

CITY OF NEWTON

IN BOARD OF ALDERMEN

FINANCE COMMITTEE BUDGET REPORT

MONDAY, MAY 11, 2009

Present: Ald. Coletti (Chair), Lennon, Salvucci, Freedman, Parker, Schnipper, and Johnson

Absent: Ald. Gentile

Also Present: Ald. Baker

City Staff: David Wilkinson (Comptroller), Elizabeth Dromey (Director & Chair Assessing Department), James Reardon (Treasurer/Collector) and Re Capoli (Chief Procurement Officer Purchasing), Sandy Pooler (Chief Admin. Officer), Dave Turocy (Deputy Commissioner of Public Works) and Nunzio Piselli (Retirement Board)

BUDGET

COMPTROLLER DEPARTMENT

ASSESSING DEPARTMENT

TREASURER DEPARTMENT

PURCHASING DEPARTMENT

CIP

REFERRED TO FINANCE AND APPROPRIATE COMMITTEES

#70-09 HIS HONOR THE MAYOR submitting the FY10-14 Capital Improvement Program, totaling \$192,908,572, and the FY09 Supplemental Capital budget, which require Board of Aldermen approval to finance new capital projects over the next five years.

REFERRED TO FINANCE AND APPROPRIATE COMMITTEES

#70-09(3) HIS HONOR THE MAYOR submitting in accordance with Section 5-1 of the City of Newton Charter the FY10 Budget totaling \$333,411,747, passage of which shall be concurrent with the FY10-FY14 Capital Improvement Program. Effective date of submission: 4/21/09; last day to pass budget: 6/5/09)

COMPTROLLER DEPARTMENT

ACTION: APPROVED 5-0-1 (Ald. Johnson abstaining; Ald. Salvucci not voting)

NOTE: Summary of Comptroller Department FY' 10 Budget:

The Comptroller's Office is responsible for managing a financial accounting system capable of generating timely and accurate financial reports that meet the needs of a wide range of internal and external users; for coordinating the payment of employees and vendors in a timely and accurate manner; for insuring the City's capital assets against physical loss; for providing accounting and financial reporting support services to all City departments; for providing accounting and financial reporting assistance to the Mayor, members of the Board of Aldermen,

and other interested parties; and for coordinating the timely completion of the City's annual independent financial audit.

BUDGET BY PURPOSE

\$489,275 = 55% Accounting and financial

\$74,600 = 8% Annual audit

\$326,100 = 37% Property insurance

THE CITY FINANCIAL REPORTING ENTITY:

In addition to the \$296.9 million General Fund, the City's financial reporting entity consists of (17) special revenue funds, with combined fiscal year 2008 revenues of \$76.2 million; (9) capital project funds, with fifty three active capital projects; (4) self insurance funds; (25) public purpose trust funds; an agency fund; (3) long term debt account groups and (3) capital asset account groups.

Vendors are paid weekly, with disbursement warrants drawn on Tuesday and Thursday of each week. Payrolls are processed on a weekly, semi-monthly, and monthly basis in accordance with existing collective bargaining agreements.

MEASURABLE OBJECTIVES:

- Pay vendors within (30) days of receipt of the vendor's invoice. Vendor invoices, submitted to the Comptroller's Office for review and approval either are warranted within one week's time or are returned to the originating department for correction.
- Update web based interim financial reports weekly.
- Respond to all requests for assistance within 24 hours of receipt of the request.
- Process budget transfers; transfer bills; and journal entries within one business day of receipt.
- Complete the year-end close and issue budgetary basis financial statements within (60) days of year end.
- Complete all statutory filings with the Massachusetts Departments of Revenue and Education and obtain free cash certification within (120) days of year-end.
- Issue an audited Comprehensive Annual Financial Report within (150) days of year end, with an unqualified audit opinion and with no material audit adjustments.

FISCAL YEAR 2010 BUDGET HIGHLIGHTS:

Comptroller's office staffing consists of five full time employees and two part time employees (with out benefits). All staff members are cross-trained in all aspects of day-to-day activities. Total staff related costs (salaries and fringe benefits) for fiscal year 2010 are \$483,495 - \$387 more than the total expended for this purpose three years ago. This represents 0.115% of total fiscal year 2008 City expenditures.

Fiscal year 2010 audit costs are \$74,600 and are fixed at this level for the next five years.

Fiscal year 2010 property insurance costs are \$326,100 – 3% more than the current year appropriation for this purpose. The base rate of \$0.054 is guaranteed through fiscal year 2011; however, the City's agreement with the Travelers St. Paul Insurance Company (A.M. Best credit

rating of A+) requires that the insured value of buildings and contents be increased by 5% per year for construction cost inflation. The insured value of the City's buildings and contents for fiscal year 2010 is \$588.1 million and losses are subject to a \$100,000 deductible per loss. Fiscal year 2011 property insurance premiums will reflect the addition of the new Newton North High School facility to the schedule of insurance. The current Newton North High School facility is insured at \$91.3 million.

CITIZEN ADVISORY GROUP (CAG) RECOMMENDATIONS:

The Comptroller and IT Director have previously issued an analysis of the cost and service implications of converting the currently weekly payroll to a bi-weekly payroll. A copy of this analysis is attached to this report.

FUTURE EFFICIENCIES:

Future efficiencies will need to focus on a continuation of productivity improvements in both staff and non-staff resources. To this end, our plans are to continue to replace printed report documents with web based financial reporting and to continue working with the Treasurer's Office and Information Technology Department in automating the transfer of cash receipt and receivable data directly from the MUNIS data base to the City's general ledger. In addition to annual training of departmental staff in payroll, accounts payable, and budget administrative activities, increased efforts need to be directed towards written documentation of financial accounting and reporting procedures.

ASSESSING DEPARTMENT

ACTION: APPROVED 6-0-1 (Ald. Johnson abstaining)

NOTE: Summary of Assessing Department FY'10 Budget:

The largest changes in the Assessing Department budget from Fiscal Year 2009 to Fiscal 2010 have to do with union-negotiated pay increases and Hay Grade step increases, as well as increased health and dental insurance costs. The total increase from these items is \$26,334. In addition, more staff members are eligible for longevity payments in FY 2010 and the larger longevity payments negotiated for union staff were instituted, resulting in a \$2,900 increase to the budget.

Within the expenses area, a portion of the cuts in the funding due to decreased need or cost for telephone, gasoline and paper goods has been redistributed into the following accounts: training expenses, office supplies, books/manuals/periodicals, vehicle use reimbursement, in-state conferences, dues and subscriptions. The \$1,000 increase in the training expenses account will allow more staff members to take classes in order to meet Massachusetts Department of Revenue training standards. The \$500 increase in the office supply account will cover increased costs of these supplies. The Books/Manuals/Periodicals account was increased by \$65 to cover additional book costs. The vehicle use reimbursement account was increased to reflect the high cost of parking in Boston during hearings at the Massachusetts Appellate Tax Board, when boxes of evidence must be transported to the hearings. The in-state conference account was increased to reflect increased costs for attending appraisal- and assessing-related educational conferences in Massachusetts. The dues and subscriptions account was increased by \$153 to cover increased

costs. The overall change in the expenses account from FY 2009 to FY 2010 was -\$1,496, or a 4% decrease.

In all, the changes in the Assessment Administration budget due to the increase in personnel costs and fringe benefits and the reduction in the expenses account equal \$23,964, or a 2% increase.

CITIZEN ADVISORY GROUP (CAG) RECOMMENDATIONS:

The Property Assessment and Taxation section contained in the Citizen Advisory Group (CAG) Revenue Report includes recommendations that the Board of Aldermen continue to shift the tax burden from the owners of residential properties to the owners of commercial, industrial and personal property; that the Mayor and Board of Aldermen continue to provide reasonable funding to support Assessment Administration litigation and expert witness costs in defense of values; and that Newton analyze whether restoring two appraisal positions that were cut will ultimately result in a net revenue gain for the city by increasing inspections and potentially increasing new growth amounts. The Assessors support these recommendations.

CAG recommended that Newton pursue Payment in Lieu of Tax (PILOT) agreements or Service in Lieu of Tax (SILOT) agreements from certain tax-exempt property owners in the City. The Assessors are undertaking a full cyclical re-inspection program of tax-exempt properties. These inspections are undertaken to comply with Massachusetts Department of Revenue standards for cyclical re-inspection of all real and personal property. This will enable the Assessors to develop more accurate valuations for the tax-exempt parcels.

As to the general recommendations of CAG to quantify operations, perform strategic planning and performance measurement, the Assessors support these recommendations and are working to implement them in a more formal way in the department.

TREASURER DEPARTMENT

ACTION: APPROVED 6-0-1 (Ald. Johnson abstaining)

NOTE: Summary of Treasurer Department FY' 10 Budget:

DEPARTMENTAL OVERVIEW:

The Treasurer/Collector's office is responsible for the billing, collecting and investing of all monies due to the city including but not limited to: Real Estate Tax, Personal Property Tax, Motor Vehicle Excise Tax, Boat Excise Tax, Water and Sewer Bills, Parking Tickets, Parking Meter Receipts, Federal and State reimbursements and grants, and fees for miscellaneous departmental permits, licenses and services.

Other responsibilities of the department include:

- timely disbursement of all payrolls to City, School and retired (non teacher retirees) employees, and completion of the associated Federal and State reporting requirements
- disbursement of all warranted accounts payable to vendors and the reconciliation of payables bank accounts
- issuance of all authorized short and long-term debt

- management of the cash balances of the City to insure the timely movement of funds, within established parameters for safety, liquidity and yield.
- reconciliation of cash receipts to both bank accounts and to the general ledger
- conducting appeals and hearings for disputed parking tickets
- researching and resolving taxpayer related issues

STATUS OF FY 2009 GOALS AND OBJECTIVES:

A primary goal of the Treasurer's Office in FY 2009 is the addressing of the deficiencies listed by the City's auditors, Sullivan & Rogers, in their management letter.

The most pressing item is the reconciliation of accounts receivable between the Treasurer's MUNIS system and the Comptroller's FinancePlus general ledger. To assist in this process, the City hired Community Solutions, a consulting firm experienced with municipal issues. It was determined that most of the issues emanated from problems related to the initial set up and configuration of the MUNIS receipts system. These problems are being corrected, with the goal of meeting the auditors' reporting requirements by the end of FY 2009.

Also of concern to the auditors is the number of non-current outstanding vendor and payroll checks. The tailings process has been started for the vendor checks, with the goal of having any checks issued prior to calendar year-end 2008 removed from the outstanding list. Research is being done on the outstanding payroll checks, with the goal of starting the tailings process for them early in FY 2010.

Another item listed by the auditors is the number of unauthorized bank accounts using the City's federal tax identification number. Letters were sent to not only those banks known to have unauthorized accounts, but to all local banks, requesting that the Treasurer's Office be notified of any accounts bearing the City's tax id. The banks have since been contacted with the goal of closing all unauthorized accounts by the end of FY 2009. This letter will then be sent periodically to detect and eliminate these accounts in the future.

A final management letter concern is the timely processing of the daily cash receipts and the reconciliation of bank accounts. Treasury has implemented a system where the most active bank accounts are reconciled daily. This reduces reconciliation time required at month end, and allows for more timely identification of reconciling items.

Apart from the audit findings, another accomplishment in FY 2009 was the realigning of the investment portfolios under the direct control of the Treasurer to address the tumultuous financial climate of the past year. Treasury worked with a representative of our custodial bank, Bank of New York Mellon, to increase the diversity of our portfolio and to take timely advantage of limited investment opportunities.

Treasury also worked with the City's primary service provider, Citizens Bank, to achieve a reduction of approximately 30% in service charges.

FY 2010 GOALS AND OBJECTIVES:

An important goal for FY 2010 is the continued training of and the realignment of Treasury Department staff to maximize efficiency. This goal is critical to realizing all other departmental

objectives. Many of the office's functions are interrelated: a delay in the completion of any duty may impact the entire workflow, resulting in further delays. Steps to be taken include cross training, identifying specific personnel to back-up specific positions, and training in the most effective use of existing software.

To this end, RDM Consultants, an experienced MUNIS consultant working with Community Solutions, has been hired separately to review how MUNIS is currently used, to recommend additional and more efficient uses, to train staff on uniform use of the system, and to eliminate system problems. A major objective is the creation of a data transfer bridge between MUNIS and FinancePlus. This bridge is described in more detail under CAG Recommendations.

This MUNIS training coincides with attaining another goal of the Treasurer's Office: the completion of a procedures manual. As part of the above training, procedures will be codified and saved for future use.

Another key component of the staff development will be the integration of an office manager into the office system. Approximately \$50,000 has been budgeted for this salary. It is expected that this position will work with the staff to eliminate duplication of effort, to improve customer service, and to maintain consistency in the quality of work.

Recent staff reductions have reduced Treasury's clerical staff to six full time and one part time employee, a reduction of 33% from peak numbers. To deal with the volume of work flowing through the department, it is imperative that new methods of using technology and opportunities for outsourcing tasks be identified and implemented with the goal of cost savings and improved efficiencies. Treasury is in contact with the City's lockbox provider to possibly outsource hundreds of computer generated payments that are now processed manually. This could save a conservatively estimated 30 hours of manual input each tax period.

It is also the goal of Treasury to improve the dissemination of information to taxpayers and residents via the Treasury Department web-site page by publishing Frequently Asked Questions (FAQs) and answers, the research policy, and information regarding making payments, including suggested methods of making payments on-line in order to conserve Newton's valuable resources.

CITIZEN ADVISORY GROUP (CAG) RECOMMENDATIONS:

1. The Citizens Advisory Group (CAG) recommended implementing a biweekly payroll as a means of streamlining operations and cost saving. Treasury performed a cost/time benefit analysis in conjunction with the Comptroller's Office. It was estimated that a biweekly payroll would save Treasury approximately seven man-hours per week. The Treasurer's Office will continue to explore this option with the Comptroller's Office and with IT in FY 2010.

2. CAG generally recommends a citywide streamlining of operations. During FY 2009, Treasury requested that RDM Consultants be hired separate from Community Solutions, the consultants hired to address the accounts receivable reconciliation issue raised by our auditors, for the specific purpose of refining the MUNIS tax receivables system currently used by Treasury. A major benefit will be the implementation of an improved system of transferring

cash receipts data to the Comptroller's Office, which is expected to yield a significant savings in man-hours in both departments. It will also quicken the process and reduce errors. Several files that were formerly transmitted individually will now be exported from MUNIS and imported by FinancePlus as one file per day.

3. Treasury's method of distributing and funding accounts payable has been redesigned to more efficiently use the City's funds. The goal is to fund payables checks as close to their processing dates as possible so that funds do not sit idly in the bank.

Further, Treasury has established and further developed relationships with additional banks to maximize the return on the City's invested general funds.

Both of the above are in line with CAG's recommendations regarding investments.

PURCHASING DEPARTMENT

ACTION: APPROVED 6-0-1 (Ald. Johnson abstaining)

NOTE: Summary of Purchasing Department FY' 10 Budget:

FTE: No change in the number of employees in the Purchasing Department

ACCOMPLISHMENTS:

1. Assumed some of the responsibilities that architects normally get paid for to help reduce the departments costs to architectural firms (prepare & submit all advertisements, prevailing wages, distributing bids, maintain bid lists, addendums).
2. Print shop assumed most printing responsibilities of department's printing of specifications that was normally done by an outside firm, with the exception of larger projects that require specifications that are bounded.
3. Shifted annual contracts to multi year contracts where economically viable.
4. Training for online ordering for office supplies.
5. Informational training on changes to mailing rates.

GOALS:

1. Per MGL c.303 Acts of 2008 (wages, price adjustments) implement new statutory requirements.
2. Implement training course for project managers on public bidding procedures, laws & processes.
3. Email notification of public bids instead of the United States Postal Service.
4. Work with Fire Communication division on reducing the number of Centrex and MBLs.
5. Certification of new Purchasing Agent and re-certification for CPO.

CITIZEN ADVISORY GROUP (CAG) RECOMMENDATIONS:

1. Evaluate the 32 exemptions under MGL c.30B. The Purchasing Department will meet with the Law Department to review the availability and reality of bidding some of these exemptions.

2. Reduce, wherever possible, sole sources. The Purchasing Department has been working with departments on reducing the number of sole source products they buy.
3. Establish a set of bidding guidelines for project managers and firms writing specifications and plans. The Purchasing Department has this in the works and it will be implemented early in 2010.

At approximately, 10:15 pm Ald. Coletti moved for adjournment, which was approved 7-0.

Respectfully Submitted,

Paul E. Coletti, Chairman

**COMPTROLLER'S OFFICE
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February 26, 2009

TO: Tony Logalbo & Ruthanne Fuller,
CAG Municipal Cost Structure Committee

FROM: David Wilkinson, Comptroller
Ann Cornaro, Information Technology Director

SUBJECT: **Bi-weekly payroll recommendation**

Pages 29 and 30 of the Municipal Cost Structure Committee's January 19, 2009 draft report contains a recommendation that the City move from a weekly to a bi-weekly payroll cycle in order to improve the efficiency of the payroll administration process. The draft report concludes that "...while no city position would be eliminated, the time savings throughout the departments and in the central administrative functions related to payroll will be significant." These cost savings are estimated to be as much as \$140,000 annually.

Description of Payroll Administration System

Newton currently maintains three payroll cycles: monthly for retirees and elected officials; semi-monthly for most employees of the Newton Public Schools; and weekly for all municipal employees and Newton Public School custodians and cafeteria workers. The City's payroll system contains pay rate and deduction tables for each payroll cycle which control all payroll activity except for time and attendance and employee expense reimbursements. Individual departments are responsible for maintaining time and attendance records for each payroll cycle and at the end of each cycle are responsible for reporting absences, both compensated and uncompensated, for salaried and hourly employees and hours actually worked for hourly employees. Leave accruals for compensated absences are maintained within the payroll system.

Unlike many organizations of Newton's size and complexity, payroll administration responsibilities are shared by several departments in Newton. The City's Human Resources Department is responsible for adding and removing employees from the payroll system; maintaining all pay, leave and deduction tables; and employee benefits administration. Individual departments are responsible for maintaining time and attendance records for their employees and reporting this information electronically to the Comptroller's Office. The Comptroller's Office is responsible for monitoring additions and deletions to the payroll system; verifying that changes in pay rates and employee expense reimbursements are properly documented and authorized and that payrolls are balanced and approved; and updating the general ledger for all payroll expenditures and

payroll deduction credits. Following authorization from the Comptroller's Office, the Information Technology Department is responsible for running the payroll and generating payroll checks, direct deposit vouchers; payroll journals. The Treasurer's Office is responsible for funding and distribution of payroll checks and direct deposit vouchers; the disbursement of certain payroll deductions that must be disbursed electronically on the payroll date, and state and federal tax reporting. Most payroll deductions disbursements are generated automatically on the next vendor warrant following the payroll date.

Newton's decentralized approach to payroll administration provides important internal controls that are often difficult to achieve except in very large centralized payroll administration structures. The approach has also been found to be extremely cost-effective when compared to payroll outsourcing options that have been considered by the City.

Economics of Weekly Payroll Cycle

Since there are important collective bargaining and human resources implications associated with changing the frequency of employee pay dates, I'll defer to the City's Chief Administrative Officer and Human Resources Director to comment on these aspects of the issue. I do think that it would be helpful, however, to review the economics of a possible transition from a weekly to a bi-weekly payroll from the City's perspective.

Human Resources Department: Employee hires and terminations and payroll deduction and benefit changes need to be made as the changes occur and are reported and are not tied to payroll frequency. It therefore does not appear that the replacement of the weekly payroll cycle with a bi-weekly cycle would have any impact on the operations of the Human Resources Department, except in terms of the entry of the department's own time and attendance.

Comptroller's Office: The Comptroller's Office currently devotes approximately 5 hours per week to weekly payroll review and accounting. This consists of approximately 4 hours per week of clerical review and one hour of an Assistant Comptroller's time in payroll review supervision, updating the of the general ledger and production of a payroll disbursement warrant. The weekly cost of these activities is \$132. If these efforts were only required (26) weeks per year, instead of (52), 130 hours with a value of \$3,432 could be used for other financial accounting and reporting purposes. This would be helpful in light of the fact that a full time staff position in the department was reduced from full time to .6 time in 2009 and is being further reduced from .6 time to .4 time for fiscal year 2010.

Information Technology Department: The City's Information Technology Department spends approximately 4 hours per week running the weekly payroll. Since the department's organization no longer includes a computer operator, either the IT Director or the Assistant IT Director is now responsible for running all payrolls. The value of (4) hours of the IT Director's time is \$208 per week, which amounts to \$5,408 over 26 weeks. The extra 104 hours per year that are needed to generate a weekly payroll could certainly be redirected towards more productive information technology purposes.

Treasurer's Office: The Treasurer's Office commits approximately 7 hours per week to the weekly payroll cycle. This consists of 5 hours of clerical time and 2 hours of the Treasurer's time. The weekly cost of staff time devoted to these activities is \$215 or \$5,590 over 26 weeks. Given recent staff reductions and the work backlog of the Treasurer's Office, these hours could also most certainly be redirected to more productive collections and treasury management functions. There are no banking services fees associated with the City's payroll disbursement account. The City funds the net payroll in full on the check disbursement date, as we understand we are required to do by law.

Operating Departments: While larger City Departments have staff with primary payroll responsibilities, time and attendance record keeping and reporting responsibilities in most departments is handled by a staff member who also has clerical responsibilities for a variety of other support functions such as purchase requisitioning; payables processing; department receipt processing; etc. Except where the department has hourly employees, the weekly workload associated with entering time and attendance into the payroll system is immaterial.

The **Department of Public Works** has the largest hourly employee count in the City and therefore the largest staff assigned to payroll time and attendance record keeping and reporting. The Department currently devotes approximately 60 staff hour per week to payroll tasks, at a cost of \$1,623, or \$84,396 per year. It is estimated that approximately 7 hours per week could be saved if the department's payroll were processed on a bi-weekly instead of a weekly basis. This translates into approximately \$233 per week or \$12,116 over a complete fiscal year.

The **Police Department** currently devotes approximately 18 hours per week to payroll administration activities, a little over a quarter of which is related to police private duty detail payrolls, at a cost of \$454 per week. If payroll frequency could be reduced from 52 to 26 weeks per year, approximately \$11,400 in support staff hours could be redeployed.

The following table summarizes similar information on other major City departments.

Department	Total Weekly hours	Weekly Cost	Cost over 26 weeks
Parks	8	\$ 200	\$ 5,200
Library	5	132	3,432
Fire	2.5	\$ 57	\$ 1,486

Conclusion

The transition from a weekly to bi-weekly payroll cycle does offer the opportunity to make more effective and efficient use of City staff members, particular in the administrative support departments of Information Technology; Comptroller's and Treasury, where staff reduction continue to be necessary in order to balance the budget.

Staff hour savings in operating departments also appear to be possible, however, these savings would likely be enhanced most significantly by further automating the collection of time and attendance data, particularly in the larger departments with sizable numbers of hourly employees.

Although it's not specifically addressed in the CAG recommendation, additional investment income earning would accrue to the City from a change to a bi-weekly payroll since cash that would otherwise be paid to employees would remain in the City treasury and could be invested at money market rates. Based upon a typical weekly payroll of \$1.3 million, earning 2%, the City should be able to add \$13,000 per year to its investment income earnings.

As noted previously, there are collective bargaining and human resources implications, as well as economic ones, associated with the transition from a weekly to a bi-weekly payroll cycle. The City's Chief Administrative Officer and Human Resources Director are in the best position to address these points.

The final point that needs to be made about implementation of this recommendation is that given continuing staff reductions, particularly in the City's Information Technology Department, adding a bi-weekly payroll cycle to the existing weekly cycle during a transition period will most certainly create a real hardship in the City's Information Technology Department and to a lesser degree in the Comptroller and Treasury Departments. If the powers that be determine that the transaction is in the best interests of the City, the best course of action would be to negotiate the changes as they can be made, but hold up implementation until the weekly payroll can be replaced in its entirety with a bi-weekly payroll.

Cc: Board of Aldermen
Chief Administrative Officer
Human Resources Director