

**GENERATING NEW INCOME REVENUE STREAMS...
CAN YOU AFFORD NOT TO?**

by

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The Command College Futures Study Project is a FUTURES study of a particular emerging issue of relevance to law enforcement. Its purpose is NOT to predict the future; rather, to project a variety of possible scenarios useful for strategic planning in anticipation of the emerging landscape facing policing organizations.

This journal article was created using the futures forecasting process of Command College and its outcomes. Defining the future differs from analyzing the past, because it has not yet happened. In this article, methodologies have been used to discern useful alternatives to enhance the success of planners and leaders in their response to a range of possible future environments.

Managing the future means influencing it—creating, constraining and adapting to emerging trends and events in a way that optimizes the opportunities and minimizes the threats of relevance to the profession.

The views and conclusions expressed in the Command College Futures Project and journal article are those of the author, and are not necessarily those of the CA Commission on Peace Officer Standards and Training (POST).

GENERATING NEW INCOME REVENUE STREAMS... CAN YOU AFFORD NOT TO?

The Chief looked up at the clock as it clicked towards ten in the morning. Just another day in paradise he thought as he prepared for the budget meeting with the City Manager. Things had been on the downward spiral for the last five years or so starting with the housing bubble that burst property tax returns by forty percent. The city manager narrowly averted filing bankruptcy, although many cities, such as Vallejo, were not so lucky. The City of Vallejo is the “35th U.S. municipality to file for insolvency since 1980 and the largest municipal bankruptcy in California since Orange County’s infamous woes in 1994” (Schlauch, 2008, p.57). Still, the Chief thought, how much more am I going to have to cut to stay afloat? Department morale was at an all time low and the Chief could feel the impact it was having. The officers on the department watched as the Chief eliminated all non-essential positions, one by one. The department was down to bare-bones patrol and detectives; the Chief reminisced about the time he had the luxury of sending officers to work on multi-agency task forces.

At the meeting, the City Manager had a pained look on his face, and the Chief knew this was “strike one” and not a good sign. The City Manger said to close the door; the Chief knew that was “strike two”. The City Manger let out a sigh and told the Chief, “Things have been rough since we lost all that property tax money, but there are reasons why we have to make more cuts.” The City Manager proceeded to detail “strike three”, a list of trends and events that contributed to the city’s economic decline. Reading from the California Department of Finance Economic Indicator Report, the CM noted, “The current economic slowdown afflicting California and the nation is the result of a one-two punch. The first blow fell in 2005 and 2006 when real estate markets peaked and began a gradual slowdown. Late in 2006, it appeared that

despite some losses, home sales and prices had stabilized. The second blow, though, fell in 2007 when the subprime lending meltdown and rising foreclosures led to the implosion of real estate mortgage markets. Residential real estate markets were jolted by rising inventories as too many houses were on the market and the number of qualified buyers...dwindled. Ominously, as 2007 progressed, the likelihood steadily increased that rather than just suffering through severe corrections in real estate and home construction markets, the economy might run into a full-fledged economic slowdown" (2008, p.3). He continued, "You know Chief, the unions fought and won a court battle to keep their three percent at fifty retirement and we weren't allowed to adopt a two-tiered system for new hires. With the downturn in the national economy, P.E.R.S. has not been doing so well and our contributions have grown tremendously. Between the P.E.R.S. retirement and medical costs, the City is forced to contribute eighty percent above salary costs for benefits". The City Manager continued, "Internet sales have surpassed retail sales of goods and cars in the area. Since the law passed making all internet transactions tax free, the City's tax revenue has been slashed". "It wouldn't be so bad," the City Manager told the Chief, "Except I just heard that all Federal and State grant money for the next fiscal year was completely cut out of the budget."

The Chief walked out of the City Manager's office with an ultimatum still ringing in his ears, "Raise new revenue from some type of enterprise to make up for the twenty percent I am going to cut out of your budget." The Chief did the math and calculated that cut meant sixteen officer positions. He knew that the officers were already providing just basic police services; how could he generate new income equal to twenty percent of his budget? "Time to get busy", the Chief thought as he gathered his Command Staff around him to explain the dilemma. He asked everyone to come up with recommendations. "Change is hard," the Chief said, "and we

are being forced to change because we failed to recognize what was happening around us, and now we have to change dramatically, and fast...Let's get on it.”

Sound farfetched? Maybe not. How many of your agencies are on a similar path as the fictitious department above? The focus of this article is to provide police agencies with an alternative to budget and personnel reduction. This alternative could help the survival of a city and maintain or expand police service to an anxious public. The alternative is to generate new income streams as a pro-active approach to meet the fiscal crisis today and the uncertain future of tomorrow.

Background

While generating revenue streams is not new to most agencies, the focus and resources necessary to meet current and emerging public safety needs will be unprecedented in law enforcement's history. Many agencies are just now realizing that law enforcement and cities are facing a real budget crisis. Law enforcement is accustomed to the ebb and flow of fiscal budgets. The current trend, however, is much more far reaching and it will impact almost all cities in California. The League of California Cities President Jim Madaffer stated, “California is the most innovative state in the nation, and that innovation – along with solid leadership and a focus on what's best for our cities and residents – will help us forge a path through these hard times” (2008, p.1).

Five years ago, the current state of the economy facing cities and counties was not even dreamed of. Now most law enforcement agencies are facing the reality of severe budget cuts, reduced workforce and the elimination or reduction of many law enforcement programs. The Executive Director of Police Executive Research Forum recently stated, “Police and sheriffs departments traditionally have enjoyed a special status within local government: policing usually

is among the last thing that local officials want to cut when budget times are lean. However, we are finding that this time, local economic conditions are so bad that nobody is immune. Police chiefs are being asked to defend the costs of services they provide and to look for ways of economizing, increasing efficiency, and eliminating redundancies” (Wexler, 2008). The Police Executive Research Forum also included economic questions in their July 2008 survey. They reported, “Nearly 40 percent of responding agencies reported that they had already seen a decrease in their operating budgets. And even larger numbers of agencies said the economic downturn had affected their ability to reduce crime and deliver services” (Wexler, 2009 p.5)

While income to municipalities has been declining, law enforcement health care, retirement, benefits and salary costs have been increasing. A few cities have reached their limit and been forced into bankruptcy. Others have been forced to cut costs or increase taxes to stay afloat. Financial cuts in law enforcement agencies have primarily focused on the largest segment of the budget, personnel costs. This has resulted in redeployment of personnel to cut back on programs in order to maintain basic police services. Many agencies have also reduced personnel to facilitate budget reductions.

The CA League of California Cities Board of Directors met in November 2008 to discuss these issues. They stated, “Many cities are responding to state budget cuts and declining property and sales tax by laying off staff, choosing not to fill existing vacant positions, and imposing mandatory work furloughs. In light of these efforts, it is critically important to protect vital community services” (Mitchell p.3). According to the Police Executive Research Forum’s 2008 summit of police chiefs, “...While the budget cuts they had already implemented were relatively small, they were being asked to prepare budgets for the next fiscal year containing much larger cuts – in many cases, cuts that would require layoffs of sworn officers. Because

police departments traditionally have been among the last agencies to be cut during previous economic downturns, several chiefs noted, the current situation seemed especially threatening” (Wexler, 2009 p.6). Taken further, the possibility exists that the future financial situation will become so poor City Managers will begin to require law enforcement agencies to generate income streams sufficient to replace a portion of their operating budget, thereby relieving their cities of significant financial pressure.

This trend will be prompted in two possible ways. First, increasing financial pressure will require more severe budget cuts to the point that many agencies will only be able to provide basic services. Second, cities will begin to see successes at other nearby agencies and look to new revenue streams as a panacea to forestall reduced services or even bankruptcy. Based on the research for this article, there is a clear presumption of need for law enforcement to generate new income streams. A first necessary step in that process is to examine possible revenue generating ideas and then recommendations for the selection and implementation process.

Possible New Revenue Streams

A group of experts in the fields of city government, business, real estate and entrepreneurship were assembled in April 2008 identify possible new income streams that could be initiated by law enforcement. Their suggested new revenue streams serve as an example of ideas that can be generated in a short period of time. Each idea must be weighed against the feasibility of implementation, profit potential and appropriateness for law enforcement involvement. Most prominent amongst their recommendations were:

- Fees for sex registrants registering in your jurisdiction
- City tow companies

- Increase all fines by 50%
- Pay-per-call policing
- Vacation house check fees
- Open police firing range to the public for a fee
- Police department run on-line traffic school for minor traffic infractions
- Department based security service including security checks for your home and monitoring of security cameras by police department
- Police department business to clean up biological crime scenes
- State / court fees against all convicted felons returning to your community
- Allowing agency name to be used for advertisement and branding
- Triple driving under the influence fines by the court
- Resident fee similar to a utility tax
- Tax or fee on all alcohol sold in the city
- Tax or fee on all ammunition sold in the city
- Public safety fees on all new development in the city
- 911 fee per use
- Police department website with business advertisement for support
- Selling ride-a-longs to the public
- Police department run firearm safety classes

In addition to concepts that may lie ahead, there are also many examples of revenue generating ideas that have been tried and proven in actual use.

West Covina's Revenue Service Model

The West Covina Police Department is a mid-sized municipal police agency in Southern California. The department has a tradition of placing great value on innovation and leadership. This has been the norm for more than twenty-five years. In 1984, the department was searching for a new computer software system to manage Computer Aided Dispatch and Records Management System (known collectively as CAD / RMS). Dissatisfied with the current offerings on the market, the department decided to develop its own CAD / RMS system. The department provided training to employees who later wrote and developed a complex software system to run CAD / RMS. The system was implemented at West Covina and was very successful. By the late 1980's, the city leased the program to another agency and began to market in earnest. In 1995, the West Covina Service Group was formed as an enterprise and it has been in operation ever since. Currently, the West Covina Service Group's CAD / RMS system is running twenty-one police agencies throughout the United States. In addition to the more traditional methods of revenue generation (impound fees, booking fees, driving under the influence investigation fees, etc.), West Covina generates about \$1.75 million annually for the City's use.

Historically, the West Covina Police Department spent a great deal of time and energy in the field of forensics as a method of crime solving. This led to the development of a forensic lab and expert personnel. The department recognized that many small agencies in the area did not have the resources to process their own latent prints and were frustrated with the extended lag time associated with current services. After recognizing this niche market in 2006, the Department elected to offer contracted forensic services to other agencies. This also has become a very

successful business venture, netting more than \$42,000 since inception. Beyond monetary issues, the service has also benefitted crime reduction programs through the timely identification of latent prints to suspects. A selling point is the Forensic Investigative Unit's ability to meet a one to three-day turnaround time on submitted prints or articles as opposed to six months to a year through traditional county or state services.

During 2008 and 2009, West Covina also implemented other ordinances and programs that increase effectiveness, generate revenue and mitigate the cost of personnel management.

Amongst them are:

- An administrative citation process for party noise and also graffiti. Modeled after other California agencies, the party ordinance allows for an administrative citation to be issued at loud parties where the music is plainly audible fifty feet from the property line. The first citation is \$100, a second \$200 and a third or subsequent citation within twelve consecutive months is \$500. The goal of the ordinance is to reduce repeat party calls, improve the quality of life for surrounding residents, and to generate a revenue stream to offset the costs of response and enforcement.
- The graffiti ordinance imposes a \$1000 administrative fine to the parents of juveniles arrested for graffiti crimes. The juvenile is still processed independently through the criminal justice system. The goal of this new ordinance is to promote greater responsibility on the part of parents, reduce the number of repeat offenders and also generate a revenue stream to compensate the city for enforcement efforts. Both of these administrative citations are too new to provide statistical results, however they show promise in the areas of crime reduction and revenue generation.

- Although not a new idea, one that has greatly enhanced the West Covina Police Department's ability to maintain services while decreasing costs is the "960" program. Under the Public Employee Retirement System (PERS) a retired employee can work up to 960 hours per fiscal year at a PERS agency with no penalty to their (non-medical) retirement. West Covina Police Department has retained some personnel immediately after retirement on a contract in their same capacity. They are paid their previous hourly rate, but no benefits. This saves the city approximately 40-50% per employee, while maintaining needed coverage. On average, the department can save the equivalent of one full-time position for every two to three 960 positions filled. This is a tremendous cost savings and has the real benefit of maintaining services at existing levels.

West Covina has focused on revenue generating programs that offer side benefits to the department such as CAD / RMS technology, crime reduction and improved quality of life for residents. Future revenue generating programs may be focused more on profitability and be increasingly varied from the general law enforcement mission. Current trends affecting the economy, criminal justice and our future must be considered as others scramble to fill gaping holes in their fiscal projections.

What does the future hold?

The future of policing is in jeopardy based on the current and predicted financial future of cities. Law enforcement will not cease to exist as it is a fundamental responsibility of government, but services will be reduced and personnel lost if action is not taken. Cities have few options in this matter. Cities can attempt to raise taxes; however, the general public is already feeling the detrimental financial effects of the economy and may be reticent to acquire more financial liability. Cities can reduce the costs associated with law enforcement through

budget cuts. This option has already been exercised by most cities and in many cases, further budget cuts can only be accomplished through the loss of personnel. The most common actions initiated to lessen the impact of economic changes were surveyed from agencies across the country.

| STEPS INITIATED | % OF AGENCIES |
|---|----------------------|
| Eliminate / change take-home car policy | 27% |
| Initiate / increase use of bicycles | 23% |
| Initiate / increase use of hybrid vehicles | 18% |
| Initiate / expand use of foot patrols | 17% |
| Implement facility energy savings programs | 17% |
| Initiate / increase use of two-person cars | 15% |
| Initiate / increase use of Segways | 13% |
| Adjust work hours of staff | 12% |
| Initiate / expand use of telephone report units | 10% |

Source: PERF 2008 Violence Crime Survey

Some law enforcement professionals will balk at the additional strain of generating new revenue sources in light of the limited resources they are allocated. Those agencies that have a grasp of the present and view of the financial future will examine and hopefully implement new projects to generate revenue as a solution to these problems. These agencies will need a leader who can envision the future and communicate the compelling need to take on more responsibility towards a solution. Short term pain will be replaced with long term solutions to financial problems. Agencies must also be extremely careful during the selection process when they are choosing a type of revenue generating program to implement. Each program must be evaluated against the strengths and weaknesses of the organization. Just as important, each revenue generating idea must be evaluated to determine if it is within the highest standards of law enforcement. Many ideas, although legal and possible, will not meet this standard.

The level of importance given to generating new revenue streams by agencies will be based upon their individual needs and resources available to them. In some cases, this alternative could forestall or prevent the bankruptcy of a city. In the majority of circumstances, generating new income streams could provide the resources necessary to relieve part of the financial burden on cities and allow police departments to at least maintain current services and personnel levels. In the best case scenario, new revenue streams would be sufficient to expand police services to the public. In all cases, the management of law enforcement agencies has the responsibility of examining how they can reduce the effects of a poor financial climate to the public.

Recommendations

To fulfill our responsibility to the public, law enforcement must prepare for the worst, while hoping for the best. These recommendations, therefore will concentrate on the most likely trend of increased financial strain.

- Law enforcement executives must evaluate the financial situation of their agency to determine the necessity of developing new revenue streams. While all cities will have certain factors in common, many characteristics will be different and call for a different level of need for new revenue sources. This evaluation should be on-going as most financial situations are rapidly developing. Executives should seek to identify the overall economic trend and its projected impact on the department. This assessment will determine the extent of resources and need for the development of new revenue streams.
- Once the executive staff of an agency has determined that new revenue streams are necessary, they must commit and communicate. Much of this responsibility rests with the chief of the agency. Because this project is outside of the mainstream duties of law

enforcement, the chief must communicate his vision and the necessity of success in this endeavor. The level of commitment displayed by command staff will in great part determine the success of the new endeavor.

- Involve many people in the process of generating ideas for new revenue streams. This recommendation is very important as the more people that are involved; the more likely an agency is to find the ideas that will work the best in their jurisdiction. The solicitation of ideas should extend past department personnel and include the remainder of the city and community members.
- Establish a broad based committee to evaluate new revenue stream ideas. This committee is charged with evaluating the profit potential of the idea as well as determining if the strengths and weaknesses of the department could support a successful implementation. Most importantly, the committee must assess if the idea falls within the standards of the department, city and the general law enforcement community.
- Once one or more revenue generating ideas are chosen the agency must spend the time and resources necessary to develop strategic and implementation plans. This background work will greatly increase the agency's chance of success. The department should also focus on establishing goals to be reached and evaluation methodology.
- A critical part of implementation is the development of support for your project. You must determine the stakeholders and actively build their commitment level. Lack of political support can sabotage even the most viable project.

Conclusion

To be successful and meet law enforcement's responsibilities to the public several factors must be achieved. Police executives must be willing to adapt to the demands of the external environment. In this situation, there is tremendous pressure from the external environment creating a financial crisis within cities. Law enforcement has a clear responsibility to meet financial challenges in order to provide for the safety and security of our communities. Executives must be knowledgeable about the rapidly changing environment and adapt their organizations to meet these challenges. The alternative of generating new revenue streams is a viable, responsible option that will allow law enforcement to continue to provide excellent service to the public. This fiduciary responsibility and response to it may be the most significant challenge law enforcement has faced in many years. Each of your agencies possesses talented personnel whose abilities exceed the daily requirement of police work. With your help and leadership, your employees may uncover and develop new revenue streams that could greatly assist your city. This is the time to broaden the traditional definition of police responsibilities and include a pro-active approach to the current economic conditions that include developing new revenue streams. Those agencies that are willing to envision the future and then plan and act to provide future financial resources will be in the best position to provide public safety.

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