



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

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The Honorable City Council  
Palo Alto, California

December 9, 2002

### Comments on Proposed Service Agreement with the City of Sunnyvale to Provide Animal Sheltering and Associated Services

#### BACKGROUND

At the request of the City Manager, the City Auditor's Office evaluated and provided comments on the Police Department's proposal to provide animal sheltering and associated services to the City of Sunnyvale. Our objective was to quickly assess (1) the accuracy of the data used in the proposal, (2) the effect on current levels of service, and (3) the impact on the City's operational costs. We reviewed the contents of the proposed agreement, met with the Police Department and Administrative Services Department budget staff, and assessed the cost and service impacts of the proposal.

The Police Department estimates that the proposed agreement would increase the number of animals that Animal Services handles by 30 percent (from 6,184 animals to 8,013 animals) and increase total Animal Services operating costs by \$188,634 (from \$1,202,020 to \$1,390,654), but would decrease Palo Alto's share of those operating costs by about \$79,000 in the first year of the agreement and by about \$36,600 in the second and subsequent years of the 20 year agreement, exclusive of potential host fees.

#### AUDITOR COMMENTS

*Cost estimates are properly represented.* The proposal uses 2001-2002 actual cost figures contained in the City's IFAS accounting system. These costs represent expenditures for animal services provided to Palo Alto and three other cities, Los Altos, Los Altos Hills, and Mountain View (the existing cities). In our opinion, the cost data was incorporated correctly and represents a reasonable basis for developing estimated costs for supporting Sunnyvale.

*Workloads will increase, but staff is confident it can maintain service levels.* Currently, the Animal Services Division has 8.5 full-time equivalent (FTE) staff to shelter and care for animals. The proposed agreement states that Sunnyvale will perform most of the intake and initial processing, but Palo Alto staff will assume the responsibilities for daily feeding, sheltering, cleaning, medical care, record keeping, and other related tasks. The proposal adds 3 part-time employee equivalents to care for the additional 1,829 animals that Sunnyvale is expected to generate in the first year. Although workloads will increase (from an estimated 727 animals per FTE staff member involved in sheltering and caring for animals to an estimated 801 animals per FTE), the Police Department is confident the proposed staffing will be sufficient to handle the added workload and maintain the current level of service to Palo Alto.

*Actual savings will depend on the actual number of animals handled.* The Police Department allocates costs based on the number of animals handled. Under the proposed agreement, the costs for all existing cities will decrease as central costs are spread over a larger number of animals. These savings are premised on models that use a four-year average for the Sunnyvale animal

counts (1,829 animals per year). If the actual animal counts for 2001-02 (1,602 animals) were used, Palo Alto's cost savings would be less – about \$66,000 in the first year and \$22,000 in subsequent years.

*Breakeven analysis is positive.* The proposal increases operating costs by \$188,634 per year. Assuming current operating costs are about \$194.38 per animal, Palo Alto would break even on the proposal as long as Sunnyvale originates a minimum of 970 animals.

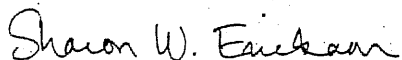
*Animal control related costs should be segregated.* Current sheltering and animal control service costs are allocated between Palo Alto and the other cities based on total number of animals handled, including wildlife. Since Sunnyvale is not requesting animal control services, those costs need to be segregated. We recommended to staff that they allocate sheltering costs on the basis of domestic animals handled, and allocate animal control costs on the basis of total animals handled (including wildlife). Using this method to distribute costs saves Palo Alto an additional \$24,000 in the first year and \$28,000 in the subsequent years, compared to staff's original estimate.

*Precedent exists for charging a host fee.* Since at least 1992, Palo Alto has paid Sunnyvale a host fee of \$2.28 per ton of municipal solid waste delivered to the SMaRT Station. In our opinion, it would be reasonable for Palo Alto to charge Sunnyvale a host fee that would generate additional revenues to offset city costs and ensure that the deal is worth Palo Alto's efforts, at the same time ensuring Sunnyvale's per animal costs are lower than its current costs.

*Capital improvements need to be funded upfront by Sunnyvale.* The proposal includes \$1.8 million in capital improvement costs for new facilities of which approximately \$1.1 million would be paid by Sunnyvale. Palo Alto's share of the improvement costs is estimated at \$481,800; the remainder would be shared with the other jurisdictions. According to the City staff, \$363,000 is already in the capital improvement plan,<sup>1</sup> and the \$118,000 balance is less than the \$163,000 that "would have been proposed over the next seven to ten years" for improvements to the Animal Shelter regardless of the proposal to include Sunnyvale. In our opinion, the completion of the proposed capital improvements should be contingent on Sunnyvale paying its share of the costs upfront, and the City of Palo Alto retaining complete ownership of the facility.

In summary, we recommend that during contract negotiations staff consider segregating animal control costs, charging a host fee, and confirming that Sunnyvale will underwrite and subsidize the needed improvements. We appreciate the City Manager's invitation to comment on this proposal during its development, and the opportunity to work on this type of analysis with staff in the Police and Administrative Services Departments.

Respectfully submitted,



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<sup>1</sup> \$160,000 for holding kennels (2002– 2003 project #10306); \$10,000 for ADA modifications by Public Works; and \$193,000 for mechanical and electrical renovations (2004-2005 project #10500).