

City of Newton

Citizen Advisory Group

Defining Choices about Municipal and Educational Service Levels &
Improving the City's Operational Efficiency and Effectiveness &
Developing New or Enhanced Sources of Funding

Municipal Cost Structure

January 13, 2009

Draft

Municipal Cost Structure

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I. Objectives and Methodology of the Citizen Advisory Group

Mayor David Cohen, Board of Aldermen President Lisle Baker, and School Committee Chair Dori Zaleznik appointed the Citizen Advisory Group in May 2008. They asked the committee to help (1) define the choices facing Newton with respect to municipal and educational service levels and their long-term funding requirements and identify, and, within this context, (2) find innovative ways of increasing short- and long-term operational efficiency and effectiveness, and (3) identify new or enhanced sources of funding for City services.

The Municipal Cost Structure Committee met over the course of several months with the leadership of every major city department and with the City's key executive officers. We met also with union leaders, individual aldermen and numerous citizens. We received input from several open forums. The Citizen Advisory Group also analyzed numerous reports and data, including using information from a Citizen Advisory Group benchmarking report.

II. Executive Summary

The Municipal Cost Structure Committee of the Citizen Advisory Group has found that opportunities for major cost efficiencies in Newton's municipal operations, over and above those implemented in recent years, are limited. We have also identified a number of areas that require increased funding, including health care liabilities, technology and a budget analyst. When these findings are considered with the primary conclusion of our previously released report on Municipal Revenues that Newton's opportunities to increase revenues are modest, it becomes increasingly clear that there is no painless way to resolve the long-term imbalance between the costs of maintaining existing municipal service levels and the revenues available to cover these costs.

A forthcoming Citizen Advisory Group report on School Cost Structure (January 20th), which also identifies only limited possible operating efficiencies in the Newton public schools, reinforces this sober conclusion. To complicate this economic picture even more, another forthcoming report on Newton's Capital Structure (January 22nd) will reveal substantial underfunding of Newton's physical capital assets and call for significant additional investments in this area.

These findings lead the Citizen Advisory Group to conclude that fiscal responsibility requires the community to face up to difficult choices about which municipal services and programs should be cut back or even mothballed. In the face of the serious mismatch between projected revenues and historical levels of expenditures and little apparent appetite for a property tax override, we can no longer sidestep the task of setting explicit spending and investment priorities as part of the budgeting and resource allocation process.

Newton's fiscal health naturally requires moving forward relentlessly in implementing whatever operating efficiencies exist. The Municipal Cost Structure Report identifies a variety of such opportunities. However, since much cost cutting has taken place in recent years, some of the remaining opportunities are, by themselves, quite modest, and many require further analysis of both financial and community effects.

In recent years, municipal cost cutting has been significant. In fiscal year 2001 (FY01), expenditures by municipal departments – public safety, public works, culture and recreation, etc. – (exclusive of education) represented 33% of the City of Newton's total operating budget. In each succeeding year, these municipal expenditures have slowly decreased as a share of the total operating budget, declining to a 29.5% in FY09. At the same time the annual growth rate of municipal, non-education departmental budgets has been 2.9%, noticeably below the annual growth in Newton's revenues.

Not surprisingly, most of the cost reductions came from staff reductions (78% of the municipal budget consists of salaries and benefits). Full-time equivalent staffing in FY01 was 911 positions. In the FY09 operating budget, this has dropped to 821 — a staffing reduction of 90 people or almost 10%. Staff reductions have occurred in almost every department and division of the city government, large and small departments alike. While in the 1980s and 1990s, the reduction in staffing reflected outsourcing of services, no large number of employees have been let go since 2001 as a result of outsourcing.

It is difficult for us to conclude that these staff reductions have been the consequence of improved efficiencies; rather, what we have observed is that the remaining administrative staff is significantly burdened with handling the day-to-day tasks with little remaining time to devote to innovative, forward planning.

It is also clear to us that these staff reductions have led to service reductions, curtailments, and modifications in a gradual but inexorable way that has not necessarily been immediately evident to Newton residents. While the City has maintained a balanced budget by law, the level and quality of services over a decade has not remained constant. Indeed, the combined effect of constrained revenues, the Mayor's desire to support the Newton Public Schools, the rapid growth of health care benefit costs, and the necessity of compensating remaining staff in an environment that is competitive for talent and skills has led to a continuous and cumulatively significant down-sizing of the city's staff.

Within this context, the Citizen Advisory Group's recommendations on Municipal Costs fall into six clusters:

1. Control Employee Compensation Costs: The greatest potential savings in municipal operating costs lie in improving the management of employee compensation and benefits, which comprises nearly 80% of all municipal costs. The Citizen Advisory Group recommends that the City undertake a comprehensive evaluation of possible changes in salary, health care benefits, sick time, vacation, holidays, life insurance, dental and vision benefits, short and long term disability, workers compensation, and retirement benefits. The purpose of such a review is to specify changes that address both employee needs and Newton's fiscal situation. The benefits portion of this review will be especially important, because *Newton may not be able to bear the same level of benefits in the future that it has committed to in the past.*

2. Decide Whether Joining the Group Insurance Commission (GIC) will Decrease Health Insurance Costs: The City and the employee unions need to actively consider joining the state's health insurance program, the Group Insurance Commission (GIC). An in-depth analysis should be done immediately. Certainly the decision to join the GIC will be easier if legislation is passed that would allow municipalities to join without union approval. But, the analysis should be done regardless of whether such legislation is passed. *Savings of \$1 to \$4 million are conceivable.*

3. Begin Funding Health Care Obligations: Newton needs to immediately convene a task force including Aldermen and staff members, and perhaps citizens, to analyze and make recommendations on how to start funding immediately the currently unfunded liability of \$433 million for retiree health care and other non-pension benefits. Newton is passing to future citizens costs that should be paid currently. Furthermore, these costs are considerably less if paid for now. Such a task force needs to address the investment vehicle for holding contributed funds, the management structure for overseeing the investment vehicle, the amount of the annual required contribution, and the sources of funding for the annual required contribution. *The additional cost may be as much as \$22 million annually.*

4. Implement Operating Efficiencies. The Citizen Advisory Group identified a variety of opportunities for further cost savings in municipal operations, including:

- Consolidating the Parks functions of the current Parks and Recreation Department within the Department of Public Works (DPW). *Potential savings of at least \$100,000 - \$250,000;*
- Improving payroll management efficiency by converting the City payroll from a weekly to a biweekly cycle and the school payroll from bimonthly to biweekly. *Potential savings of over \$140,000, primarily in equivalent administrative time;*
- Analyzing regularly all capital investments on a life-cycle cost basis;
- Pursuing outsourcing opportunities;
- Reducing procurement costs;
- Resolving long-term issues regarding:
 - Reducing minimum staffing requirements on fire engines to one officer and two firefighters year-round, instead of for nine months of the year. *Potential savings of \$700,000;*
 - Eliminating the fire call box system. *Potential savings of \$200,000;*
 - Decreasing snow plowing standards. *Potential savings of \$125,000 to \$250,000;*
- Investing now to achieve future savings:
 - Increasing funding for communication and information technologies to facilitate a more efficient marshalling of resources on a daily basis;
 - Hiring a budget analyst to facilitate continuous search for operational efficiencies and efficiency planning, oversight of budget appropriations, and long-term planning;
- Allocating greater decision authority to Department managers by removing restrictions on municipal department managers on their ability to move funds between “personnel” and “operating” portions of their budgets so that all least-cost options can be more easily pursued.

5. Invest in Energy Efficiencies. These energy cost saving opportunities may seem small on an individual basis but collectively the combined effect can be significant. They include banning incandescent bulbs in public buildings, replacing gas burning streetlights with high efficiency bulbs, requiring the Energy Star rating on all applicable purchases, providing an energy-saving training program for appropriate City employees, and implementing a comprehensive recycling program for all municipal operations. In addition, Newton should investigate the opportunity of becoming a customer for peak demand management companies, thereby reducing demand and potentially providing energy on-site through cogeneration.

6. Shift Appropriate Costs from the Tax Base to User Fees. The most obvious candidates for cost-shifting involve a Pay as You Throw (PAYT) Trash Program and increased user fees for selected recreation, community education, and cultural programs.

Some of these recommendations may require changes in future collective bargaining agreements and even legislative action at the State House and/or home rule petitions from the City.

No stone should be left unturned in our efforts to narrow the growing, long-term imbalance between City revenues and expenditures. Ultimately, though, Newton must prioritize as it faces reductions in the scope and scale of some of our municipal and school services.

III. Current Status

Structural Deficit

In February 2007, the Report of the Blue Ribbon Commission on the Municipal Budget determined that Newton faced a significant structural deficit. In the spring of 2008, the Mayor's office updated the Commission's budget forecast. That revised forecast shows revenues in the operating budget increasing at a rate of 2.9 percent per year from 2009 through 2014, with expenditures – a combination of both the school and municipal departments – growing at a significantly higher 5.9 percent annual rate in order to fund the current range and level of public service. This 3 percent mismatch in growth rates means that Newton will be short an estimated \$7.3 million in 2010, \$25 million the next year and, by 2013, \$45 million.

The Citizen Advisory Group draft report on Municipal Revenue in November 2008 determined that Newton's opportunities to increase revenues are modest. Exploiting these opportunities by themselves will not close the widening gap between the City's expenditures and revenues.

This gap can be further forestalled, to some extent, by efforts devoted to achieving incremental operating efficiencies. But, the Municipal Cost Structure Committee of the Citizen Advisory Group has found that opportunities for major cost efficiencies in Newton's municipal operations, over and above those implemented in recent years, are limited. A forthcoming Citizen Advisory Group report on School Cost Structure which also identifies only limited possible operating efficiencies in the Newton public schools, reinforces this sober conclusion.

Since, by law, cities in Massachusetts must have a balanced budget, the "big choices" currently facing Newton's residents and their elected leaders relate to which reductions in the scope and scale of municipal and school services should be made until new sources of funding can be generated or found. Newton voters' recent rejection of the property tax override ballot question, the recession, employment uncertainty, reduced access to credit, and slightly decreasing median home prices and substantially decreasing home sales suggests that there may be limited support for increasing revenues through tax increases, at least in the near term.

Resource Allocation

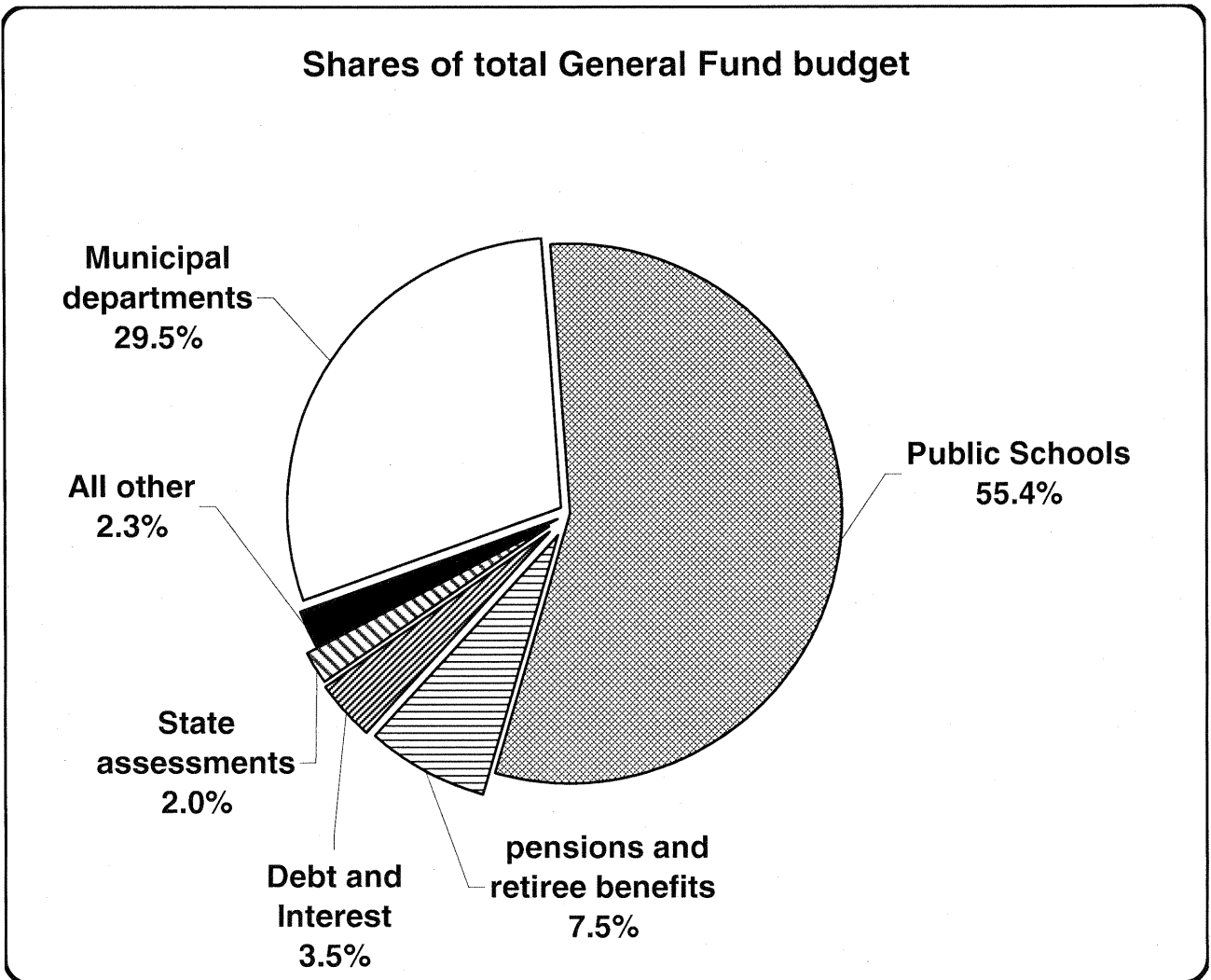
In FY01, expenditures by the municipal departments (all departments exclusive of education, e.g., public safety, public works, culture and recreation, etc.) represented 33% of the City of Newton's total General Fund expenditures. In each year since, the municipal government functions have represented a slowly decreasing share of the total, declining to a 29.5% share with the FY09 budget (refer to Table 1 and Exhibit 1: page 10). The budget for the Newton Public Schools comprises 55.4% of the total budget.

Table 1

FY09 - Municipal departments as share of total city General Fund budget

		<u>% of total</u>
Municipal departments	\$84,440,253	29.5%
Public Schools	\$158,484,693	55.4%
Retirement pensions and benefits	\$20,961,920	7.3%
Debt and Interest	\$10,011,346	3.5%
State assessments	\$5,603,855	2.0%
All other	\$6,498,791	2.3%
TOTAL	<u>\$286,000,858</u>	

Exhibit 1



Note: A more detailed history of Municipal Government departments share of the total budget from FY00 to FY08 can be found in Appendix 1

An analysis of compound annual growth rates in revenues and expenditures also confirms the decreasing allocation of resources to municipal functions. In the last five years since FY03, the compound annual rate of increase of the municipal non-education departmental budgets has been 2.1%. Looking at the last ten years, municipal department expenditures have increased at a 3.3% compound annual growth rate and, for the last fifteen years, at a 3.2% compound annual growth rate. (See Table 2, below)

But, during the same time periods, Newton's revenues have increased at a greater rate than these expenditures on the municipal departments. Simultaneously, expenditures on public education have grown more than both revenues and municipal department expenditures.

Table 2
15 Year Trend Analysis
Compound Annual Growth Rates in Revenues and Expenditures

	Fiscal Year <u>2008 Actual</u>	Compound Annual Growth Rates		
		<u>5 years</u> <u>2003-2008</u>	<u>10 years</u> <u>1998-2008</u>	<u>15 years</u> <u>1993-2008</u>
REVENUES:				
Property Taxes	\$215,239,592	3.7%	4.6%	4.3%
Intergovernmental Revenue	29,633,992	6.6%	8.0%	9.5%
Other	27,306,861	3.3%	2.4%	4.3%
Total Revenue	\$272,180,445	3.9%	4.6%	4.7%
EXPENDITURES:				
Public Education	\$152,728,991	4.7%	6.5%	5.9%
General Government	\$ 12,869,213	2.7%	3.7%	4.0%
Public Safety	31,150,150	1.3%	3.1%	3.2%
Public Works	19,871,674	1.8%	2.4%	1.9%
Health & Human Services	3,486,798	4.4%	5.8%	6.0%
Culture & Recreation	10,430,886	3.5%	4.5%	4.1%
Total Municipal Departments	\$ 77,808,721	2.1%	3.3%	3.2%
Debt & Interest	\$ 7,426,543	2.5%	3.0%	4.9%
Pensions & Retiree Benefits	19,666,614	6.9%	7.9%	4.2%
Other (2)	7,299,588	-0.1%	-2.1%	0.8%
Total Expenditures	\$ 264,930,457	3.8%	5.1%	4.7%

Three critical questions arise from this data:

- What impact has the declining share of City expenditures devoted to municipal operations had on the range and quality of municipal services?

- Since the underlying costs of municipal operations have risen more than the level of funding of departmental budgets, what tradeoffs or compromises have City officials made in service priorities and standards of performance?
- What actions can be taken to mitigate the adverse effects of reduced budgets and services through increased efficiencies in municipal management, including efficiency-seeking investments?

Our observations on the historical data can be summarized as follows:

- The number of municipal department employees has been cut;
- Managers' workloads have increased;
- Salary and benefit growth has not been constrained to the same level as revenue growth

Staffing Trends

Full-time equivalent staffing supported by the General Fund in FY01 was 910.7 positions. Eight years later in the FY09 budget, the number has dropped to 820.8, a staffing reduction of 90 people or almost 10%. Staff reductions have occurred in almost every department and division of the city government, large and small departments alike (refer to Table 3, page 14). While in earlier years, the reduction in staffing reflected outsourcing of services to others, no large number of employees has been let go since 2001 as a result of outsourcing.

Looking at longer time periods, staffing has decreased considerably – over 20% – in the last twenty-four years. But, an indeterminate amount of these reductions in municipal employees are related to outsourcing (e.g., trash collection and forestry services). (Refer to Table 3.)

Changes in managers' workload

It would be exhilarating if the Citizen Advisory Group could conclude that these staff reductions since 2001 have been the consequence of improved efficiencies; rather, what we have observed is a remaining administrative staff that is significantly burdened with handling the day-to-day tasks and that has little remaining time to devote to forward planning. It is clear to us that the substantial portion of the staff reductions have been a response to fiscal constraints and that service reductions, curtailments, and modifications have occurred in a gradual but inexorable way that has not necessarily been immediately evident to the citizenry. Each year Newton has a balanced budget, but what has occurred to the level and quality of services over a decade is dramatic.

This is not an observation about more or less taxation; rather it is an explanation of how Newton has dealt with its structural deficit over the course of this decade. The combined effect of constrained revenues, the objective of supporting the Newton Public Schools as

much as possible, the rapid growth of certain non-payroll costs (especially health care benefits), and the necessity of compensating remaining staff in an environment that is competitive for talent and skills has led to the continuous and cumulatively significant down-sizing of the city's staff.

The Citizen Advisory Group thinks this gradual erosion in staffing across all departments cannot continue in the same pattern as before without noticeable effects in the quality of services.

Salaries and Benefits

The Citizen Advisory Group Municipal Cost Structure Committee was charged with the task of identifying opportunities to improve the efficiency and effectiveness of Newton's municipal government operations; this is simple enough to state but far from simple to accomplish. If there were easy and obvious ways to spend less while accomplishing the desired outcomes, or even to spend less to accomplish the existing level of performance, in most cases it would have been done already.

The central fact of Newton's municipal budget is that it consists of a broad array of necessary public services that are accomplished primarily through the employment of staff. More than 77% of the FY09 General Fund budget for city departments consists of employee salary and benefits. (See Table 4 and Exhibit 2: page 15)

- Salaries are a function of the competitive marketplace and union negotiations (approximately 95% of Newton's employees are represented by a union). Salaries are forecasted to grow at approximately 4% to 4.5% annually. While this is in line with other cities and towns, nonetheless it is a higher rate than expected revenue growth.

Benefits are a function of state law (as to requirements), employer contribution rates (a collective bargaining matter, subject to minimums set by state law), plan designs (also subject to collective bargaining requirements and not able to be altered unilaterally by the municipal employer), and health care cost escalation over the past decade that is a national, not a local, problem. Benefits (including health care and pensions) are projected to grow at 7%, also exceeding revenue growth.

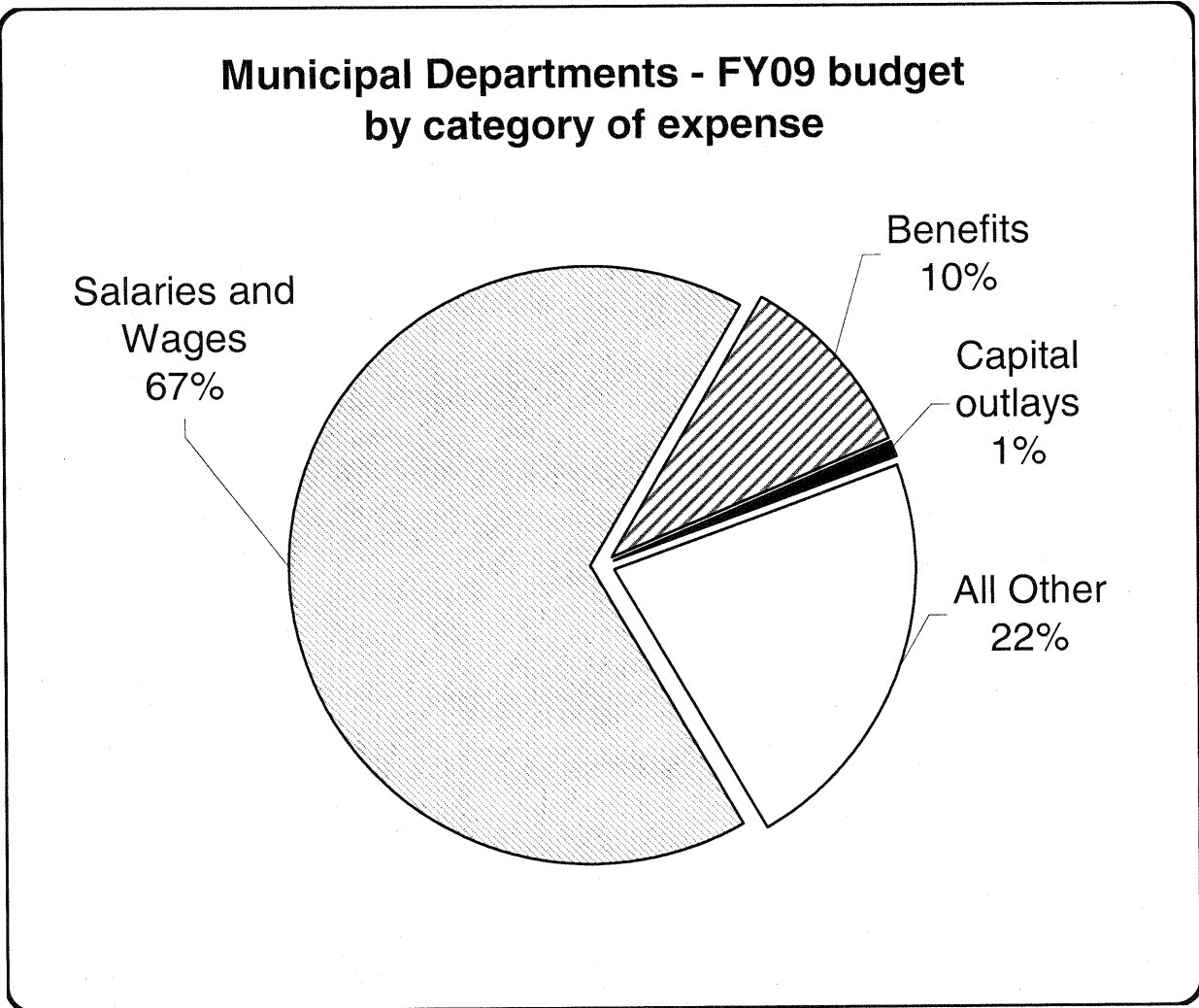
Table 3: City of Newton: Municipal Personnel (Full Time Equivalents (FTEs) Trends

	Change in FTEs				
	FTEs in FY09	1 Year: FY2008 - FY2009	8 Years: FY2001- FY2009	19 Years: FY1990- FY2009	24 Years: FY2009 - FY1985
General Fund FTEs	820.8	-36.6	-89.9	n.a.	n.a.
Department					
Clerk to the Board	6	0	0	0	1
City Clerk	4.0	-0.3	-0.8	-0.5	0.0
Executive	6.0	0.0	-0.4	-1.0	0.0
Accounting	7.9	-0.1	0.5	-3.1	-2.1
Purchasing	6.0	0.0	-3.0	-2.0	-3.0
Assessing	13.6	-1.3	-3.4	-3.4	-1.4
Treasurer	8.4	-1.6	-2.6	-4.6	-6.6
Law	9.8	0.0	-1.2	-1.2	-1.2
Human Resources	8.0	0.2	-2.0	-1.2	0.0
City Physician	0.0	0.0	-0.2	-1.2	-1.0
IT	8.4	-0.6	-3.6	-2.6	-3.6
Elections	7.4	-1.0	-1.2	-2.3	0.4
Planning	12.5	-0.6	-0.3	1.5	3.5
Building	24.0	-3.0	-7.0	-11.0	-25.0
Police	196.5	-12.4	-18.7	-62.4	-57.7
Fire	186.9	-2.0	-9.1	-59.1	-59.1
Inspectional Services	13.0	0.0	-2.7	-5.1	13.0
Weights & Measures	1.0	0.0	0.0	-0.4	0.0
Civil Defense	0.3	0.0	0.0	0.0	0.3
Public Works	141.7	-7.4	-18.3	-59.3	-78.3
Engineering	0.0	0.0	0.0	-20.6	-18.0
Water/Sewer	67.4	3.0	7.0	-1.6	2.4
Storm Water	6.0	0.0	6.0	6.0	6.0
Health	38.4	-2.7	2.4	9.7	15.4
Human Services	5.0	-0.4	-7.8	-4.6	1.0
Veterans/Licensing	2.0	0.0	0.0	0.0	0.0
Library	76.4	-2.5	-0.2	17.6	20.2
Parks and Recreation	34.9	-0.7	-10.1	-49.1	-51.1
Jackson Homestead	2.7	-0.3	-0.3	-0.5	-0.4
Community Schools	0.0	0.0	0.0	-2.0	-2.0
Total	894.2	-33.6	-76.9	-263.9	-247.2
General Areas					
Public Works	209.1	-4.4	-11.3	-81.5	-93.9
Police	196.8	-12.4	-18.7	-62.4	-57.4
Fire	186.9	-2.0	-9.1	-59.1	-59.1
Human Services, Health, Parks & Recreation, Library	173.4	-6.5	-18.6	-34.3	-3.8
General Government	<u>122.0</u>	<u>-8.3</u>	<u>-25.2</u>	<u>-32.6</u>	<u>-39.0</u>
	888.2	-33.6	-82.9	-269.9	-253.2

Table 4

FY09 Budget for Municipal Departments		
		% of total
Salaries and Wages	\$56,253,150	66.6%
Benefits	\$8,835,164	10.5%
Capital outlays	\$540,560	0.6%
All Other	<u>\$18,811,379</u>	22.3%
TOTAL	\$84,440,253	

Exhibit 2



Thus, the first place to look for efficiencies – or for cost reductions in the delivery of the current level of services – is the management of staffing levels, compensation strategies and benefit costs.

Efficiencies, Effectiveness and Choices

Efficiency can sometimes be reduced to the refrain, “doing more with less” or getting more “output” for any given level of “input.” As discussed above, it may involve having fewer workers being more productive or the same number of workers at lower compensation levels.

Effectiveness is a matter altogether different. Effectiveness can be thought of as “doing it smarter.” It involves an examination of whether the particular tasks and services are leading to desired results. If not, what tools and changes may lead to improvements? Effectiveness thus requires clarity about goals and objectives; or, as Yogi Berra has expressed it, “If you don’t know where you’re going, you probably won’t get there.”

If improvements in efficiencies and effectiveness do not lead to a balanced budget, Newton will be faced with difficult choices. We will need to reduce or even eliminate those tasks or services deemed to be of less importance to Newton’s overall objectives. The Citizen Advisory Group has concluded that this is inevitable and that fiscal responsibility requires the community to face up to these difficult choices.

Many of the Citizen Advisory Group recommendations that follow help improve efficiency or effectiveness but are definitely minor in their overall impact. A few involve the “big” items that will have a major impact:

- How do we compensate Newton employees?
- How do we reduce the cost of employee benefits, if that is even possible within our own authority under state laws?
- How do we increase the effectiveness of the City of Newton’s municipal departments?
- How do we choose the services to be diminished or eliminated?

The forthcoming report by the Citizen Advisory Group on Performance Management will provide some answers. We also provide some in this report.

IV. Detailed Recommendations

The findings and recommendations that follow are neither overt nor implied criticism of present staff or past decisions. In fact, the Citizen Advisory Group was often struck by the professionalism, talent, depth of experience, honesty and dedication of Newton's senior managers. Rather, the ideas presented are deemed worthy of further study and examination. We recognize that some will survive such scrutiny and others will fall by the wayside for a variety of legitimate reasons.

We also note that the Capital Structure Committee of the Citizen Advisory Group looked in-depth at Newton's physical capital assets and in its forthcoming report will reveal substantial underfunding and call for significant additional investments in this area. During our work, the Municipal Cost Structure Committee found municipal employees hampered by substandard facilities and equipment. The workspace and the tools provided to staff are often worn and not always serving the goal of facilitating superior performance of the staff.

1. Control Employee Compensation Costs

The greatest potential savings in municipal operating costs lie in improving the management of employee salaries and benefits (including eligibility and contribution rates), which comprises nearly 80% of all municipal costs.

The Citizen Advisory Group recommends that the City undertake a comprehensive evaluation of possible changes in salary, health care benefits, sick time, vacation, holidays, life insurance, dental and vision benefits, short and long term disability, workers compensation, and retirement benefits (both pension and other post-employment benefits). The purpose of such a review is to specify changes that address both employee needs and Newton's fiscal situation while recognizing the quality of Newton's municipal services is directly linked to the performance of employees.

The benefits portion of this review will be especially important, because *Newton may not be able to bear the same level of benefits in the future that it has committed to in the past.* Newton will need to re-examine all of the conditions under which active employee and retiree health benefits are provided, the level of financial responsibility borne by active and retired employees, the level of benefits provided, and the eligibility of part-time employees for essentially full-time benefit levels. Where Newton's benefit levels and eligibility criteria exceed state law requirements, changes – either for all current and retired beneficiaries, or more restrictively just for newly hired and retired employees after a date certain – will need to be considered.

Any significant departure from current practices will require modification of state law. This in turn will require the active participation of the city's state legislators and the Mayor and the Board of Aldermen to agree on submittal of one or more Home Rule petitions. For example, under existing state law:

- The City does not have the authority to establish standards for the receipt of full group insurance benefits; all employees working at least 20 hours per week in regular employment are eligible for group insurance coverage on a 100% basis.
- The City does not have the authority to set different conditions for newly hired employees.
- In no event is the City permitted to bear a share of group health insurance less than 50% of the cost, for either active or retired employees.

In brief, Newton does not have the full authority to manage its employee benefit costs in ways that many citizens might conjecture. Only the state legislature can grant such authority to Newton or to any other municipality in Massachusetts, and to date no such grant of authority has issued from Beacon Hill.

2. Decide Whether Joining the Group Insurance Commission (GIC) will Decrease Health Insurance Costs

The City and union leaders need to actively consider joining the state's health insurance program, the Group Insurance Commission (GIC). An in-depth analysis should be done immediately. Certainly the decision to join the GIC will be easier if legislation is passed that would allow municipalities to join without union approval. But, the analysis should be done regardless of whether such legislation is passed. *Savings of \$1 to \$4 million* are possible according to City employees.

The Citizen Advisory Group further recommends that the city continue efforts already initiated to meet with representatives of its collective bargaining units and its retired employees with the objective of determining the advisability of joining the GIC.

This discussion should include a thorough comparison of plan options available through the GIC and options at present offered by the City. In addition, cost trends and any other relevant factors of both the city and the GIC should be reviewed, all with the intention of helping Newton make the best and most informed decision about health care for the benefit of both its employees, whether actively working or retired, and the taxpayers.

Discussion:

Blue Ribbon Commission: In its February 1, 2007 report, the Blue Ribbon Commission (BRC) described Newton's self-insured health care arrangement, as follows:

Newton's average increase in health insurance costs over the past ten years has been about 11% per year. The city offers two health insurance options to all current and retired employees, their spouses, and dependants. The city currently contributes 80% of the cost. The city is self-insured and uses Tufts Health Plan and Harvard Vanguard to provide services as third party administrators (TPAs). As such, Tufts and Harvard structure plans and pay claims on behalf of the city ... but the city is responsible for all costs. The city maintains a 'stop loss' insurance policy that protects the city in case a single claim or a series of claims exceeds an agreed upon threshold.

The Blue Ribbon Commission report also described further details of Newton's health care arrangements and opened a discussion of potential areas of savings. It concluded:

... in the absence of a change in state law, the city has few options for cost savings with regard to health care. Were the law to change with regard to collective bargaining, the city would have the ability to make changes in health benefits without needing to negotiate every aspect, providing for the possibility to build in incentives and make smaller and more frequent changes in line with the marketplace. The possibility of joining a state plan might also enable the city to take part in innovative health care cost and quality programs by the state's GIC.

New Legislation in June 2007: Subsequent to the close of the work of the Blue Ribbon Commission, additional information has demonstrated a new basis for revisiting health care as an area of potential savings.

As part of his Municipal Partnership Act (MPA), on July 25, 2007, Governor Patrick signed legislation (known as Chapter 67 of the Acts of 2007) permitting cities and towns, under certain conditions, to join the state GIC.

The Massachusetts Municipal Association (MMA) Summary of the Act described this provision as follows:

Sections 4, 6, 7 and 8 would allow cities and towns, by local option, to use a streamlined coalition bargaining process to negotiate over whether to participate in the Group Insurance Commission. Decisions to participate would depend on the outcome of negotiations, and reaching an agreement between the municipality and a public employee committee which would include representatives from each collective bargaining unit and retirees.

The Group Insurance Commission, in its September 17, 2008 Q&A with respect to the Municipal Group Insurance Law, describes the major elements of the agreement, as follows:

What must be in the bargained agreement to join GIC health coverage?

Three issues: (1) whether to join GIC health coverage; (2) the health premium contribution ratios for the Municipal Employer's subscribers, which can differ only by type of plan (PPO, HMO or Indemnity) and not by type of subscriber (active, retired or survivor); and (3) the terms for revocation of section 19 if the Municipal Employer or its subscribers wish to withdraw after three or six years of enrollment in GIC health coverage."

With passage of this new law, then, the possibility exists of Newton realizing perhaps substantial, though as yet unquantified, savings should it choose to take the necessary steps to join the GIC. ***Caution should be the order of the day, however.*** The recent Brookline Override Study Committee (January 2008), in reviewing the attractiveness of joining the GIC, warned:

"The GIC is the health system for state government employees. The legislature recently gave municipalities the option of joining the GIC if the municipality adopts coalition bargaining and gets 70 percent of the bargaining units to agree to the change. ***Premiums for health plans similar to that offered to Brookline employees are significantly cheaper in the GIC, and GIC premium growth rates have been significantly lower in the past few years than those achieved in Brookline.*** It is unclear why the GIC is able to offer cheaper premiums. It is possible that state employees are younger and healthier on average than municipal employees. Alternatively, it is possible that the GIC has more bargaining power. It is likely that the town would save between \$1 million and \$2

million per year by joining the GIC. However, *it is not guaranteed that these savings will be achieved. While the cost through the GIC of plans similar to those currently offered by Brookline is considerably less, the GIC also offers a higher cost indemnity plan that is not currently offered to Brookline employees. If enough Brookline employees chose the indemnity plan, costs could actually go up with entry into the GIC.*"
(emphasis added)

In summary, since health care benefits for Newton's employees, both actively working and retired, represent a substantial – and rapidly rising – cost to Newton, the recent change in state law, now permitting cities and towns to join the state Group Insurance Commission, makes it both timely and desirable for the city to fully explore this option.

Moreover, House Speaker Salvatore DiMasi said in early December 2008 that he will propose legislation in January 2009 that would allow municipalities to join the state's health insurance program without union approval.¹

Through the GIC, the health of more than 300,000 individuals is insured and accordingly it possesses the necessary clout to negotiate favorable costs from participating insurers. It also possesses the ability, the willingness, and the need to explore and implement creative solutions to the provision of quality health care with the hope of reining in both the overall cost and – at least as importantly – the rate of growth in health care costs.

Recent Decreases in Rates of Growth in Health Care: Employee and retiree health care benefit costs currently account for 12.6% of Newton's General Fund budget or over \$38 million. In the last two fiscal years, Newton (and other municipalities) has experienced lower rates of cost escalation. (See Table x.) For the four year period between 2004 and 2008, the cost of claims administered by Tufts, the city's primary claims administrator which handles 75% of the claims, increased by only 4.2% per year.² In contrast, Newton's experience with Harvard-Pilgrim was significantly less favorable, with the cost per year rising 20.8%. Overall, Newton's cost of health care claims increased at a compound annual growth rate of 7.8% from 2004 – 2008, a rate substantially higher than the increase in Newton's revenues.

In contrast, the state's Group Insurance Commission (GIC) showed cost increases of about 8.4% per year for the comparable period.

¹ Boston Globe, December 9, 2008.

² Compound annual growth rate from 2004-2008.

Table 5: Percent Increases in Health Claims, 2004 – 2008

	Percent Increase over Prior Year in Paid Health Care Claims
FY 2004	7.6%
FY 2005	9.0%
FY 2006	11.7%
FY 2007	4.0%
FY 2008	6.5%
Total Paid Claims in FY2008: \$38,828,061	

Source: City of Newton, 6/30/08
Annual Financial Report

Newton's recent somewhat more favorable claims experience offers at least some breathing space with which to entertain this step without being rushed into doing so. The Citizens Advisory Group, however, believes that the current favorable cost trends may not persist indefinitely, in which case joining the GIC may well represent, in the long term, a more desirable option than not joining. In Newton's June 30, 2008 actuary report with respect to retiree health benefits, the following was included under "assumptions":

Trend- Medical Costs are assumed to increase each year according to the following schedule:

<u>Year</u>	<u>Medical Trend</u>
2008	7.2%
2009	7.2%
2010	7.2%
2011	7.2%
2012	7.2%
2013	7.2%
2014	7.1%
2015	7.1%

Source: Actuarial study dated August 19, 2008, Financial Risk Analysts, LLC

3. Begin Funding Health Care Obligations

Current Status:

Newton, like the vast majority of cities and towns in Massachusetts and the Commonwealth of Massachusetts itself, is facing an enormous financial issue related to the unfunded liability for retiree health care and other non-pension benefits.³ These non-pension post-employment benefits are, in plain English, health care and life insurance coverage for retirees and their survivors.

As noted by the Commonwealth of Massachusetts Special Commission on Other Non-Pension Employee Benefits in July 2008,

In order to recruit and retain public service employees, state and municipal governments across the country have for decades been offering pension and other post-employment benefits (OPEB), most notably health care. The offerings have, in general, helped state and local governments attract quality employees ...

At present, Newton pays for its retirees' health care and life insurance coverage on a pay-as-you-go basis. In other words, Newton did not set aside money in the past when these employees were actively working in order to pay for their health care and life insurance when they retired. Nor is Newton now setting aside funds for its current employees in order to pay for their health care once they retire in the future. Rather, these "unfunded" retiree health care costs are, as a matter of policy, paid for through annual appropriations. (The health insurance contribution rates of plan members and Newton are 20% and 80%, respectively. Newton reimburses 80% of Medicare Part B premiums paid by retirees. The plan members and Newton each contribute 50% towards a \$5,000 term life insurance premium.) In FY08, the cost of the pay-as-you-go method came to \$13.4 million dollars.

New accounting standards issues by the Government Accounting Standards Board in 2004 require municipalities to disclose the total amount of these actuarially determined future liabilities and the amount required to be paid currently to cover these future health care and life insurance costs. According to the forthcoming FY08 Comprehensive Annual Financial Report prepared by Newton's Comptroller, the total unfunded future liability stood at \$432.9 million as of June 30, 2008.⁴ The annual required contribution (ARC) represents a level of funding that if paid on an ongoing basis in the present is projected to cover these future liabilities. *For FY08, Newton needed to pay \$22 million dollars this year (above and beyond the current \$13.4 million that we did pay) to fund our future liability.* This \$22 million payment is not a one time payment but is needed *annually* for the next thirty years and, in fact, grows over time. *In light of Newton's current budget of \$275 million budget in which there is considerable concern about lack of funds to pay for current level of services and such underfunded areas as capital maintenance and*

³ These retiree health care and other non-pension benefits are often labeled as "Other Post-Employment Benefits" with the acronym, OPEB.

⁴ The discount rate used was 3.75%.

refurbishment, this \$22 million represents a significant area needing additional funding in the view of the Citizen Advisory Group.

The pay-as-you-go method that Newton (like so many other cities and towns) is using is not sustainable. Because life expectancies and health care costs are rising simultaneously, the future retiree health care costs represent a significant unfunded obligation. Newton, like so many other cities and towns, has made a commitment to public service employees to provide health care benefits after they retire – these commitments are growing annually and Newton, like so many others, has not adequately saved to pay for these commitments.

Pre-funding is both prudent and necessary. By saving early, the total liability is reduced dramatically. According to an analysis by the Commonwealth, full pre-funding following the guidelines of the Generally Accepted Accounting Principles for Governments *reduces the liability by 45%.*⁵ Without pre-funding, Newton places on future Newton residents a crippling obligation. Without pre-funding, Newton also seriously threatens its commitment to pay former, current and future retirees health care and life insurance benefits.

At the moment, individual cities and towns have to get legislative approval from the Commonwealth to establish a retiree healthcare trust fund. Cities and towns like Needham, Lexington and Wellesley have done just that. They sought and received a home rule petition to set up a fund. In May 2007, Wellesley citizens voted yes overwhelmingly (a 68% yes vote) for a \$1.8 million debt exclusion override annually for ten years to fund their liability.

Newton is currently funding its pension liability. That funding will not be completed until 2028. One option is to appropriate nothing to the health care and life insurance liability until the pension obligation is fully funded or to appropriate minimal amounts until that time. The Citizen Advisory Group believes that strategy is not appropriate. It transfers to future Newton tax payers costs that are appropriately born by the current ones and fails to take advantage of the power of compounding that pre-funding permits. While Newton has been facing difficult funding decisions for a number of years, the City has an obligation, morally and fiscally, to find the funds to pay for its commitments to retirees. Waiting until the Commonwealth passes legislation to force municipalities to fund these liabilities (as it did with pensions) simply puts off until tomorrow payments that should be made today.

One of the important choices that the City of Newton has been making is to not set aside money currently for any of Newton's health and life insurance post-retirement benefits for employees that have already retired and for current employees who will eventually retire.

⁵ Special Commission to Investigate and Study the Commonwealth's Liability for Paying Retiree Health Care and Other Non-Pension Employee Benefits. "Reporting and Funding OPEB Liabilities." July 2008.

The Citizen Advisory Group strongly believes that Newton should address the commitments it has made to its employees for non-pension post-employment benefits with planning, prudence and fiscal responsibility. Just as Newton has been funding its pension liabilities, so too it should be funding its retiree health insurance liabilities.

1. Home Rule Petition: Immediately begin the process of getting a home rule petition from the State legislature to set up a retiree health care and life insurance trust fund, unless suitable omnibus legislation is enacted by the General Court. (note: a bill that would permit funding without a home rule petition was sent to the Governor on Wednesday, January 7, 2009 and he is expected to sign it.)
2. Unfunded Liability for Retiree Health Care and Other Non-Pension Benefits Task Force: Immediately convene a task force including Aldermen and staff members, and perhaps citizens to analyze and make recommendations on the immediate issue of the unfunded liability for retiree health care and other non-pension benefits. The task force should be charged to address the following questions:
 - The investment vehicle for holding the funds⁶ and the management structure for overseeing it;
 - The amount of the annual required contribution that should be funded now and over the next thirty years for both the annual costs and the amortized amount of the unfunded actuarially accrued liability;
 - The source of funding for the annual required contribution (General Fund, debt exclusion override, general override or some combination of the three).

⁶ The Commonwealth is considering a bill that would allow local communities to invest these funds with the State's healthcare trust fund, providing access to top tier investment managers and investment in a larger pool of assets to increase returns

4. Implement Operating Efficiencies

A. Consolidating the Parks functions of the current Parks and Recreation Department within the Department of Public Works (DPW).

In the Revenues report of the Citizen Advisory Group submitted on November 19, 2008, the Citizen Advisory Group recommended that Newton:

Increase user fees to cover more fully the costs of recreational, community educational, and cultural programs with appropriate abatements for low income residents including, but not limited to, Gath Pool and Crystal Lake, summer camps, and playing fields. Consolidate these programs in one department to decrease costs, improve effectiveness and increase revenues.

The report went on to note:

Newton has a decentralized approach to providing community educational, recreational and cultural programs with the support of City funds. Many different departments create and promote programs with no central vision for Newton's overarching goals. Nor is there consistency in the amount of financial support for these programs from Newton versus degree of costs covered by user fees. There is no central clearinghouse where residents can find programs of interest. The lack of centralization results in the duplication of programs. While there are advantages to the current system (e.g., an entrepreneurial spirit results in a wide variety of programs), it also results in:

- Inconsistent policies towards user fees vs. tax supported programs within and across departments
- Administrative inefficiencies
- Program inefficiencies
- Marketing inefficiencies
- Insufficient funding for scholarships
- Insufficient use of private-public partnerships and support from individuals, corporations and foundations
- Unhealthy competition for teachers and space

The Citizen Advisory Group also thinks that there are opportunities to increase effectiveness by having the Parks, Forestry and recreation vehicle maintenance functions of the current Parks and Recreation Department become a division within the Department of Public Works (DPW).

The Parks and Recreation Department has a \$4.2 million budget. Within the department, there are four divisions: Administration (22% of the budget), Recreational Programs (24%), Parks Maintenance and Vehicle Maintenance (66%) (approximately 18 people), and Forestry (10%)(approximately 2 people). The Parks Maintenance division maintains

approximately 1060 acres of land as well as playgrounds, school grounds, a burial ground, and all municipal grounds and recreation buildings. During the winter, they use contracted services to control snow and ice on the interior of: school grounds, City Hall, libraries, the police station, and Jackson Homestead. (Note: Interior means steps, walkways, and parking lots) Snow and ice control costs vary year by year depending on weather conditions. While budgeted for \$123,000 in FY09, it totaled over \$690,000 in FY08. The Recreation Vehicle Maintenance group takes care of non-automotive small equipment and large equipment. The Forestry division has care and custody of approximately 30,000 public street trees.

Table 6
Parks and Recreation Department:
Parks, Forestry and Vehicle Maintenance Expenses (FY09)

	Total Expenses	Personnel Expenses	Personnel Expenses as % of Total Expense	Non-Personnel Expenses
Parks and Recreation Administration*	\$718,297	\$692,913	96.5%	\$25,384
Public Grounds Maintenance	\$1,476,516	\$1,080,910	73.2%	\$395,606
Forestry Services	\$435,838	\$177,883	40.8%	\$257,955
Snow/Ice Control	\$123,620	\$31,320	25.3%	\$92,300
Vehicle Maintenance	\$197,721	\$60,283	30.5%	\$137,438
	\$2,951,992	\$2,043,309	71.2%	\$908,683
Total Parks and Recreation Dept.	\$4,201,584	\$3,393,705	86.0%	\$1,428,475

* Note: Parks, Forestry and Vehicle Maintenance account for approximately 63% of the total Parks and Recreation budget less Administration so this is a pro-rated amount of the Administration cost (the total Administration cost is \$945,128)

The Department of Public Works has a \$18.6 million dollar. Within the department, there are six divisions: Administration (4.9% of the total budget), Engineering, Water/Sewer, Highway (which includes both Public Property Maintenance and Roadway Construction), Environmental Affairs, and Equipment Maintenance. Snow and ice control expenses vary from year to year depending on weather conditions. In FY08, snow and ice control totaled over \$2.75 million.

The demarcation of responsibilities between Parks and the Department of Public Works currently is usually clear but not always. In the summer months, DPW handles maintenance of “hardscape” (streets and sidewalks) while Parks maintains “softscape” (fields, parks, grass, trees, burial grounds, playgrounds, the grounds of public buildings, recreation buildings). In the winter months, DPW handles snow and ice on roads while Parks handles snow and ice on sidewalks, schools, and public buildings. Both the DPW and Parks subcontract much of the snow removal to outside contractors. The Parks Department maintains its own non-automotive vehicles (e.g., turf cat mowers) and

equipment. The Department of Public Works maintains 650 city vehicles and motorized equipment. The coordination between the two departments sometimes creates friction. Being in separate departments, there is little or no sharing of manpower and equipment. In those instances where efficiencies could occur, they are not. There are opportunities both to improve effectiveness and reduce costs.

It is not unusual to have the responsibility for parks within the Department of Public Works. Arlington, Belmont, Brookline, Lexington and Wellesley are organized in just such a manner. Parks and Recreation is justifiably proud of their deep commitment to public lands and trees. This commitment can continue even while being a division of Public Works rather than Parks and Recreation.

**Table 7
Comparison of Organization Structure of Park Activities**

	Within Department of Public Works (DPW)	Stand Alone Department	Notes
Newton		x	Stand alone Parks and Recreation Department
Arlington	x		Parks and Fields Division within DPW; Separate Recreation Department
Belmont	x		Parks and Facilities Division within DPW; Separate Recreation Department
Brookline	x		Parks and Open Space Division within DPW; Separate Recreation Department
Framingham		x	Stand alone Park and Recreation Department
Lexington	x		Parks, Forestry and Cemetery Divisions within DPW; Separate Recreation Department
Natick		x	Stand alone Recreation and Parks Department
Needham		x	Stand alone Park and Recreation Department
Wellesley	x		Park and Highway Division within DPW; Separate Recreation Department

While this recommendation requires further study, the Citizen Advisory Group is convinced it will improve effectiveness and increase efficiency. We fully expect savings in the range of at least \$100,000 to \$250,000 (headcount reductions of at least two to five people).

4. Implement Operating Efficiencies

B. Improving payroll management efficiency by converting the City payroll from a weekly to a biweekly cycle and the school payroll from bimonthly to biweekly.

The Director of Human Resources reports that there are 900 city employees; about 10% are non-union managerial staff and the remainder are unionized in seven different unions. Employees are paid weekly. The Treasurer reports that an average of 1,350 paychecks is issued per week.

On the school side, there are 1,400 active employees, almost all represented by 10 different unions. School employees are paid bimonthly. The Treasurer reports that there is an average of 2,100 paychecks issued per bimonthly school payroll.

The higher number of checks issued by the Treasurer compared to the head count noted by the Human Resources Director reflects (a) temporary and part-time workers, (b) contractual provisions that require certain payments to be rendered in a second pay check, and (c) some school employees who are paid on a weekly schedule.

Payroll administration is a complex undertaking involving considerable expertise. It requires ensuring compliance with personnel rules and regulations, accuracy of pay rates, retroactive pay changes, compliance with federal and state laws, knowledge of complex rules governing taxable and non-taxable income, accuracy of deductions for the employee payroll deduction portion of various benefits, timely and accurate payment of federal and state income tax withholding, proper computation of termination pay and paid leave accruals, ... the list could continue at greater length.

Recommendation: Convert city payroll from weekly to biweekly cycle.

The weekly pay cycle on the city side can be altered to a biweekly cycle with considerable savings – of both direct and indirect costs. Considerable time is devoted to payroll management in the Treasurer's office and in the Information Technology office with additional related time and effort in the Comptroller's office and the Human Services Office. In addition, the direct banking transaction costs related to the issuance of 1,350 pays per week is not inconsequential.

With some 70,000 payroll items per year reduced to 35,000, and making a rough estimate that the direct and indirect cost of issuing a paycheck amounts to at least \$5, the possible savings – primarily in equivalent time savings for the administrative staff, not cash savings – could be as much as \$140,000 annually. Changing the pay frequency could save the equivalent of at least one full-time equivalent (FTE) position and possibly 2 FTEs throughout the organization, staff time that could be redirected by these various offices and by operating department staff to more productive endeavors. 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. Communities that

have already made this conversion report significant workload reduction related to payroll administrative efforts.

Certainly, payroll administration is an important – even critical – function, but many communities in recent years have recognized the cost impact of weekly payroll processing and have shifted to less frequent payrolls. Such action is permitted by MGL, Ch. 149, s. 148 as amended in 1993 (Ch. 110) and as was further clarified by the Municipal Relief Act, Ch. 46 of the Acts of 2003 amending MGL, Ch. 41, s., 41. Unless a weekly pay cycle is required in existing collective bargaining agreements, there is no requirement that a change in the pay frequency must be subject to collective bargaining. However, MGL, Ch. 149, s. 148 requires that 90 day notice be given to affected employees, and the numerous municipalities that have made this change have found it helpful to “meet and confer” with employee groups during this 90-day period to respond to all possible questions. In almost all cases, the transition has been uneventful.

Recommendation: Convert school payroll from bimonthly to biweekly

The school department is not a separate employer in the eyes of the state and federal government. Accordingly, it falls to the Treasurer to coordinate city and school payroll data and to make payment of tax withholdings to the state and federal government on strict time schedules. Failure to do so, or even the slightest clerical error, is penalized punitively and virtually without recourse. The federal government, in particular, appears not to have heard of the concept of human error.

In light of this exacting and harsh environment, it would facilitate the Treasurer’s task if the payroll schedules of the city and school department could be perfectly aligned on a common schedule. Tax withholding obligations could then be consolidated and paid on a fixed schedule for the combined payrolls, resulting in greater efficiency and less chance of error.

While it is correct to note that the City could change its current weekly schedule to bimonthly, the merits of a predictable and standard pay day as the same day of the week at biweekly intervals may be more desirable from the perspective both of the departments that are integrating payroll reporting into their routine work schedules and of the employees who would also benefit from a pay-day schedule that does not wander around the week from month to month.

The first priority, therefore, is to change the city departments’ pay schedule from weekly to biweekly. The second priority, and perhaps the more challenging one, is to make the city and school pay cycles uniform. The efficiency of payroll operations will be enhanced by both steps. Direct and indirect cost savings will be worth the effort.

4. Implement Operating Efficiencies

C. Analyzing regularly all capital investments on a life-cycle cost basis.

Newton should require life cycle assessment for the evaluation of all investments over a designated value or set of criteria such vehicle purchases. Under the current financing and cost assessment approach, investments of all sizes are generally evaluated using only the upfront cost (initial capital outlay). Some projects do assess the payback when a cost-benefit is relevant. However, when assessing various options for purchase or investment, the entire cost of the purchase should be determined for the decision. This overall cost is known as the life cycle cost and includes upfront cost, operating cost over the life of the system purchased, and the disposal cost when the system expires. Using life cycle assessment in the decision-making process would ensure that decision makers can evaluate the cost, not just from the initial outlay, but over the life of the product/system.

4. Implement Operating Efficiencies

D. Pursuing outsourcing opportunities

Newton should develop a financial framework and use it regularly to assess the full cost of performing a service using internal resources compared the cost of outsourcing options. The City's various departments have provided most services internally. However, over time, certain services have been outsourced (e.g., trash management, cleaning catch basins, and forestry services). These decisions have been made primarily as cost reduction efforts but also to increase service quality.

Outsourcing can provide a very effective, inexpensive, and flexible option to sourcing a service internally. However, the two options must be compared on equal footing to ensure that all costs are being considered. External bids typically do not have any hidden costs. However, determining the internal cost of resources is far more complicated. The decision maker must consider a wide range of costs including salaries, benefits, and overhead factors. These factors can be extremely difficult to determine without financial expertise.

For this reason, the City should make available a person with this type of financial expertise to help managers determine the complete cost of using an internal resource. This would ensure that internal resources do not look inaccurately low, due to lack of complete cost accounting, which often occurs currently.

In conjunction, the City should also develop a system that accounts for savings that extend beyond the decision maker's departmental budget.

Potential areas for outsourcing might include information technology support, custodial services, parking meter officers, building maintenance functions, and street light maintenance.

4. Implement Operating Efficiencies

E. Reducing procurement costs.

The Purchasing Department consists of six employees who perform the procurement, mailroom and print shop functions for the city's various departments. All purchases for all departments in Newton are made through the Purchasing Department. Even the School Department, which has three purchasing employees who coordinate purchasing for the schools, funnels its orders into the Purchasing Department so the City can consolidate purchases wherever possible to achieve the best possible price. The department completes approximately one hundred public bids and over seven thousand purchase orders of procured goods and services per year.

The Citizen Advisory Group recommends developing a set of procurement guidelines or "best practices" to follow when seeking all bids to reduce procurement costs. These guidelines or best practices might include:

- Putting items out to bid whenever possible. A competitive bid process will almost always yield the best result for the city. Newton already takes advantage of rates negotiated on a consolidated basis for items wherever possible (office supplies, cleaning services, fire equipment, ammunition, etc.). The department generally puts other items of any size out for bid. There are 32 exemptions in the department that do not currently need to be bid out per the department's mandate. The City should evaluate each of these items to see whether a bid process might be warranted. For example, currently school textbooks do not need to be put out for bid. It is possible the city could realize substantial savings by putting as many of these 32 items out for bid as possible.
- Evaluating the number of suppliers of each key product or service, generally targeting to have two or more suppliers wherever possible. While consolidating purchasing into one supplier can create some savings, it creates costs as well. If the city becomes dependent on one supplier for any key supplies, that creates two problems. First, if anything happens to that supplier it can cause a delay in getting the required equipment. Second, the best prices are able to be negotiated when multiple suppliers fight for business to keep each other in check. Our understanding is that most key products and services have multiple suppliers, although many do not. A refreshed evaluation of a supplier strategy makes sense given the current environment.
- Establishing a clear set of bid guidelines for the writing of bids. Suppliers will bid specifically based on what a bid summary says. The Citizen Advisory Group notes that, based on our interviews, there is a wide range of quality in the request for proposals ("RFP") made by the city. A poorly written RFP can lead to increased costs down the line as contractors or suppliers add addenda for contingencies they had not considered at the time of the bid.

The cost-saving potential of these steps has not been quantified, by the Citizen Advisory Committee submits these ideas as worthy of implementation.

4. Implement Operating Efficiencies

F. Resolving long-term issues regarding:

i. Reducing minimum staffing requirements on fire engines to one officer and two firefighters year-round, instead of for nine months of the year

As with most cities, the Newton Fire Department has minimum staffing levels for each engine in its fleet. These staffing levels are determined in a negotiation between the City and the firefighters' union (in the case of Newton, facilitated by an arbitrator). Newton has a fleet of six fire engines and three ladders. Each engine has a minimum staffing level that varies depending on the time of the year. From January-March, each engine requires at least one officer and *three* firefighters; from April-December, only one officer and *two* firefighters are required. This varied minimum employment level depending on the time of the year makes cost-efficient staffing of the engines very difficult. The Fire Department has tended to pay firefighters overtime to meet this increased staffing demand from January-March. In fact, \$1.4 million of the Fire Department's budget is spent on overtime and approximately half of this amount is estimated to be spent as a result of this increased level of minimum staffing in January-March. Newton is the only fire department in the Commonwealth that has two different workforce load requirements depending on the time of year. In Massachusetts, only Cambridge, Boston and Brookline operate with four employees per engine. Most towns use three. (Watertown and Wellesley use two.)

The Citizen Advisory Group notes that this (a) involves the issue of public and firefighter safety (and potentially insurance rates) and (b) would require a contract change with the union. The current firefighters' contract expires in July 2009. Given the hefty cost of overtime associated with having two different load requirements, the Citizens Advisory Group recommends that the City consider strategies to try to secure 3-person staffing year-round during the next contract negotiation.

The cost savings potential is approximately \$700,000.

4. Implement Operating Efficiencies

F. Resolving long-term issues regarding:

ii. Eliminating the fire call box system

Newton has a fire box system that enables residents to contact the Newton Fire Department in an emergency even if phone lines or cell phone service is not working. The system is a series of red boxes each with a pull-handle that, when pulled, transmits a signal via telegraph to the Newton Fire Department.

The fire call box system was first mass-produced in the 1860's by Gamewell Company, which was based in Newton (and is now owned by Honeywell International). In the early 1900's, these systems were installed in 500 cities or towns across the country. More recently, however, because of the prevalence of other forms of communication and the 911 communications system, many municipalities have chosen to dismantle or stop supporting the systems (as described in a *Boston Globe* article called "Boston Stands by its Fire Alarm System" on January 6, 2008, from which we have borrowed some of the history). Atlanta, Baltimore, Chicago, Dallas, Los Angeles, Philadelphia, Pittsburgh, Sacramento, St. Louis and Washington D.C. have all retired their systems along with several smaller towns in Massachusetts including Cohasset, Foxborough, Franklin, Scituate, Weymouth and Wrentham. Although Honeywell no longer manufactures the systems, it will support existing ones and several cities do continue to use their systems, including Boston, Cambridge, Brookline, Providence and New York City.

The systems are very costly to maintain. The employee time used for maintenance, the cost of rare replacement parts and the possible increase in false alarms may cost Newton several hundred thousand dollars a year. Sacramento estimated that they saved up to \$500,000 per year by retiring their system and Boston estimates that they spend \$1.8 million per year to maintain their system. Newton does receive fees from many buildings to offset the costs of maintaining these fire boxes. If Newton decides to consider retiring its fire call box system, the City should undertake a full costing analysis to determine how much money would be saved if the system were to be taken out of service.

These boxes do provide added safety in the event of a cell phone, telephone or power outage. As a result, we consider this item as a choice facing the city - money could indeed be saved by eliminating the system, but an extra layer of service and security would be eliminated as a result.

The potential savings is approximately \$200,000.

4. Implement Operating Efficiencies

F. Resolving long-term issues regarding:

iii. Decreasing snow plowing standards

The Citizen Advisory Group recommends the City of Newton consider a lower level of plowing standards in an effort to reduce its street plowing costs. The City currently has a black streets policy: "Black roads on 100% of roads for 100% of snow falls." This is extremely expensive. The average annual expenditure for snow removal over the past five years is about \$2.5 million. The policy requires the salting of all roads in the City within a very short period of a snow/ice event. While this is convenient for residents, it comes at a substantial cost, as it requires more materials (sand and salt) as well as extensive overtime pay for plow drivers.

The City could reduce its costs in this area by lowering its plowing standards. For example, it could have a black roads policy for all primary roads and a lower level of clearing for all secondary streets. More specifically, salting and sanding could be eliminated on secondary streets unless conditions are icy. This would result in substantial savings. Another option is to use less overtime to clear roads by having roads cleared over a longer period of time.

The Public Works Director should be asked to analyze the potential savings that could be achieved by reducing snow plowing standards; the CAG considers that savings in the range of 5%-10% of annual costs is conceivable. This would represent \$125,000 to \$250,000 in a typical year.

4. Implement Operating Efficiencies

G. Investing now to achieve future savings:

i. Increasing funding for communication and information technologies to facilitate a more efficient marshalling of resources on a daily basis

The annual budget for information technologies should be augmented by an additional amount, to be determined, that will enable the continuous renewal and updating of technological tools needed in the day-to-day operations of all city departments. In addition, Newton should consolidate technology funding from all individual departmental appropriations into a central fund managed by the Information Technology (IT) Director subject to the approval of the Chief Administrative Officer for specific disbursements.

Although the IT department is very effective in getting the most out of its hardware and infrastructure given its budget, the City has no comprehensive IT plan. Instead, each department makes decisions about purchasing systems and uses its own budget to do so. The IT department only acts as a support entity and does not assist in proactively seeking out software applications that would improve efficiency and effectiveness in the various departments.

The IT department has been very effective with using and reusing hardware (i.e. computers, hard-drives, etc.) by downgrading them to less rigorous users as new systems are brought on-line. This has proven to be effective and seems to have allowed the City to manage its information systems with a far lower budget than would typically be required. The City should not, however, assume that this is a good strategy because it could ultimately result in long-term problems with issues such as compatibility.

The IT Department is entirely focused on serving the other departments in a reactionary mode, where they are brought in as needed for training, software assessment, and relevant installation needs. There is really no collaborative, proactive investigation of methods to find software that could improve the effectiveness and efficiency of the departments. Instead, the department itself must initiate all software analysis and purchases.

Some software has been installed that has resulted in improved efficiencies and effectiveness. For example, financial software packages have been installed to eliminate the need for redundant data entry. This has resulted in fewer errors and less time needed to complete the specific tasks. Similarly, Purchasing has implemented an on-line, Open Bid software system that has dramatically reduced the number of phone calls that they must manage with interested bidders/contractors for each projects. They have also expanded this to posting the winning bids, which has further eliminated the need for managing phone calls from bidders who had submitted.

It is a general finding of the Municipal Cost Structure Committee that many departments have been unable to acquire essential software tools with which to better manage their tasks and responsibilities. The example of lack of Pavement Management Software in the Public Works department is one such example. Further, the budgeting constrain of recent years has resulted in a significant slowdown in the replacement of computer hardware

(from what used to be a four-year average life to perhaps double that currently) and the enhancement of the city's internal network. As a consequence, professional managers are increasingly reliant on inadequate and outdated computer technology. The decentralized budgeting approach for technology and the overall level of technology funding needs to be addressed in order to enhance the ability of department managers to improve efficiency and effectiveness of operations in the face of continued reductions in staff. It is the Municipal Cost Structure Committee's conviction that even a modest increased investment in this area will pay rapid dividends.

Based on the benchmarking report and a review of the City's operations, it is clear that the City has consistently chosen to focus on the immediate costs and expenses of its annual budget. This has come at the expense of investing in technology and information systems that would increase the effectiveness and efficiency of the City's operations.

4. Implement Operating Efficiencies

G. Investing now to achieve future savings:

ii. Hiring a budget analyst to facilitate the continuous search for operational efficiencies and efficiency planning, oversight of budget appropriations, and long-term planning

The Citizen Advisory Group recommends Newton create a new position of Budget Analyst to be supervised by the Chief Administrative Officer.

In our interviews, we found many worthwhile ideas circulating from many sources. Our attention could be given to only a handful of the most promising ones, but the process of digging deeper into city operations and finding improvement opportunities is a continuous one that requires the attention of full-time professional staff. Our anecdotal information about communities that have added a Budget Analyst position suggests it will more than pay for itself in relentlessly identifying and acting upon cost-saving opportunities from a data-based foundation.

4. Implement Operating Efficiencies

H. Allocating greater decision authority to Department managers by removing restrictions on the authority of department heads to shift budgeted funds between “personnel” and “operating” categories so that all least-cost options that arise during the course of the year can be pursued promptly and efficiently.

This recommendation applies to all municipal departments but we will use the Police Department as an example.

The Newton Police Department \$16.5 million budget is divided into two areas: (1) personnel (\$15.4 million, which includes salaries and benefits) and (2) operating expenditures (\$1.1 million, which includes all capital spending and non-personnel expenditures). The Citizen Advisory Group notes that once the department’s budget is set, the department can move funds around *within* these two categories (for example, from one type of personnel expense to another), but not *across* these two categories (for example, hiring one fewer officer but instead spending that money on technology that might save costs over the long run). Any funds that need to be moved from personnel to operating costs, or vice versa, requires the approval of the Board of Aldermen.

We believe that this restriction is unnecessary and counterproductive. It provides the illusion of tight financial controls but works against the objective of managing the municipal budget for outcomes. The attention of senior department managers and city administrators ought to be fully concentrated on the management of results within the overall departmental spending authority granted by the adopted budget, not on the management of budget line items.

Organizations tend to run most efficiently when the managers with the most information also have “decision rights” on how to utilize given resources based on that information. In this case, the Aldermen not only determine the allocation of funds to the Police

Department (which is sensible), but they also govern (and, potentially, hinder) the utilization of these funds in a very specific way.

Controls should of course remain in place regarding allocation of funding to permanent and temporary staffing levels, but these controls should be exercised by the executive branch rather than the legislative branch of the city government.

5. Invest in Energy Efficiencies

These energy cost saving opportunities may seem small on an individual basis but collectively the combined effect can be significant. They include banning incandescent bulbs in public buildings, replacing gas burning streetlights with high efficiency bulbs, requiring the Energy Star rating on all applicable purchases, providing an energy-saving training program for appropriate City employees, and implementing a comprehensive recycling program for all municipal operations. In addition, Newton should investigate the opportunity of becoming a customer for peak demand management companies, thereby reducing demand and potentially providing energy on-site through cogeneration.

The City of Newton spends over \$3 million on utilities every year:

Table 8
FY09 Utilities Budget

Electricity	\$1,453,637
Natural Gas	\$344,350
Water & Sewer	\$169,517
Heating Oil	\$429,556
Gasoline	\$581,615
<u>Diesel</u>	<u>\$230,606</u>
TOTAL	\$3,209,281

Source: Comptroller's memorandum dated May 9, 2008

The City has already completed some valuable cost saving measures that have resulted in dramatic reductions in energy costs. For example, under the guidance of the Energy Engineer, it has replaced the traffic lights with LED's, replaced streetlights with high efficiency bulbs, and invested in high efficiency mechanical systems for various buildings.

With the rising and highly volatile cost of energy, it is critical that the City continues to reduce its energy consumption. Not only will this allow the City to bring down operating costs, but it will also reduce the uncertainty in forecasting one of the most fluctuating items in its budget.

In order to reduce the energy costs, the City must address various short- and long-term options. Some of these options require investment in more energy efficient equipment, but in almost all cases, the payback on these items is well under five years. With this in mind, the following energy conservation strategies should be considered.

Incandescent Bulb Ban

Recommendation: The City should consider creating a policy that bans the purchase of energy inefficient, incandescent bulbs.

The School Operations Department, Public Buildings Department, and the City's Energy Engineer have implemented various programs to replace many buildings' interior light bulbs with compact fluorescent bulbs. City Hall, for example, now uses compact fluorescent bulbs. These bulbs, while substantially more expensive to buy than incandescent bulbs, have a payback that is measured in mere months due to their dramatic reduction in energy use. While removal of many incandescent bulbs has been effective in reducing lighting costs, it is not a required by City employees when purchasing bulbs. This policy would ensure that the practice is a permanent one with long-term cost saving implications

Estimated Savings: Compact fluorescent bulbs reduce building lighting costs by 75% typically.

Energy Star Equipment/Appliance Purchasing

Recommendation: The City should require an Energy Star rated system or product for any purchase that has the option.

Description: The City purchases a variety of products every year that have direct operating cost implications. These products include appliances, heating and cooling systems, electronics, office equipment, lighting products, and other service equipment. The Energy Star Program has rated all of these categories of products and identified the most efficient with the Energy Star. To ensure that the City is buying the most energy efficient systems, all products that fit in the specified categories should be required by mandate to have the Energy Star rating, otherwise they could not be purchased.

Life Cycle Costing

Recommendation: The City should require life cycle assessment for the evaluation of all investments over a designated value or set of criteria.

Description: Under the current financing and cost assessment approach, investments of all sizes are evaluated using only the upfront cost (initial capital outlay). Some projects do assess the payback when a cost-benefit is relevant. However, when assessing various options for purchase or investment, the entire cost of the purchase should be determined for the decision. This overall cost is known as life cycle cost and includes upfront cost, operating cost over the life of the system purchased, and the disposal cost when the system expires. Using life cycle assessment in the decision-making process would ensure that decision makers can evaluate the cost of a specific decision, not just from its initial cost, but over the life of the product/system.

The Capital Cost Structure Report has more detailed recommendations and a case study to showcase the value of this technique.

Energy Training Program

Recommendation: The City should implement an energy-training program for appropriate City employees and staff who work in City buildings.

Description: The mechanical systems in City buildings often have complex user interfaces for heating, air conditioning, lighting, and other building climate systems. Studies have shown that most buildings are not used as they had been intended and the result is wasted energy. These energy training programs ensure that occupants understand how to use the various mechanical systems most effectively and efficiently. This type of training should also be an integral part of new employee training to ensure its on-going effectiveness.

Estimated Savings: Studies have shown that a comprehensive energy-training program for building occupants will reduce energy costs by 20% and improve the overall comfort of the indoor environment.

Recycling Implementation

Recommendation: The City should implement a comprehensive recycling program for all of the municipal run areas of the City including schools, parks, recreation areas, libraries, and other municipal buildings.

Description: The City has a comprehensive recycling plan for all residents for their curbside pickup. This program results in approximately 40% of the trash being diverted into recycling, which is far less costly for hauling. However, the City does not have required recycling at any municipal buildings. Some schools voluntarily separate trash and put their recycling curbside for pickup with the residents. However, in general, an intensive and coordinated effort to implement a recycling program has not been developed.

Estimated Cost Savings: Recycling diversion is 35% less per ton on average than standard trash disposal.

Replace Gas Burning Streetlights with High Efficiency Bulbs

Recommendation: The City should replace the gas-burning filament in the historic streetlamps scattered across the City with a high efficiency bulb.

Description: The City still has a small percentage of historic, gas-burning streetlights scattered throughout the City in historic areas. These natural gas lamps are extremely inefficient, as well as ineffective. These light filaments can be replaced with much higher efficiency bulbs that will not affect the overall historic look of the lamps. Such an effort is underway on Farlow Hill. To make the change requires the running of electricity to each lamp. However, the payback on such an effort will be favorable and should be pursued.

Peak Demand Provider

Recommendation: The City should investigate the opportunity of becoming a customer for peak demand management companies; reducing demand and potentially providing energy on-site through cogeneration.

Description: Peak energy is the period when energy is most expensive for utilities to generate. It is typically identified as a period of hours each day over the highest 40 days of energy consumption each year. This energy can often be three times as expensive to generate for the utility company. As a result, peak demand management companies contract with utilities to reduce the peak energy consumption and contract with energy users to reduce their usage at any peak demand period. This reduction saves the utilities money, which is shared amongst the utility, the peak demand management company, and the energy reducer. When the utility is approaching its peak demand, it notifies the peak demand management company, which in turn automatically and manually reduces energy demand through its client (the energy users).

Given the City's energy profile and usage, it is likely to benefit from contracting with a peak demand company. For example, it could reduce load through raising thermostats slightly in the summer and reducing lighting load. It could also provide power to the grid through on-site combined heat and power systems. This would be an opportunity to generate some revenues, reduce energy costs, and provide a positive environmental impact.

6. Shift Appropriate Costs from the Tax Base to User Fees

We reiterate here some recommendations in the Citizen Advisory Group report on Revenues for shifting some municipal costs currently paid for by taxes to user fees, as they bear not only on the revenue stream but also in important ways on the efficient allocation of resources and thus may lower costs while simultaneously generating revenue.

i. Implement a Pay as You Throw (PAYT) Trash Program

Implement a “Pay As You Throw” (PAYT) trash collection regime requiring residents to pay only for trash services they use and encouraging increased recycling.

Municipal revenue enhancement and cost savings -- \$1.0 to \$6.8 million annually

The Citizens Advisory Group urges the Mayor and Board of Alderman to adopt a complete Pay As You Throw (“PAYT”) program to make the Garden City truly become a green city. With appropriate protections for low-income residents, Pay As You Throw promises an equitable and efficacious way to increase municipal revenues by 2% while attaining valuable environmental goals. While this is the largest potential revenue strategy identified by the Citizen Advisory Group, no proposal is likely to be more controversial. Nevertheless, Pay As You Throw is potentially able to simultaneously increase municipal revenues while meeting the socially desirable goals of reducing solid waste and increasing recycling.

Currently, Newton spends \$6.8 million annually (about \$250 per household) to collect and dispose of residential trash although there is no legal obligation for Commonwealth municipalities to either collect or dispose of municipal waste. In fact, local policies vary widely though 59% of Massachusetts’s Massachusetts municipalities have implemented Pay As You Throw programs. For example, locally, Wellesley has no trash collection, requiring residents to contract for collection privately or bring their own trash to Wellesley’s “dump.” Needham has no public trash collection and charges residents \$1.50 for each 30 gallon bag they bring to Needham’s Recycling and Transfer Station. In addition, Natick, one of CAG’s Core Benchmarking Communities, has had PAYT in place since 2003.

According to the Massachusetts Department of Environmental Protection (MA DEP), Pay As You Throw (PAYT), also known as unit-based or variable-rate pricing, is a system in which residents pay for each *unit of waste discarded* rather than paying a fixed tax per residential household.⁷ Recycling is encouraged and is entirely free. It is equivalent to putting a price tag on each container of trash that is placed at the curb for disposal. As residents pay directly for waste disposal services, they have a financial incentive to reduce their waste through recycling, composting, and source reduction. As with other utilities such as water and sewer, oil and gas, or electricity, residents can

⁷ See the Appendix for a discussion of User Fee vs. Taxes.

reduce their bills and not subsidize their neighbors. In addition, residents can clearly see the cost savings associated with innovations like automated trash collection which should foster greater support.⁸

⁸ Newton's Department of Public Works has recommended fully automated trash collection as it would produce cost savings of \$1 million annually or a 15% reduction in cost. Automated trash collection is widely used with established methods and technologies. Nevertheless, the Board of Aldermen, reflecting concerns of constituents, only permitted DPW to begin a limited six-month trial involving just one-sixth of the City in November 2008.

6. Shift Appropriate Costs from the Tax Base to User Fees

ii. Increase User Fees for Recreation, Community Education and Cultural Programs

Increase user fees to cover more fully the costs of recreational, community educational, and cultural programs with appropriate abatements for low income residents including, but not limited to, Gath Pool and Crystal Lake, summer camps, and playing fields. Consolidate these programs in one department to decrease costs, improve effectiveness and increase revenues.

Municipal revenue enhancement -- \$100,000 - \$500,000 annually

Newton should more thoughtfully determine how much of the full cost of recreation, community education, and cultural programs should be covered by user fees and also increase the amount of funds available for scholarships to ensure access for low income residents.

Newton has a decentralized approach to providing community educational, recreational and cultural programs with the support of City funds. Many different departments create and promote programs with no central vision for Newton's overarching goals. Nor is there consistency in the amount of financial support for these programs from Newton versus degree of costs covered by user fees. There is no central clearinghouse where residents can find programs of interest. The lack of centralization results in the duplication of programs. While there are advantages to the current system (e.g., an entrepreneurial spirit results in a wide variety of programs), it also results in:

- Inconsistent policies towards user fees vs. tax supported programs within and across departments
- Administrative inefficiencies
- Program inefficiencies
- Marketing inefficiencies
- Insufficient funding for scholarships
- Insufficient use of private-public partnerships and support from individuals, corporations and foundations
- Unhealthy competition for teachers and space

The Citizen Advisory Group recommends Newton:

1. Develop a thoughtful policy about degree of tax subsidization vs. user fees for each of the community educational, recreational and cultural programs.
2. Consider creating a Culture, Recreation and Community Education Department unifying Recreation from the Parks and Recreation Department, Community Education from the Schools Department, the Newton History Museum and other cultural, recreational and community education programs from other departments to decrease costs, improve effectiveness and increase revenues.
3. Significantly increase scholarships for low-income residents to maintain universal access.

Summary and recapitulation

Finally, we want to highlight and reiterate the fact that our recommendations must be understood in the context of the existing authority to implement them:

- Some are within the existing authority of Newton's executive and legislative branches of the city government to execute;
- Some would require changes in future collective bargaining agreements with unions;
- Some would require state legislative action and/or Home Rule petitions from the Newton city government to the state legislature.

To gain the most benefit from this report, several steps should be taken. First, efficiencies described in this report (#4, items A-F, and #5) should be verified with the relevant City staff and then pursued. We believe that these opportunities will come at no cost to the City, will not be detrimental to the associated services, and will reduce the operating costs in the identified areas.

Second, the investment opportunities (#4, item G) should be vetted further and examined to determine the exact return on investment with City staff. Then all opportunities identified that provide a payback that is better than the cost of capital should be pursued immediately. These investments will result in long-term operating costs for the City.

Operating efficiencies that we were able to quantify sum to a savings range of \$1,265,000 to \$1,540,000:

	<u>Savings estimate</u>
4A – consolidate Parks functions	\$100,000 to \$250,000
4B – adjust payroll frequency	\$140,000 (mostly non-cash)
4Fi – fire minimum staffing	\$700,000
4 Fii – snow plowing	\$125,000 - \$250,000

The greatest potential savings exist in reconsidering employee compensation and in the employee benefits area. Joining the Group Insurance Commission may offer considerable savings (\$1 to \$4 million), depending upon the results of the required coalition bargaining process. But even the GIC option will not resolve the problem of employee group health insurance cost increases annually outpacing the City's normal revenue growth rate. Significant change in this area will require fundamental changes in state laws regarding how eligibility is determined and how plans are designed, along with the difficult topic of how much the city can afford to contribute to its active employees coverage (the subject of collective bargaining for most employees) and to its retirees.

The Municipal Cost Structure Committee has recommended several areas in which higher levels of spending are urged. This may appear to be at cross purposes to the mission, but in fact it is our conclusion that certain expenditures may be required in order to set the stage for future efficient operations (technology), to internalize the continuous identification of operating improvements (hire a budget analyst), or to better manage a long-term liability that will not go

away simply by temporarily ignoring it (OPEB funding, an area that has an enormous price tag, currently \$22 million annually).

Finally, two municipal service areas should be moved from the tax base to full user fee support (with some provision for subsidized rates for low-income residents). Trash collection should be converted into a "Pay As You Throw" program, with a tax and cost saving impact ranging from \$1 million to almost \$7 million annually. User fees should fund appropriate recreational, community educational and cultural programs, increasing municipal revenues by an estimated \$100,000 to \$400,000 annually.

Thanks

The Committee expresses its appreciation to the many city officials, department heads, union representatives, current and former Aldermen and citizens who shared ideas with us and helped us to gain a deeper understanding of city operations. We acknowledge in particular the generous assistance and patient feedback provided by the Chief Administrative Officer, Sandy Pooler, and by the City Comptroller, David Wilkinson. Any errors or omissions in this report are, however, the sole responsibility of the committee. We welcome further feedback and correction from readers.

Appendix 1

Municipal Government Departments share of total budget - History FY00-08 - actual expenditures, FY09 Budget

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
General Government	\$9,737,015	\$10,826,003	\$10,775,258	\$11,283,075	\$11,797,954	\$11,949,508	\$11,976,662	\$12,005,616	\$12,869,213	\$13,038,632
Public Safety	\$23,366,880	\$26,064,683	\$28,716,622	\$29,288,549	\$29,966,945	\$29,740,137	\$30,068,050	\$30,699,871	\$31,150,150	\$37,430,097
Public Works	\$15,518,200	\$17,445,896	\$16,431,772	\$18,155,841	\$18,293,423	\$20,148,173	\$19,263,826	\$18,364,315	\$19,871,674	\$20,469,570
Health & Human Services	\$2,291,133	\$2,568,941	\$2,604,095	\$2,811,454	\$3,069,951	\$3,075,274	\$3,137,962	\$3,198,602	\$3,486,798	\$3,720,151
Culture & Recreation	\$7,384,552	\$8,231,510	\$8,107,655	\$8,765,001	\$8,959,792	\$9,751,169	\$9,699,748	\$9,573,179	\$10,430,886	\$9,781,803
subtotal	\$58,297,780	\$65,136,973	\$66,635,402	\$70,283,920	\$72,088,065	\$74,664,261	\$74,146,248	\$73,841,583	\$77,808,721	\$84,440,253
Education	\$94,934,131	\$106,951,501	\$111,385,998	\$121,587,962	\$125,792,918	\$130,156,996	\$134,803,237	\$140,824,276	\$152,728,991	\$158,484,693
All other	\$24,604,479	\$25,269,917	\$26,170,212	\$27,980,214	\$28,555,709	\$30,564,192	\$32,291,338	\$35,426,007	\$34,392,745	\$43,075,912
TOTAL	\$177,836,390	\$197,358,391	\$204,191,612	\$219,852,096	\$226,436,692	\$235,385,449	\$241,240,823	\$250,091,866	\$264,930,457	\$286,000,858
Municipal % share	32.78%	33.00%	32.63%	31.97%	31.84%	31.72%	30.74%	29.53%	29.37%	29.52%
Education % share	53.38%	54.19%	54.55%	55.30%	55.55%	55.30%	55.88%	56.31%	57.65%	55.41%
All Other	13.84%	12.80%	12.82%	12.73%	12.61%	12.98%	13.39%	14.17%	12.98%	15.06%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Annual % change:

Municipal departments	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09
Education	11.7%	12.7%	2.3%	5.5%	2.6%	3.6%	-0.7%	-0.4%	5.4%	8.5%
Total	11.0%	12.7%	4.1%	9.2%	3.5%	4.0%	2.5%	3.7%	5.9%	8.0%

