# City of Santa Ana

BY MICHAEL MCGRATH

Last spring, visitors to the Santa Ana municipal Web site who clicked through to the page titled "Fire Department" would have seen the following surprising and poignant message:

> On April 20, 2012, the Santa Ana Fire Department will disband after 128 years of service to the citizens of Santa Ana. The City has contracted with the Orange County Fire Authority to provide fire services. I want to personally thank all those past and present who have served the community for the past 128 years. It was a privilege and honor to serve as the Fire Chief and serve a community rich with history and traditions. I would also encourage all of you to visit the SAFD Museum located at 10 W. Walnut (Fire Station # 75) [to] pay tribute and remember all the men and women who served this outstanding fire department. (Thomas 2012)

It is not unusual for a small community to contract with a county for fire protection services, but Santa Ana, population 320,000, is the second largest city in Orange County. Local elected officials take pride in the excellence of the city's police and fire services and often seek the endorsements of the public safety employee unions. The decision to outsource the fire department, then, is not one that any local elected official would take lightly, but in 2011, the City of Santa Ana came close to the financial brink when a large projected budget deficit loomed alongside a dangerously low fund balance. Some observers wondered whether Santa Ana would soon be joining the growing ranks of municipal bankrupts. Beginning with the outsourcing of the fire department, city council members and staff have begun to address a range of tough choices and new policies. By the end of 2012, there had been a slight improvement in the revenue picture, and the city was rebuilding its reserve fund.

## Community Profile

If Orange County has the image of being both affluent and politically conservative, Santa Ana is the exception to this rule. "You can divide Orange County into two halves," noted a reporter interviewed for this case study. "The south county is mostly upper middle class, but when you get north of Highway 55 you head into the more working-class Orange County that isn't featured on shows like the *Real Housewives of Orange County*. There is high unemployment. These are mostly immigrants who do immigrant type of jobs. A lot of them work outside the city. An immigrant who lives down the street from me, he's a guy who drives [sixteen miles away] to Mission Viejo everyday to make sandwiches at Subway." The ethnic distribution of the city has changed dramatically since 1970, when about 70 percent of the population was identified by the U.S. Census as "non-Hispanic white." According to the 2010 last census, about 78 percent of the population is Hispanic, about 10 percent is Asian, 9.2 percent is non-Hispanic white, and African Americans were only 1.5 percent of the population. The city has one of the highest population densities in Southern California. The median household income level, about $53,211, is lower than the state average of $58,931. According to California's Employment Development Department December 2012 report, the unemployment rate in Santa Ana was 11.2 percent, slightly higher than the statewide rate of 9.8 percent. The city has few large private sector employers. The Orange County government is the largest source of jobs, followed by an information technology services company called Ingram Micro. "Santa Ann doesn't have a great tax base," noted one observer. "There's no cash cow like Disneyland is for Anaheim [also in Orange County]."

In the early 1990s, Santa Ana had a significant gang and crime problem, but local officials adopted a successful community policing strategy. Crime rates went down in cities across the county but, even given the trend, Santa Ana's crime-fighting record was exemplary. In fact, in 2011 *Forbes* magazine named it the fourth safest large city in the country. The fire department was also well managed, receiving in the early 1980s the highest possible rating by the Insurance Services Office, a company that provides risk management data to the insurance industry. This


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emphasis on public safety was clearly reflected in the city's operating budgets. A comparison in 2011 of seven cities of roughly equivalent size in California (Anaheim, Chula Vista, Long Beach, Sacramento, Riverside, and Fremont) by the Management Partners consulting group revealed that Santa Ana had the second-lowest per capita spending on the general fund but a higher-than-average per capita spending for police and fire. The firefighters' association had secured comparatively high minimum staffing levels, generous overtime policies, and special pay categories that allowed rank-and-file employees to make six-figure salaries. "Public safety has a stronghold on municipalities," observed one local elected official, "but their style of service needs to change. The fire department can't function the way it did a hundred years ago and neither can the police department. We need to be leaders. We can't just think of our boundaries if we want to get services done."

### Community Leadership

One of the findings from the 2011 case studies for this research project was that longevity in office was an advantage in some of the communities. It allowed elected officials and public managers to develop a more sophisticated knowledge of budget issues and facilitated better lines of communication and trust. Such does not appear to be the case in Santa Ana. The city has a city council/city manager form of government, and, according to the city charter, the "City Manager shall be the chief administrative officer and the head of the administrative branch of the City government." For twenty-five years, that position was held by Dave Ream, who joined the city in 1978 and served as deputy city manager, director of community development, and budget officer before becoming city manager. Ream retired from office in March 2011 and was replaced by the city's police chief of twenty-three years, Paul Walters, a trusted local leader who has a master's degree in public administration from the University of Southern California.

The mayor of Santa Ana is elected by popular vote every two years. City council members are elected every four years from geographical districts and, unlike the mayor, are subject to term limits. First elected to the city council in 1986, the current mayor, Miguel Pulido, served as a member for eight years before being elected mayor. He is currently serving his sixth term as mayor. Technically, the mayor has no powers other than those listed in the city charter. He is a member of the city council and he presides over its meetings. He is recognized as head of city government for ceremonial purposes, but he has no managerial or administrative duties.

Mayor Pulido, however, was described by one journalist as having considerable informal influence thanks to his lengthy time in office. The mayor's influence is also felt on the many boards and commissions of which he is a member: these include the Orange County Transportation Authority, the South Coast Air Quality Management District, the Fullerton Community Bank, Great Park Corporation, Pacific Symphony, Discovery Science Center, the UCI Foundation, and the Bowers Museum President's Advisory Council. The length of the mayor's tenure combined with the fact that council members have twelve-year term limits creates a potential power and informational imbalance between the mayor and council members. For instance, three of the current council members were elected in 2006, and some sources interviewed for this case suggested they were not kept in the loop on how serious the budget situation was. In November 2012, the voters adopted term limits of eight years for the mayor's office, a measure that was supported by the three council members elected in 2006.

When the fiscal crisis emerged in 2011, elected officials and news reports suggested that the former city manager did not fully disclose the depth of the city's fiscal condition until shortly before his retirement, though one source noted that a manager's budget report in 2009 warned of a growing budget imbalance. The former manager was described as an old-school public servant who viewed the budget as his responsibility. "That was his style," said one staff member. "The conversation he relayed to me was, he felt they [elected officials] didn't need to know. Nor did they want to know. He just kept it all together, hoping to ride it out, do all the things behind the scenes, weather the storm, and come out okay." A former staff member who has worked with Ream said: "He was protective of the council. He really felt it was his job to fix it and that it was the responsibility of the city manager to bring forth a balanced budget."

### Fiscal Strategies Since 2011

Santa Ana's budget woes are not that different from those of other Southern California cities. The largest impediment to long-term fiscal sustainability is the reduction of revenues coupled with the growing cost of employee benefits and retirement costs, especially for public safety departments. In addition to these local factors, the State of California has taken away some funding, most recently by abolishing local redevelopment agencies, a move that will cost Santa Ana about $5 million. As the report by Management Partners, Inc. (2011) points out, however, the city had failed to "align growth in city expenses" with growth in the economy:

> For example, in FY 2006/07 through FY 2008/09 total City expenditures grew by 6.6% while revenues fell by 0.6%. During this time period taxable sales, personal income and private sector employment all fell by an even larger amount than the decline in City revenues. (p. 3)

In response to the budget stabilization report, the city council adopted the following five-pronged strategy proposed by City Manager Paul Walters:

1. Negotiated compensation reductions
2. Outsourcing of city services
3. Restructuring and service reductions
4. Revenue increases
5. Expenditure controls (e.g., expenses more than $25,000 have to go to the city council for a vote)

By far the most dramatic savings has been in outsourcing the fire department to the county, which is projected to save about $10 million in the first year. One elected official interviewed believes that the staffing requirement negotiated by the firefighters' union in an earlier contract with the city—sixty-three at all times—was unsustainable. Staffing minimums when the Orange County Fire Authority (OCFA) took over were forty-eight. At first the firefighters' association was leery of moving to the county; faced with severe staff reductions and reductions in pay and benefits, the firefighters concluded that they would be better off with OCFA, which provides fire service for twenty-two of the county's thirty-four cities and for the unincorporated areas of Orange County. The cities of Brea, Fountain Valley, and Costa Mesa have also considered contracting out to the OCFA, but so far have elected to maintain their own departments. Brea, however, has combined its dispatch and managerial staff with nearby Fullerton. The fire authority has agreed to absorb Santa Ana's fire staff, including the chief, Dave Thomas, who has become a division chief. The arrangement is expected to save the city about $51 million over the next five years.

The city has also outsourced meter reading, street sweeping, and park maintenance, contracting with private companies to handle those tasks. "We've done everything we can to save money," noted an elected official interviewed for this case study. "The problem is we need to change the way we deliver services, and that's not easy for government to change the way they have been doing something for fifty to one hundred years. SEIU [Service Employees International Union] agreed to outsource street sweeping. That was a tough decision, but they knew it was the right thing to do. The contractor agreed to take on some of the city employees." It is worth noting that the city has not dramatically changed the service delivery model for police. The Management Partners report recommended "regionalizing" animal control and the strike force (SWAT team), services that Orange County provides to other communities, and privatizing or civilianizing background investigations and training, but thus far these changes have not been adopted.

The city has negotiated successfully with each of the employee unions to lower costs. The Santa Ana Police Officers Association has agreed to contribute 7.9 percent of the employee share of pension costs. (The police officers had been contributing only 2.4 percent.) SEIU members will also pay an increased share. These and other union givebacks are expected to save the city an estimated $10.7 million, though some of these agreements are temporary and will have to be renegotiated in coming years.

Although the city has listed revenue increases as one of its five strategies, local officials say the tight strictures on local revenue tax increases mandated by state law make it difficult. One proposed source of revenue, an increase in the utilities use tax, would require a local vote. The council was reluctant to go to the voters with such a proposal in

November 2012 because of the existing ballot measure to increase state revenues for the overall state budget and in support of K–12 education spending. In the meantime, the city will have to continue to focus on cost cutting, and even its most dramatic change, outsourcing the fire department, may not be a permanent solution. Although the city gives them an escape from unsustainable contract agreements and staffing levels, some of the same dynamics that drive costs at the city level exist at the county level as well. As one elected official noted: "We believe that even though we have this contract with the fire authority, it still doesn't solve our problems. Their delivery model is still outdated. They are providing fire service and paramedics, but we don't have that many fires. We can't afford to send them out with paramedics. It doesn't work today because it costs too much money."

In June 2012, the city council unanimously adopted a more stringent set of budget and operational guidelines, including these:

- Budget consideration of new programs, personnel, or capital-related expenditures shall only be considered if a source of funding is indentified, either through a corresponding cost reduction, an identified general increase in general tax revenue, or a one-time revenue infusion.
- Departments will be encouraged to continually achieve savings through internal organizational efficiencies.
- Technology will be encouraged if it can be demonstrated that a one-time capital infusion can result in savings being generated beyond two years.
- Until such time as a minimum level of reserves has been achieved, the budget office will only use a fiscally conservative profile for revenue projections.

Entering the 2008 fiscal year, the city had a fund balance of about $43 million. The balance was spent down over the next three years in an effort to bridge the gap between revenues and expenses. Beginning in 2012, the city has established an unassigned reserve of 15 percent of operating expenditures and an economic uncertainty reserve of about 10 percent of operating expenditures to cover contingencies. Transferring funds from the reserves to cover short-term deficits will take a two-thirds vote of the city council.

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### Communication and Transparency

One of the recommendations of the Management Partners report was to develop more open communication and transparency among managers, employees, unions, and elected officials. Paul Walters has reportedly adopted a more open style of leadership, facilitating better communication with the city council, staff, and the public. "We became more involved in discussions with the city council than previously ever happened," noted a member of the budget department staff. "Before it was mostly just the council and the city manager. What's changed is that we now have direct communication. There is no spin to it. We tell them directly what the facts are. It is different. We have kind of had to force the issue to occur. They [the city council] were asking more direct questions and we needed to hear what they were worried about."

The city, however, has not adopted a rigorous public engagement strategy. Interview subjects suggested that the crisis was too deep and pressing to engage in a complicated public process. "That process takes a long time and we didn't have the time," noted a member of the budget staff. "What we were focusing on was union negotiations. We knew that if we didn't get concessions, it didn't matter what the community wanted us to do, the dollar amounts were too big. The timing was such that we needed to do something fairly quickly and soon. We did try to communicate, using newsletters, water bill inserts, going out to neighborhood meetings, associations, and local groups." One elected official, however, expressed hope that the city would develop a plan for a public engagement process after the next council election. "If you don't understand the fiscal crisis and all you want to do is put blame, you are not going to get anywhere," noted the elected official. "We're asking the staff to go out and inform the community."

The city has an executive management team that meets weekly to discuss strategies for the organization and for cost savings. "The city manager has created a Web portal in which employees can submit their suggestions on cost savings and revenue ideas," noted one local official. "Every department does this differently. We are meeting with line staff and all the supervisors on how to be more productive, enhance their efficiencies." City officials believe the more open approach has made negotiations with the unions more productive.

## Conclusion

Unlike some of the Southern California communities we described last year (Long Beach, Brea, Los Angeles County, and the Whittier Union High School District), Santa Ana officials ignored the early warning signs of economic distress and a growing structural deficit and failed to develop a long-term strategy for fiscal sustainability. Long Beach, for example, conducted a public strategic planning process in 2003 to address the challenge of fiscal sustainability. This very public process, local managers believed, helped the public accept more stringent budget measures after the Great Recession began in 2008. Los Angeles County began to review its "budgeting principles" in the late 1970s, after the passage of Proposition 13. Each successive chief executive has worked to improve the county's budgetary practices, with support of elected officials.

It's not that Santa Ana has been a spendthrift community. With the exception of public safety, the city has had low per capita general fund spending when compared to other communities and had enacted significant cutbacks before 2011. But city officials did not have a plan to promote fiscal sustainability, apparently hoping that the economy would recover and the fiscal problems would be resolved. "Five years ago, seven years ago, we were in a different environment in terms of the economy," noted a public manager. "Housing was out of control, everyone was riding the gravy train. Fiscal policies and strategies, they tend to constrain you, but at a time when the money is flowing, it is very difficult to get those issues talked about. We have gotten more comprehensive in terms of analysis, dissecting every piece of information, category—where everything is trending." Since 2011, however, the city officials have shown an ability to adapt quickly to the crisis, most notably in making the decision to outsource the fire department. Councilmember Claudia Alvarez said she was initially opposed to the decision but changed her mind because of the difficult financial challenges the city was facing. In this decision, city officials may have been the beneficiaries of good luck. Not only was the union in favor of outsourcing, the OCFA was willing and able to quickly develop a proposal for regionalizing the Santa Ana Fire Department.

As Management Partners suggested in 2011, "Santa Ana will need to take bold, decisive action to implement changes in its cost structure" (p. 6) if city officials want to achieve fiscal balance. Beginning in 2011, the city has taken steps in that direction, but success will depend on the continuing ability to negotiate with the unions for affordable wage and benefits agreements. Union concessions on overtime are effective only until fiscal year 2013–2014.

## References

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