

Los Gatos

Analysis of Police Services, in house and contract service models, October 27,2015

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Future Unknown Cost Impacts

There are a variety of unknown cost impacts to the Town should police services be outsourced. The annual on-going police related costs for these services have been accounted for within the Police Department's budget. Additional analysis would be needed to determine the cost impact on non-public safety staffing.

- **Capital Investment**

In a contractual relationship with the Sheriff, the Sheriff could purchase Town-owned police vehicles and equipment. Initial estimates indicate that the current value of police equipment ranges from \$400,000 to \$700,000. This would be a one-time payment to the Town and offset costs during first year of a contract. The Town would realize on-going savings for purchase and maintenance of police equipment. There is an annual average appropriation of \$550,000 within the Police Department's budget that is allocated for Information Technology (IT) equipment, and vehicle and equipment replacement and maintenance. Typically, in contract billable rates, factors to amortize these costs are included. Based on the experience in San Carlos, the Town's police operations and administration buildings would continue to be maintained and be an expense of the Town. In San Carlos, the buildings are used by the Sheriff, rent-free, and renamed as a substation. There would be no facilities cost savings to the Town unless a different arrangement was negotiated. There is an average annual appropriation of \$260,000 within the Police Department budget that is allocated to the maintenance of the police buildings, inclusive of utility charges. It is unknown if the Sheriff would assume the Town's police buildings as a substation or operate out of its existing West Valley Substation. If the Sheriff were to operate out of its substation, the Town could possibly rent some of the police facilities and realize rental income. The one-time disposition of IT equipment, vehicle and equipment replacement and maintenance are factored in as cost-savings to the Town in this analysis.

- **CalPERS Retirement Impact**

The Town's CalPERS actuary was contacted to identify the impact of eliminating the Town's Police Department and transitioning to a Sheriff contract. The actuary confirmed that the Town would retain the current unfunded safety pension

liability of \$18.7 million and there would be no safety pension costs in the future. An actuarial caution is that, eliminating the Town's Police

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Department would impact the Town's non-safety rates, causing the Town to be entered into a pool for agencies with less than 100 active members. The CalPERS rates for the pool are higher than our current non-safety rates. The Town could also be assigned a new side-fund liability.

Under the Public Employees' Pension Reform Act (PEPRA), a new retirement tier was created for new CalPERS members. Under this PEPRA tier, new member safety rates are substantially lower, resulting in a cost savings to the Town of approximately \$60,000 per officer. Therefore, as new officers are hired and if they are classified into the PEPRA tier, the Town achieves a reduction in salary and benefit expenditures.

- **General Liability Impact**

For liability, there may be favorable long-term implications when contracting for police services. Liability premiums are calculated on both a prospective and retrospective basis. Should the Town contract out police services, the Town would retain the obligation to fund existing claims.

The Town is also in a pool for generally liability. Therefore, while contracting police services would prospectively reduce the Town's law enforcement claims to zero; the Town would continue to be exposed to the funding risk for all other plan members' police claims.

Many of the factors affecting premium rates, including limited loss, experience modifications and exposure, are on a downward trend and a reduction in premiums is expected.

- **Workers Compensation Impact**

Reducing the number of safety employees from the payroll would reduce future workers compensation liabilities. From FY 2009/10 through FY 2014/15, workers compensation payments totaled over \$3 million. Police claims averaged 67% of the Town's total claims over this same period. The Town currently has 30 open indemnity claims and 3 open medical-only claims. Should the Town outsource police services, the incurred police claims would likely remain an obligation of the Town. The Town would not incur future claims as future incidents resulting in claims would be the responsibility of the Sheriff. The future value of these savings is unknown, however the Sheriff would likely pass incurred workers' compensation liabilities (as well as other indirect costs) to the contract jurisdictions as an overhead cost built in the hourly billable rate.

- **Labor Negotiations**

The Town's Police Officer Association (POA) Memorandum of Understanding (MOU) expires August 2016, therefore future salary impacts have yet to be determined. From the period FY 2012/13 through FY 2015/16 the Town negotiated a cumulative salary increase of 4.0% (2% in FY 2012/13 and 2% in FY 2015/16) and a cash bonus of 2.0%. Future salary increases are unknown at this time.