to 128 Adams Street on a cost neutral basis, it should explore other opportunities for the reuse of 128 Adams – with potential proceeds dedicated to establishing a joint headquarters at another location. For example, 128 Adams could be privately redeveloped so that some of the space was leased for private use and some was used for government offices. One example of this type of approach is the co-location of a hotel and the District Attorney’s offices in the same building in Brooklyn, New York.

It is possible that the City would generate net revenue through the relocation of Police and Fire to Adams Street, with the elimination of rent costs and new revenue from redevelopment of either the Fire headquarters or part of 128 Adams. The amount of any net revenue would be speculative. The City, however, should only go forward with relocation if it will either yield net revenue or would be cost neutral.

<b>HPG11.</b>	<b>Review Use of Internal Service Funds</b>	
	<b>Target outcome:</b>	Improved cost allocation
	<b>Five-year financial impact:</b>	N/A
	<b>Responsible Party:</b>	CAO, Finance Director

The use of internal service funds chargeback departments for internal support functions is a common practice among cities because it allows the true cost of providing services to be reflected in each division’s budget – which is a more accurate reflection of the costs to the City. The types of services that are often charged-back include employee fringe benefits, vehicle maintenance, fuel and energy, postage, and facility maintenance. For example, the City of Houston uses six separate Service Chargeback Funds to account for cost-reimbursement across City departments. Their funds include:

- **Central Services Revolving Fund:** provides goods and services to operating departments. The receiving department’s budget is charged for the actual cost incurred by the Central Services Revolving Fund, with the revolving fund revenue account credited by the same amount. As an example, citywide temporary personnel costs are budgeted in this fund.
- **In-House Renovation Fund:** captures the costs associated with the renovation and reconstruction of fire stations. All costs are charged to the revolving fund in anticipation of billing a bond fund, General Fund or CDBG grant fund for reimbursement.
- **Fleet Management Fund:** used to account for fleet maintenance for twenty-six City departments.
- **Property and Casualty Fund:** records the transactions of the City’s self-insurance program for lost and personnel action claims. The Administration & Regulatory Affairs Department oversees the insurance functions while the Legal Department administers the claims portion. Revenue is generated from premiums assessed to other funds; premiums are based on projected expenditures.
- **Workers’ Compensation Fund:** collects and reports all costs of compliance to statutes related to Workers Compensation. The revenues are derived through charging the departments an administrative premium of \$8.75 semi-monthly per employee plus all direct costs related to claim expenditures, which includes indemnity, medical and disability payments. This fund is administered by the Human Resources Department.

- **Project Cost Recovery Fund:** used to pay the costs of department employees who directly and indirectly work on CIP-related projects. These costs are then recovered from the appropriate CIP project fund. This fund is administered by the Finance Department.

In addition, the City also uses a Health Benefits Fund to charge departments for the cost of employee health benefits and a Long-Term Disability Fund to charge departments for employee long-term sick leave benefits.

Memphis currently uses two internal service funds, the Healthcare Fund and the Fleet Fund. The Healthcare Fund accounts for the City’s self-insurance for healthcare benefits for its employees, their dependents and retirees. The Fleet Fund accounts for the maintenance and repair of the City’s vehicles and equipment. For each fund, individual divisions reimburse the cost of services provided. The City should increase its use of internal service funds to charge individual divisions for the services they consume from other divisions across City government.

The City’s current practice means that, in general, divisions make spending decisions in the absence of full cost information, which can reduce accountability for the impact of those decisions. It can also make service departments look smaller than they actually are while administrative functions seem too large. For example, even though the Fire Division and Police Division account for 60 percent of the total FY2013 General Fund budget, the true cost of these two divisions is likely even greater when the value of support functions such as human resources or technology are included.

Additionally, this type of cost accounting can help identify internal service providers that are inefficient, such as slow time to completion or poor quality of work, and which divisions are wasteful users of internal services, such as a decreased use in copier usage after being charged the actual level of usage. Ultimately, charging divisions for these types of services allows for a much clearer picture on the true cost of operating each division. Moving forward, the City should begin to develop cost allocation plans for determining the cost of providing services in the following divisions:

- City Attorney
- Engineering
- Information Services
- Finance
- General Services
- Human Resources

<b>HPG12.</b>	<b>Institute Retirement/Separation Incentive to Strategically Reduce Workforce</b>	
	<b>Target outcome:</b>	Cost reduction
	<b>Five-year financial impact:</b>	\$40.7 million
	<b>Responsible party:</b>	Mayor, CAO, Finance Director, Human Resources Director, Police Director, Fire Director

The goals of a Retirement/Separation Incentive would be to reduce the number of City employees, by a net of at least 150 positions, establish a new maximum workforce level for each division (including Police and Fire), thereby instituting a hard cap on the backfilling of positions vacated by the Retirement/Separation Incentive, and achieve recurring budget savings.

Recently, the Metropolitan Government of Nashville-Davidson (Nashville) extended an incentive to its employees of all titles in all departments who were already eligible for retirement. Nashville offered those eligible employees a cash payment of \$700 per year of service as an incentive to elect to retire. The one-

time, irrevocable decision had a firm deadline and Nashville is projected to realize a participation rate of approximately 15 percent.

Memphis police officers and firefighters, who typically retire when they are eligible, are more likely to participate in the incentive. Consistent with our recommendations in the Public Safety section, the incentive would be a means of increasing position reduction through attrition.

Memphis could offer all employees (regardless of retirement eligibility) a cash separation incentive similar to Nashville's \$700 per year of service. This initiative would help the City achieve full savings sooner from civilianization initiatives discussed in the Public Safety chapter of this report. Additionally, the initiative would help the City evaluate vacant positions and capture incremental savings from backfilling positions with more junior workers who earn less than the retiring employees (who are more likely to have higher salaries). **It is important to note that the savings attributable to this initiative may overlap with a portion of savings attributable to civilization initiatives in the Public Safety chapter.**

The precise structure of the incentive should be reviewed by the City Attorney and outside actuary. But as a start, the plan could include the following elements:<sup>73</sup>

*Employees currently eligible to retire – attainment of 25 YOS, regardless of age*

Those with 25 or more years of service (YOS) who are currently eligible could be offered \$700 per year of service. The City could enhance the offer by providing that any employee in this category receive an incentive as if he/she attained 30 YOS or his/her actual years of service – whichever is greater. The enhanced YOS would be applicable *only* to the incentive. No pension or other benefits would be augmented in any manner.

As of July 1, 2012, there were 174 eligible public safety FTEs and 86 general FTEs in this tier (total of 260 FTEs). It is estimated that due to police and fire employee typical retirement at or shortly after eligibility, there would be a significant take-up rate associated with the incentive for that subset of eligible retirees. For purposes of this example, the take-up rate is assumed to be 40% - or 70 FTEs for uniformed fire and police FTEs. The assumed take-up rate for general FTEs is less – at 20 percent – or 17 FTEs. At a cost of approximately \$21,000 per FTE, the 87 assumed separations would cost the City nearly \$1.8 million. Assuming an average fully-loaded public safety employee cost of \$67,679 (weighted average of sworn police and firefighter fully-loaded costs), an average fully-loaded general FTE employee cost of \$54,546 (average of all non-sworn FTEs) and implementation effective January 1, 2015 that achieves a half-year of salary savings, the City would save approximately \$2.8 million dollars, for a net savings in FY2015 of \$1,000,000 from this cohort.

*Public Safety Employees currently eligible to retire – attainment at 55 and 10 YOS*

Those who are eligible to retire because they are age 55 with 10 YOS, but less than 25 YOS, could be offered \$700 per year of service. The City could enhance the offer by providing that each employee in this category with an additional 3 YOS for incentive calculation (e.g. \$2,100) – up to a maximum of 27 YOS. The enhanced YOS would be applicable *only* to the incentive. No pension or other benefits would be augmented in any manner.

As of July 1, 2012, there were 90 eligible FTEs in this tier. It is estimated that due to employee interest in achieving full-service retirement, there would be a much smaller take-up rate associated with this tier. For purposes of this example, the take-up rate is assumed to be 10 percent - or 9 FTEs. Based on the most recent data reported in the City's actuarial valuation report, 20 employees in this tier have between 10-14 YOS. Assuming 10 percent, or two employees participate and have 17 YOS (using maximum of 14 YOS plus extra 3 YOS), the City's cost for the incentive would be approximately \$23,800. Again, based on the most recent data reported in the City's actuarial valuation report, 25 employees in this tier have between 15-19 YOS. Assuming a 10 percent participation rate, or two employees participate and have 22 YOS

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<sup>73</sup> All plans contemplated exclude data for DROP participants as of July 1, 2012 – 214 police and fire fighter FTEs and 121 general FTEs.

(using maximum of 19 YOS plus extra 3 YOS), the City's cost for the incentive would be approximately \$30,800. Last, 45 employees in this tier have between 20-24 YOS. Assuming 10 percent, or five employees participate and have 27 YOS (using maximum of 24 YOS plus extra 3 YOS), the City's cost for the incentive would be approximately \$94,500. The total cost of incentives for this tier would total approximately \$149,000.

Assuming an average fully-loaded public safety employee cost of \$67,679 (weighted average of sworn police and firefighter fully-loaded costs) and implementation effective January 1, 2015 that achieves a half-year of salary savings, the City would save approximately \$305,000, for a net savings of approximately \$156,000.

In practice, it is more likely that those employees with less years of service would participate in the incentive, as those employees with higher years of service may choose to retire only upon attainment of normal service retirement of 25 YOS. This would lower the average cost of the incentive, but may also lower savings employees with more years of service may have higher salaries and associated costs.

#### General employees currently eligible to retire – attainment of age 60 and 10 YOS

Those who are eligible to retire because they are age 60 with 10 YOS, but less than 25 YOS, could be offered \$700 per year of service. The City could enhance the offer by providing each employee in this category with an additional 3 YOS for incentive calculation (e.g. \$2,100) – up to a maximum of 27 YOS. The enhanced YOS would be applicable *only* to the incentive. No pension or other benefits would be augmented in any manner.

As of July 1, 2012, there were 147 eligible FTEs in this tier. It is estimated that due to employee interest in achieving full-service retirement, there would be a smaller take-up rate associated with this tier. For purposes of this example, the take-up rate is assumed to be 10 percent - or 15 FTEs. Based data reported in the City's actuarial valuation report, 61 employees in this tier have between 10-14 YOS. Assuming 10 percent, or six, employees participate, and have 17 YOS (using maximum of 14 YOS plus extra 3 YOS), the City's cost for the incentive would be approximately \$71,400. Again, based data reported in the City's actuarial valuation report, 52 employees in this tier have between 15-19 YOS. Assuming 10 percent, or five, employees participate, and have 22 YOS (using maximum of 19 YOS plus extra 3 YOS), the City's cost for the incentive would be approximately \$77,000. Last, 34 employees in this tier have between 20-24 YOS. Assuming 10 percent, or three, employees participate and have 27 YOS (using maximum of 24 YOS plus extra 3 YOS), the City's cost for the incentive would be approximately \$56,700. The total cost of incentives for this tier would total approximately \$205,000.

Assuming an average fully-loaded general employee cost of \$54,546 and implementation effective January 1, 2014 that achieves a half-year of salary savings, the City would save approximately \$409,000 for a net savings of approximately \$204,000.

In practice, it is more likely that those employees with less years of service would participate in the incentive, as those employees with higher years of service may choose to retire only upon attainment of normal service retirement of 25 YOS. This would lower the average cost of the incentive, but may also lower savings employees with more years of service may have higher salaries and associated costs.

#### All other employees

Memphis could also choose to extend the incentive to all 5,596 current employees (as of July 1, 2012) who are not currently eligible to retire. Employees in this tier could be offered an incentive of \$700 per year of service. It is unlikely that a significant number of employees would choose to participate in this incentive. For purposes of this example, the assumed participation rate is one percent -- or 54 FTEs (35 public safety FTEs and 19 general FTEs).<sup>74</sup>

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<sup>74</sup> Conservative rounding results in take-up rate slightly below one percent due to component age groups.

Assuming an even one percent split among all employee ranges of years of service ranges in this tier results in:

- 18 FTEs with between 0-4 YOS (11 public safety FTEs; 7 general FTEs)
- 11 FTEs with between 5-9 YOS (7 public safety FTEs; 4 general FTEs)
- 13 FTEs with between 10-14 YOS (8 public safety FTEs; 5 general FTEs)
- 7 FTEs with between 15-19 YOS (5 public safety FTEs; 2 general FTEs)
- 5 FTEs with between 20-24 YOS (4 public safety FTEs; 1 general FTEs)

Assuming that, as with previous tiers, every employee that elects to participate is at the highest YOS for each respective range, the incentive cost to the City would be approximately \$425,000.

Assuming an average fully-loaded public safety employee cost of \$67,679, an average fully-loaded general employee cost of \$54,546 and implementation effective January 1, 2014 that achieves a half-year of salary savings, the City would save approximately \$1.7 million dollars, for a net savings of approximately \$1.2 million.

Again, in practice, it is more likely that those employees with less years of service would participate in the incentive, as those employees with higher years of service may choose to retire only upon attainment of normal service retirement of 25 YOS or attainment of age 55/60 and 10 YOS. This would lower the average cost of the incentive, but may also lower savings employees with more years of service may have higher salaries and associated costs.

In sum, the net savings described in the above example could yield the City approximately \$2.6 million in the first year (half year of savings) and \$10.5 million annually thereafter (assuming no position backfills) for a total of \$44.6 million for the five year period.

The City will likely need to backfill several incentive separations, but should seek to only replace one in ten incentive separations and, for sworn public safety positions, doing so with the hiring of a civilian to increase the efficiency of the Police Division. This may require some reorganization and enhanced span of control responsibilities in various divisions. With public safety – specifically police -- the goal should be to enhance the number of sworn officers performing specific police functions.<sup>75</sup>

For public safety positions, assuming the City backfills one sworn position with a civilian for every ten sworn incentive separations, it would cost the City approximately \$53,135 per civilian employee (weighted average of police and fire fully-loaded civilian FTE). With a 1:10 ratio of backfills and 115 assumed incentive separations, there would be approximately 11 civilian positions that could be hired. This would cost the City approximately \$584,500. Assuming civilians are hired at midyear during the first year, half a year of expenses would accrue in and full costs would exist in subsequent years. This would cost the City \$292,250 in the first year and permanently save approximately \$2.6 million over the five year period of the plan.<sup>76</sup>

For the backfilling of general employee separations, it is also assumed that one position of every ten incentive separations would be backfilled. This would cost the City approximately \$273,000. Assuming backfills are effective at midyear during the first year, half a year of expenses would accrue in the first year and full costs would exist in subsequent years. This would cost the City \$137,000 in the first year and approximately \$1.2 million over the five year period of the plan.

With backfills, the incentive separation would save the City (net) \$2.1 million in the first year and \$40.7 million over the five year period of the plan.

<sup>75</sup> For additional discussion of sworn police force size and FTE count, please refer to the Public Safety chapter of this report.

<sup>76</sup> Additional civilianization initiatives and associated savings are further discussed in the Public Safety chapter of this report.

<b>HPG13.</b>	<b>Implement Procurement Process Improvements</b>	
	<b>Target outcome:</b>	More efficient and effective procurement
	<b>Five-year financial impact:</b>	\$470,000
	<b>Responsible party:</b>	Finance Director, Purchasing Agent

Various divisions report challenges related to length of the purchasing process and vendor payment process. Recent efforts by the City’s Purchasing office and City Attorney’s office have helped streamline legal review of City procurements. However, anecdotal feedback and data suggest the procurement process is delayed at certain points in the process. Primarily, this appears to occur when procurements are in the “division review” portion of the procurement process. Often times, procurements remain under review by divisions before being sent back to the purchasing office for final procurement – anecdotal information suggests this is often due to a large number of touch points or long periods of inaction within a division. Some of the challenges associated with the City’s procurement process include:

- **Lack of purchasing plans:** the City does not have division or citywide purchasing plans. If the City had an annual purchasing plan, it would require departments to provide a formalized, detailed plan for purchasing goods and services for the entire year as a part of the budget process. These plans would be compiled together to create a plan for all of City government. Individual divisions could then be held accountable to their purchasing plans throughout the year. If the City had purchasing plans, the Purchasing Agent would work with divisions to ensure they follow their plan as well as communicate progress, challenges or necessary changes with the Administration and City Council.

Another result of the lack of comprehensive purchasing plan is the inability for the City to view purchasing decisions with a long-term, enterprise-wide view. For example, there is no structure in place that allows Administration officials to weigh the needs of one division in the beginning of the year versus the needs of another division later in year. This type of analysis could aid decision-makers as tough choices are evaluated during the budgeting process.

- **Lack of vendor evaluation:** The City does not have a formal vendor communication and evaluation program. Typically, this type of program would require divisions to provide feedback on vendors to ensure that they provided the goods or services at the price and quality dictated in the purchasing agreement. This type of review would allow the City to evaluate vendors in order to identify high and low performing vendors. High performing vendors could potentially be rewarded through policies that include pre-approval, while low performing vendors could be eliminated from consideration for future City contracts. The City is also missing out on gaining valuable information from its vendors on how the City could improve its customer service process.
- **Low use of P-cards:** In FY2012, there were approximately 7,552 purchases (based on invoice dates) of \$2,500 or less, the maximum threshold for p-card usage. An increasingly popular tool, the City is not taking full advantage of purchasing cards (p-cards), a charge card similar to a credit card that allows goods and services to be procured without the “red tape” traditionally associated with purchase orders.

Increase use of p-cards

National data suggests that P-cards can save on average \$71 per transaction as compared to traditional purchase order methods.<sup>77</sup> Experiences of other governments are disparate and range from relatively

<sup>77</sup> RPMG Research Corporation, “A Summary of the 2010 Purchasing Card Benchmark Survey Results.”

low savings of \$10 per transaction to as high as \$90 per transaction. The standard process of issuing purchase orders for even small dollar items is extremely paper and time intensive and costly. The costs associated with processing these small orders often exceed the dollar value of the item purchased. Memphis should broaden its use of P-cards for these types of purchases.<sup>78</sup>

P-cards offer rebates based on the volume purchased – and some innovative governments are using them for higher dollar purchases, such as utilities and construction materials, to increase spending volume and their rebate. Many governments have experienced the increased savings through the use of p-cards, including:

- Fairfax County, Virginia reports that the results of a survey of its users found the average cost to make a P-card purchase is \$10.60 and the average cost to make a similar purchase using a Small Purchase Order is \$20.64.<sup>79</sup>
- The Metropolitan Atlanta Rapid Transit Authority implemented a P-card program in 2000 and saw the number of blanket purchase orders decrease by 75 percent. This enabled buyers to handle more complicated procurements while cardholders were empowered and responsible for their small purchases. Based on a six month period, the Authority calculated total savings of \$454,600 in processing costs.<sup>80</sup>

To be successful, P-card programs do require high-level support, education and training. Like most efforts aimed at changing behavior, the key to increased use of the card lies in marketing its benefits and reducing fears of its potential drawbacks. The biggest concerns with the use of P-cards are “rogue spenders.” However, actual experience suggests that while misuse will occur, it will not occur more frequently than via other purchasing methods. In fact, the controls that can be built into the electronic system should reduce, rather than increase misuse compared to a paper-based system.

According to FY2012 City data, there were approximately 7,552 purchases (based on invoice dates) of \$2,500 or less that did not use a P-Card (\$2,500 is the maximum threshold for P-card usage). To the City’s credit, its Purchasing Office has indicated it is reviewing options to increase p-card usage. This action could hold important savings for the City. As part of this exploration, the City may wish to consider issuing an RFP to explore its vendor options as it has had the same P-card vendor since 1996.

Increasing the use of P-Cards could yield savings to the City. Taking a conservative approach, assuming the City achieves only a modest \$25 savings per transaction – well below national average – if the City used P-cards for just half of the above invoiced transactions it could have saved approximately \$94,000 during FY2012: rebates, which would increase savings, are not included in this estimate. Assuming that the City adopts greater use of P-cards in FY2014 and the associated number and value of transactions under \$2,500 remains consistent with FY2012 levels, the City could be expected to save \$94,000 in FY2014 and \$470,000 during the FY2014-FY2018 period.

#### Develop division purchasing plans

As part of their annual budget, each division should produce a purchasing plan for materials and supplies. These divisional plans will feed into a larger citywide procurement plan. The benefits of annual procurement plans include:

- Allow divisions to explain materials and supplies needs and then be held accountable throughout the year to their own budget plan

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<sup>78</sup> Currently, Memphis has a P-card transaction limit of \$2,500. However, Division Directors are authorized to make direct purchases up to \$5,000.

<sup>79</sup> Information from the County at [www.fairfax.va.us/dpsm./pdf/pccostanalysis](http://www.fairfax.va.us/dpsm./pdf/pccostanalysis)

<sup>80</sup> National Institute of Governmental Purchasing, “Best Practices Articles, “Procurement Card Usage” [www.nigp.org](http://www.nigp.org).

- Enable a comprehensive view of purchasing needs citywide, which can allow for bulk purchases if separate divisions are planning to purchase similar items, increased use of RFPs or competitive bids when appropriate or identifying investments that can benefit multiple divisions

As part of this effort, the City should identify a senior official in every division to serve as the purchasing liaison to help streamline the division review process and communication with the Purchasing office. One person with central responsibility per division should allow for enhanced communication, tracking, knowledge, and speed associated with the procurement process.

Convene working group of procurement professionals across related governmental entities

The City should convene a working group that brings together the lead procurement professionals from across Memphis’ governments and related entities to identify and explore joint-purchasing opportunities.<sup>81</sup> At a minimum, the following regional entities should be invited to participate:

- Shelby County
- Memphis Housing Authority
- Memphis Light, Gas and Water
- MATA
- Airport

Working group collaborations could eventually lead to bulk purchasing for more expensive goods or comprehensive agreements for professional services or property maintenance.

Establish formal vendor review process

The City should establish a vendor review process in order to identify high performing and low performing vendors. The evaluations should include feedback from the divisions to rate the quality of the goods or services, as well as the overall working relationship, with the vendor. Ultimately, the division perspective should determine whether the vendor provides quality goods or services that meet the specifications the division requires. The evaluations should also seek to get input from the vendors to better understand their perspective in working with the City and identify areas where the City can improve as a partner.

Because projected savings related to broader procurement reform are difficult to estimate, the financial impact below only reflects the proposed increase in P-Card utilization.

<b>HPG14.</b>	<b>Managed Competition for Mail, Print, Property Maintenance, Grass Cutting and Street Maintenance</b>	
	<b>Target outcome:</b>	Budget savings and operational efficiencies
	<b>Five-year financial impact:</b>	\$5.62 million
	<b>Responsible party:</b>	CAO, General Services, Public Works

Managed competition provides an environment where private sector firms and public sector employees can both be given an opportunity to compete to provide services. This model has also been used to provide a broader choice in how to deliver service. Managed competition first came into broad use in Phoenix, Arizona in the late 1970's.<sup>82</sup> When first in extensive use, the City of Phoenix reported savings of

<sup>81</sup> The City currently purchases health care and fuel through joint/cooperative purchasing arrangements that have proven beneficial. The City should continue to build upon these successful efforts. Additionally, the City's use of joint purchasing through various state, federal and cooperative arrangements is beneficial and should be continued and expanded as appropriate.

<sup>82</sup> In early efforts, the city's Public Works Department lost several solid waste contracts to private sector firms. Over time, it improved its offers through innovation, new technology and learning from private sector approaches. After an initial loss of one half

over \$25 million from managed competition, with municipal employees winning 18 out of the 51 contracts put out to bid. Other cities reported savings as well, including Indianapolis estimating \$28 million in annual savings by identifying over 150 opportunities to use managed competition; in the instances where city employees prevailed over private sector firms, the City saved an average of 25 percent. Philadelphia estimated that managed competition for 13 city services annually saved \$16.4 million.<sup>83</sup>

More recently the City of San Diego began to bid certain services using managed competition and City employees have won the first five bid opportunities for publishing, fleet maintenance, street sweeping, landfill operations and street/sidewalk maintenance. Changes in the City's publishing operations saved approximately \$1 million in its first year and, once contracts for all five of the services are implemented, the City expects to save as much as \$12 million annually.<sup>84</sup>

Public sector employees, when given the opportunity and incentive to compete, can effectively do so. Unlike their private counterparts, the public sector employees do not have to factor a profit into their bids, they have access to a trained and experienced workforce, and they can, if necessary, obtain capital at a lower cost than their private sector counterparts. At the same time, there may be services where the private sector has a competitive advantage that translates into better service and pricing, and a managed competition can identify those and award contracts to private sector firms when that is demonstrated.

The City should use a managed competition model for selected services to determine appropriate costs and levels of service in these areas and move to private vendors where appropriate based on this analysis. This process should include specific policies and procedures for conducting a managed competition and for the cost analysis of the competing proposals. This could include comparability of wages and other benefits, employee transition costs, workplace safety policies and records, etc.

The following are areas where managed competition has been undertaken by other urban local governments:

- Building management services
- Custodial services
- Fleet maintenance
- Fuel distribution
- Mail and printing services
- Painting

It is generally assumed that injecting competition into the contracting process will result in improved levels of service or better pricing. However, identifying the appropriate services to engage in a managed competition is not a simple process, nor does every exploration of managed competition make sense for various jurisdictions.

While managed competition is often portrayed as a measure to reduce costs or improve service delivery, part of its appeal is the opportunity to incent innovation among public employees. A well designed process frees public employees from the shackles of 'the way we do things' and gives front line workers the opportunity to create better processes from the ground up. It encourages the philosophy of continuous quality improvement that has proven effective in a variety of activities in the private and public sector.

Such continuous improvement may also result in the City identifying some areas of opportunity for "in-source." In other words, there may be opportunities for the City to assume some of the functions itself that it currently contracts to the private sector – similar to managed competition, a close cost-benefit

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of the solid waste collection districts, the Public Works Department was able, over time, to win back the contracts previously lost to private firms. This success story was replicated in other governments.

<sup>83</sup> "Making Effective Use of Managed Competition," Seattle Office of the City Auditor, 1995, p. 3.

<sup>84</sup> Halverstadt, Lisa. "Managed Competition Contracts: Where They Stand." *Voice of San Diego*. February 12, 2013.

analysis is necessary before deciding to “in-source” a function to City government. Insourcing tends to work best in those areas where private sector salaries are higher than public sector salaries – for example attorneys, engineers, etc.

General Services provides a number of functions that are also provided by the private sector – or in some cases – non-profits (e.g. fleet management, property maintenance, print shop, mail services, real estate, etc.). For print and mail services and property maintenance, the City currently spends approximately \$6.2 million in fully-loaded FTE costs to provide the services – this cost does not include the additional materials and supplies associated with providing these services.

The Division of General Services is also responsible for mowing grass on City-owned properties – including the City’s 161 parks.<sup>85</sup> The Public Works Division is responsible for cutting grass on the City’s right of ways (medians, roundabouts, etc.). The Division of Neighborhood Improvement is responsible for blight reduction and mowing overgrown vacant properties in the City. Recently, Community Enhancement began contracting with private, small businesses to mow/trim all overgrown grass and weeds within an assigned 25-square block radius under the 25 Square program.

The City should centralize all grass cutting services within the Division of General Services to achieve greater efficiency and then consider pursuing managed competition for grass cutting as well.

The City should also consider exploring managed competition for street maintenance currently performed by the Street Maintenance department within Public Works. The primary function of this unit to perform road paving, fill potholes and other infrastructure repair and maintenance. Currently, road paving is performed by dedicated in-house Street Maintenance crews, though the division has outsourced a significant portion of this function in the past. Other functions, such as crews that fill potholes, are broken into zones throughout the City and dispatched to work sites or self-identify work sites. The City currently spends approximately \$5.5 million in fully loaded FTE costs for providing these services. Managed competition for these functions could be especially beneficial to the City because it owns and operates its own asphalt plant – the division spent approximately \$3.8 million on asphalt products in FY2012 – which can help ensure that the City does not overpay for this crucial supply. In October 2012, City employees in San Diego won a bid to continue performing street repair work while reducing the cost of providing the service by \$875,000, a seven percent decrease.

Financial impact, phased in during the first year, is assumed to equal ten percent of the current personnel cost of print and mail services, street maintenance and property maintenance.

<b>HPG15.</b>	<b>Close or Outsource Underutilized Community Centers</b>	
	<b>Target outcome:</b>	More efficient service delivery
	<b>Five-year financial impact:</b>	\$1.8 million
	<b>Responsible party:</b>	Parks and Neighborhood Director

Based on attendance data from FY2011 to FY2012, there are eight community centers that have each averaged less than 35,000 in attendance, or between one and two percent of total attendance. All but one of these centers experienced a decline in attendance, some as high 24 percent. Considering the relatively small number of users for these facilities and the downward trends they have experienced, the City should consider closing or outsourcing the management of some of these centers to private organizations.

<sup>85</sup> The division uses part-time employees during grass-cutting months to augment its permanent staff and keep its 28-day cut cycle.

### Low-Utilization Community Centers

Community Center	Area	FY2011 Total	FY2011 %	FY2012 Total	FY2012 %	FY2011- FY2012 % Change
Gaston	South-Southwest Memphis	33,531	2%	32,761	2%	-2%
Charles Powell	South-Southwest Memphis	38,785	2%	29,541	2%	-24%
Mitchell	South-Southwest Memphis	29,837	2%	29,214	2%	-2%
Katie Sexton	North Memphis-Frayser Raleigh	28,492	2%	28,893	2%	1%
Douglass	North Memphis-Frayser Raleigh	38,098	2%	28,654	2%	-25%
Dave Wells	North Memphis-Frayser Raleigh	28,883	2%	26,838	1%	-7%
Whitehaven	South-Southwest Memphis	40,282	2%	23,672	1%	-41%
Pine Hill	South-Southwest Memphis	26,855	2%	23,252	1%	-13%

There are currently four community centers that the City outsources to a private non-profit organization. Under this arrangement, the City continues to pay for maintenance and repair of the facilities, but the staffing and programming for these centers are outsourced. Unfortunately, comparative data for these four centers – Greenlaw, Hamilton, Bethel Labelle and Simon Boyd – over this same period is not available.

The FY2012 forecasted net expenditures for Recreation was \$7.2 million or an average of \$300,000 for each of the City's 24 community centers. Considering that more detailed analysis is needed to determine the total cost per community center, if this average is discounted by 25 percent, the average cost is approximately \$225,000. If the City saved 60 percent of those costs for the three lowest utilized community centers – the City would still be responsible for maintenance and may pay some level of management fee – that would represent a total savings of roughly \$400,000 annually with savings beginning in the second half of the first year of implementation.

<b>HPG16.</b>	<b>Close, Consolidate or Outsource Underutilized Library Branches</b>	
	<b>Target outcome:</b>	More efficient service delivery
	<b>Five-year financial impact:</b>	\$1.89 million
	<b>Responsible party:</b>	Parks and Neighborhoods Director

Based on data from FY2007 to FY2012, there are four library branches in the South region that appear to be under-utilized. Three of these branches have experienced a significant decline in attendance over this period, as high as 38 percent. Considering the relatively low number of users for these branches and that they are all in the same region, the City should consider closing, consolidation or outsourcing of these branches.

### Low-Utilized Library Branches

Library Branch	Region	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012 %	FY2008 - FY2012 % Change
Cherokee	South	72,657	80,146	66,775	58,039	69,495	64,207	2%	-12%
Cossitt	South	49,875	45,192	53,044	48,711	55,818	58,007	2%	16%
Levi	South	45,767	46,591	41,979	37,007	39,986	41,215	2%	-10%
Crenshaw	South	66,142	66,216	66,525	45,683	45,087	40,767	2%	-38%

The City's library branches have experienced cutbacks in staffing and other resources that have limited hours and likely contributed to the decline in attendance. While closing branches should be considered due to the budget savings it can produce, the City should also consider evaluating options to outsource branches to non-profit organizations in a manner similar to the four community centers that have been outsourced, which could reduce the cost of providing services to the City while maintaining a valuable community resource for Memphis residents.

Any plan to close, consolidate or outsource branches should aim to ensure that residents in this region still have adequate access to a local branch. The FY2012 forecasted net expenditures for the entire system was \$11 million, the equivalent of roughly \$600,000 for each of the City's 18 branches. More detailed analysis is needed to determine the costs of specific branches that would be closed or consolidated, especially considering that larger branches such as the Central branch cost more to operate than smaller branches. However, a conservative estimate that discounts the rough average cost per branch by 30 percent results in a cost of \$420,000 per branch. If the City saved 50 percent of those costs through the closure of two branches, that would represent a total savings of roughly \$420,000 a year – with savings beginning in the second half of the first year of the plan.

<b>HPG17.</b>	<b>Increase Energy Efficiency in Government Operations</b>	
	<b>Target outcome:</b>	Increase sustainability and achieve budget savings
	<b>Five-year financial impact:</b>	\$2.4 million
	<b>Responsible party:</b>	CAO, Sustainability, General Services

An October 2012 planning document developed by the Memphis Bioworks Foundation indicates that the City of Memphis spends approximately \$40 million each year in utility charges, with \$30 million for energy costs for buildings and street lights that are directly paid by the City. The Bioworks Foundation plan notes that three City owned buildings – City Hall, the Central Library and the Pink Palace – account for \$1.7 million in annual energy costs.

Nationally, local governments have turned to energy efficiency as a critical strategy for both promoting environmental sustainability and reducing the cost of doing business. A 2011 analysis by the U.S. Environmental Protection Agency Energy Efficiency in Local Government Operations highlighted a series of steps that local governments had already undertaken to do just that.<sup>86</sup>

- Arlington County, Virginia's Fresh AIRE program was launched in 2007. Efficiency improvements in electrical, heating, plumbing and cooling systems in the County Justice Center were implemented through an energy saving performance contract and were projected to yield reductions in electricity of 14 percent and natural gas use of 35 percent. In addition,

<sup>86</sup> U.S. Environmental Protection Agency, Energy Efficiency in Local Government Operations, 2011 available at [http://www.epa.gov/statelocalclimate/documents/pdf/ee\\_municipal\\_operations.pdf](http://www.epa.gov/statelocalclimate/documents/pdf/ee_municipal_operations.pdf).

improvements in the County’s Central Library facility reduced electricity use by 25 percent and a lighting retrofit in a juvenile detention center reduced electricity use by 30 percent.

- In Baltimore, Maryland, a series of energy conservation efforts have led to a reported \$500,000 reduction in energy costs. Additional investments in energy efficiency in public buildings totaling \$7 million were projected to yield another \$500,000 a year in cost savings.
- In Broward County, Florida, the National Association of Counties reports that an \$8 million investment in energy efficiency has yielded annual savings of \$1.5 million.
- In Chicago, “tune-ups” to 50 boilers in city facilities – costing \$12,500 each – have produced savings of nearly \$1.65 million in energy cost, mostly through reductions in natural gas use.

At the federal level, the Qualified Energy Conservation Bond and the Clean Renewal Energy Bond programs were both developed to support local government investments in greater efficiency. In Tennessee, the State has created a Local Government Energy Loan Program that offers low-interest loans to municipal and county governments to fund energy-related improvements. The loan maximum for each community is \$500,000 annually, and interest rates are 0 percent for Three-Star certified communities and 3 percent for all others, with loans amortized over seven years.<sup>87</sup>

Energy Service Companies (ESCOs) are also a mechanism for financing investments in efficiency. Under ESCOs, a private entity bears the risk that the investment will yield savings and actually funds a city’s upfront investment through the projected savings.

There are also non-capital intensive approaches to reducing energy costs at the local government level. In New York, the City’s Office of Energy Management regularly monitors energy utilization by department by building. Different departments have designated energy teams charged with reducing energy utilization through basic steps such as a “lights off” challenge and sharing and implementing tips related to shutting off computers, office setup and design and closing blinds during sunny days. Through November 2012, these steps helped the City reduce energy cost by 4 percent from the prior year. Thus, even as Memphis moves forward with capital investments to produce long term and more significant savings, a focused effort with City employees to reduce energy use could produce more immediate results. The following financial impact assumes a one percent decline in cost in Year 1 and subsequent additional reductions of one-half of one percent per year (offset by an annual investment of \$60,000 in staff to promote the effort). This analysis is separate from independent investments in lighting, heating and cooling systems where the payback period might exceed five years.

<b>HPG18.</b>	<b>Establish a Productivity Bank</b>	
	<b>Target outcome:</b>	Achieve cost savings, revenue gains, and service improvements through strategic investment in innovation, accountability, and entrepreneurship
	<b>Five-year financial impact:</b>	Long-term savings after initial start-up costs
	<b>Responsible Party:</b>	CAO

A Productivity Bank is an internal revolving loan program that allows departments to make otherwise unaffordable up front investments in return for longer-term cost savings, revenue gains and service improvements. The Bank can provide loans to City divisions and agencies for individual or collaborative projects that normally would cause a spike in annual operating allocations. Examples might include more

<sup>87</sup> [http://www.tennessee.gov/ecd/CD\\_local\\_gov\\_energy\\_loan.html](http://www.tennessee.gov/ecd/CD_local_gov_energy_loan.html)

efficient equipment that can lower future operating costs or technology upgrades that can enhance staffing deployment and utilization.

Eligible projects would be defined as those that could not otherwise be funded from the City's CIP or from a division's operating budget without jeopardizing normal service levels. Savings and revenues achieved through Bank projects would be reflected in adjusted operating budgets and loan repayments so that the Bank's lending capacity is not depleted and financial benefits can be redistributed to other programs or departments. Initial loan criteria should require that projects generate cost savings or additional revenues in an amount sufficient to repay the loan plus interest within five years. After several years a limited number of loans could be authorized for projects expected to generate substantial service improvements, even if financial benefits were not readily quantifiable.

Loan applications with detailed project proposals and repayment plans would be prepared by divisions, with assistance from the Bank. An interdisciplinary Loan Committee, including senior City officials and private sector business leaders, would assess the business case for requested investments and approve or disapprove applications. Committee members could include the Chief Administrative Officer, Finance Director, Chief Information Officer, and Human Resources Director (the latter due to the likely inclusion of technology or staffing issues in most submissions).

A useful example of productivity bank investment spurring innovation, savings, enhanced revenues, and improved service levels comes from the City of Philadelphia. The Mayor and City Council created the Productivity Bank in 1992 to promote a strategic approach to the way in which City government conducted its business. Using a capital base of \$20 million, the Bank proved to be a significant management tool in reforming the operations of the government, especially for technology upgrades. Moreover, these projects created long-lasting innovations that enhanced service benefits well beyond their significant financial impacts.

Examples of departments and agencies that have been loan recipients in Philadelphia include the City Law Department for an upgrade of its computer system, allowing improved delinquent tax collection; the City's information technology department for an automated tape system to perform daily disaster-recovery backup of mainframe computer systems; the Police Department for an on-line photo-imaging system to store criminal mug shots; portable truck scales to enforce heavy vehicle weight limits on County roads; a tracking system for Police officers on court overtime; and up front funding to the City energy office for an energy-efficient light bulb replacement effort.

Memphis could establish a Productivity Bank initially capitalized with \$5 million (or another agreed upon number significant enough to support such a Bank). During the first three to five years of the Bank, applications should be required to generate savings or revenue and a return on investment of at least 150 percent. The initial project investments made by the Bank should not exceed approximately 15-20 percent of the Bank's value (\$750,000 to \$1 million if a \$5 million Bank is established). After three to five successful years of Bank operation, applications for service level improvement projects may be submitted. In addition to achieving bottom line impact in the long-term, the Productivity Bank can help to promote a strategic approach to the way in which City government conducts its business by encouraging innovation, accountability, and entrepreneurship.

<b>HPG19.</b>	<b>Explore New Operation Models for the Animal Shelter</b>	
	<b>Target outcome:</b>	Reduced costs and elimination of unwanted service center
	<b>Five-year financial impact:</b>	Reducing long-term costs
	<b>Responsible party:</b>	Parks and Neighborhood Director

The Animal Shelter, with total budgeted expenditures of \$3.1 million in FY2013, is an expensive service center with a troubled history. From FY2008 to FY2012, the combination of dog license fees, shelter fees, County dog license fees (the City is reimbursed for housing animals from the County) and vacation fees averaged \$0.6 million, which roughly matches the budgeted revenues projected in FY2013, resulting in a budgeted net expenditure of \$2.5 million. In 2012, the division began the process of issuing an RFP for privatizing the animal shelter, but the process ended after no organizations attended an informational meeting prior to the RFP being issued. Since then, the division has not been approached by any private organizations that have expressed interest in potentially operating the shelter.

One issue of note is the requirement that the City's shelter accept animals in any condition, including those that are sick. The Humane Society of Memphis and Shelby County operates a shelter, but it is not required to accept animals that are sick or could otherwise infect other animals.

Recently, officials from the City and Shelby County have begun discussions on the potential to share certain services in order offset costs across both governments -- including shifting the operation of the Animal Shelter to the County.<sup>88</sup> Though these discussions are still preliminary, shifting the operations of the Animal Shelter to the County is a worthy idea that deserves further analysis and consideration. The County currently reimburses the City for the costs of housing animals that are picked up in the County because it does not have its own shelter, so even an increase in funding and operational responsibility – similar to other jointly funding City-County agencies – could reduce the City's cost and potentially improve the Animal Shelter's operations.

<b>SI04.</b>	<b>Develop an Infrastructure Trust</b>	
	<b>Target outcome:</b>	Increased coordination and revenues for infrastructure
	<b>Five-year financial impact:</b>	Increased revenue and improved efficiency in infrastructure development
	<b>Responsible party:</b>	CFO, Chief Development Officer

In order to improve coordination, leverage resources with other government entities and identify private financing opportunities for large scale infrastructure projects, the City should establish a working group to develop an infrastructure trust.

The City of Chicago has recently developed an Infrastructure Trust as an innovative approach for funding public infrastructure projects that fosters collaboration across different authorities on capital planning and development and greater use of private sector financing to support essential infrastructure investment. The Chicago Infrastructure Trust (CIT), established by Mayor Rahm Emanuel, operates as a non-profit organization with a board of trustees that reviews infrastructure project requests across all of Chicago's public agencies, including the Chicago Transit Authority and Chicago Public Schools. General maintenance and repairs projects that are approved, such as road repaving, are likely to be funded

<sup>88</sup> Moore, Linda. "Shelby County, Memphis officials consider ideas to offset costs." *The Commercial Appeal*. January 30, 2013.

through bonds or other traditional sources. Projects that have the potential to generate revenue will be considered for funding through a pool of private investment.

When the CIT was announced, the pool of potential private financing was approximately \$1.7 billion, funded primarily by a small number of large institutional investors. Projects that have the potential to generate revenue could receive private financing and the revenue produced from those projects would pay back the investors. For example, the first project planned for the CIT is \$225 million to retrofit City buildings to make them more energy efficient. Once these buildings become more energy efficient, future savings on utility costs will be dedicated to repaying the loan and interest for the project.

Identifying private financing for these type of large scale, transformational projects will allow Chicago to implement some of its long-held “wish list” projects while easing the strain on funding for recurring maintenance. Just as importantly, coordinating the capital investments across all of Chicago’s major government entities will provide the City’s leadership with a comprehensive view of the City’s infrastructure needs and determine strategies to leverage resources.

In Memphis, an infrastructure trust could include the City, MATA, MHA, MLGW, and the Airport Authority among other City related entities. Coordinating capital spending across these entities could increase the level of resources that the City can dedicate to infrastructure improvements and allow for investments to be made strategically. For example, there may be a greater return on investment for these local entities to funding similar types of or to make investments in the same areas. It will also help identify and prioritize large-scale infrastructure needs citywide.

<b>SI05.</b>	<b>Develop a Public Private Partnership Policy to Maximize Asset Value</b>	
	<b>Target outcome:</b>	Improved decision making and accountability
	<b>Five-year financial impact:</b>	Will create framework for potential sources and uses of revenue from P3s in general and asset monetization specifically
	<b>Responsible party:</b>	CFO, Finance

As City’s resources are constrained, it needs to identify opportunities and strategies to generate revenues from assets it already owns. These strategies can include sale/privatization, leases, joint ownership or development, securitization and other forms of public-private partnerships.

In most cases, a recommendation for asset monetization and securitization will not result in immediate revenue (or savings for the City). As a result, it is more likely that asset monetization and securitization will be an out year budget strategy. Prior to any sale, lease or joint development, the City will need to conduct a more detailed review including:

- Retaining independent firms to conduct feasibility and valuation analysis and provide legal and finance advice
- Transaction structuring to minimize credit and balance sheet impact
- Transparent, fair and disciplined procurement processes designed to achieve superior results

As a first step, the City should develop a policy as to when asset monetization or other types of public private partnerships are appropriate, how the proceeds of asset monetization should be budgeted, such as differences in operating costs and capital costs and the need to avoid non-recurring revenue being dedicated to recurring costs.

The policy would also create a decision making framework that allows the City to address key questions in assessing opportunities, such as:

- Does the project size justify the transaction and management costs?
- Is there real value in transferring responsibility for operational and maintenance to the private sector?
- Is there a clearly identified group of private sector bidders?
- What is the appropriate allocation of risk between the City and the private sector?
- What types of financial benchmarks, such as whole-of-life net present value, should be established?
- What types of projects should be prioritized and which City divisions will participate?

Parking may be an initial area where policies around asset monetization are explored. According to MPD data, in 2011, police officers issued 77,398 parking tickets in FY2012 – an average of almost 9 tickets per hour during the year. The City charges drivers \$1.00 per hour to park at metered spots. In FY2012, the City's 1,237 parking meters generated \$470,000 in revenue to the General Fund, an average of nearly \$380 per parking meter on an annual basis. If the average parking ticket consumes approximately 15 minutes of sworn officer time (writing ticket, submitting paper work, court appearances if appealed, etc.), then officers spent approximately 19,350 hours on parking tickets in FY2012 – or the equivalent of almost 9 sworn officers' full years of work.

Other municipal governments looking for alternatives to the traditional sources of tax and fee revenue have considered parking monetization. In a parking monetization, the government uses its parking assets (i.e. garages, surface lots, meters) to generate revenue higher than historic annual levels, often through a type of agreement with a private sector investor and parking operator in which the government receives a large upfront payment in return for the right to own or operate the parking assets and collect the associated revenue for a lengthy period. Governments can opt to receive some or all of the revenue over a period of years, rather than up front. A private sector operator may merely run the existing parking system, add innovations such as timed spaces or enhanced metering, or commit to improving parking infrastructure.

Chicago, Pittsburgh, Indianapolis and New Haven are examples of cities that have considered parking monetization. Chicago leased its parking meters to a consortium of private entities that made a large upfront payment in return for the right to maintain the meters and collect the associated revenue for 75 years. The City has a separate 99-year lease with another vendor to operate downtown parking garages. Pittsburgh considered an arrangement similar to Chicago except that it would have leased the meters and garages to the same vendor. The Pittsburgh City Council discussed alternative structures that would allow the City to retain ownership of the meters, raise the rates and use the associated revenue to issue a bond. The City Controller proposed a structure in which the City would sell parking assets to the separate Pittsburgh Parking Authority in return for a large upfront payment. Ultimately, the City did not pursue privatized parking meters. New Haven considered a lease/leaseback arrangement in which it would receive a \$50 million upfront payment from a private investment company but retain control of the parking meters. Instead of turning over parking operations to a private company, the City would retain responsibility for the meters and use the associated revenue to repay the investment company with interest over a 20 year period. This variety of structures highlights the kinds of questions Memphis would have to answer as it moves through the monetization process.

Additional examples with monetization potential include:

- **Radio and Television stations**, The Memphis Public Library owns and operates both a television and radio station. Other cities have sold licenses for radio and television stations. For example, in 1995, New York City sold the license for its municipal television station and transferred its two municipal radio stations to a nonprofit foundation. The two radio stations were purchased for \$20 million over six years and were operated without any subsidy from the City.
- **Street Car/Trolley**. MATA, which receives significant operating assistance from the City, operates a series of street cars and trolleys – including a trolley that runs on Main Street. In a

number of other cities around the country, it is common to find public private partnerships involved in the management and operations of street car/trolley lines that connect residents and tourists alike with popular destinations and key interchanges for public transit. A new non-profit and/or improvement district to fund and operate the line is established which ensures that the businesses most interested in the lines success – often downtown, waterway or other popular destinations – are involved in the management and funding of the line, while general taxpayers do not provide a subsidy. For example, the cities of Tampa, Milwaukee, and San Pedro, CA all have a street car/trolley line that is privately managed and primarily funded using resources other than taxpayer subsidies.

Tampa's TECO Streetcar Line, with 11 stops that connects downtown Tampa to multiple waterfront attractions, is jointly owned by the City and Hillsborough Area Regional Transit Authority (HART). The line is managed by Tampa Historic Streetcar, Inc., a private nonprofit, and is funded through an endowment (originated from advertising revenue), fares and a special assessment on businesses within its Special Assessment District. No general tax revenues are used to fund the line. Milwaukee's Trolley Loop, which operates only during the summer months, provides easy access to theaters, sports arenas, restaurants and other downtown attractions. The line is operated by Milwaukee Downtown, a business improvement district that oversees 150 blocks and represents approximately 500 businesses. Fares for the line are just \$1 roundtrip. The San Pedro Downtown Trolley, which connects downtown and multiple waterfront attractions, is operated by the San Pedro Historic Waterfront Business Improvement District. The line, which provides access to restaurants, galleries and multiple waterfront attractions, does not charge any fare.