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Reducing the Projected Deficit

The financial deficit facing the City of Boston is the city's most serious financial problem since the implementation of Proposition 2 ½. The City was required at that time to reduce its tax levy over a three year period from \$518 million to \$333 million, a reduction of \$185 million. The City took unprecedented steps in those years. The size of the city payroll was reduced, municipal assets were sold and services were cut. Similar actions are needed now as the city faces an imposing deficit this fiscal year and reduced revenues that will impact the FY 2010 fiscal year budget.

Personnel Expenses

The solution to solving the deficit must address personnel expenses. Mayor Thomas M. Menino has proposed a one year wage freeze for all City employees for Fiscal Year 2010. **The Finance Commission supports the Mayor on the wage freeze which will save the City \$55 million.** Job losses, wage reductions and wage freezes are commonplace in other cities and towns as well as in the private sector. The City is also facing increased costs for Health Insurance and Pensions. While the wage freeze is an effective step there are other reasonable and creative steps that can be taken to help control payroll expenditures. One personnel expense that can be reduced is the cost of overtime. City managers must be held accountable for overtime spending. The Police and particularly the Fire Department need to reduce the number of people on injured payrolls. The City would also benefit by having hundreds of high paid city employees retire accompanied by an agreement that many of those jobs will be abolished. Layoffs are inevitable but there are steps that can be taken to reduce personnel costs that will limit the number of layoffs. The Commission agrees with the Mayor that everything should be on the table in terms of controlling spending and increasing revenue.

Overtime

Managing overtime spending will save the city money. The most significant problem is with the Police Department. Overtime spending in the Police Department in 2008 was \$47,808,512 or \$17 million over budget. There were twenty-seven employees who earned more than \$80,000 in overtime. Another one hundred and nineteen earned more than \$50,000 in overtime. A total of 520 employees of the Boston Police Department earned more than \$30,000 in overtime in 2008. Even civilian employees were paid excessive amounts of overtime with five of them being paid more than \$40,000 each last year. The Police Department should immediately eliminate overtime authorization for all civilian employees and live within its overtime budget.

The Fire Department spent \$17,553,000 in overtime against a budget of \$12,250,000 which is \$5,303,000 or 43% over its approved budget. The top five overtime wage earners earned between \$53,000 and \$77,000 and all five were assigned to the motor squad. There were 116 people earning in excess of \$20,000 in overtime, many of them district and deputy fire chiefs (addressed later in this report).

There are other city agencies which are not managing overtime effectively. The Department of Property Management spent \$1.1 million in overtime for security guards in 2008. Thirty security guards were paid in excess of \$20,000 annually, with ten of them earning in excess of \$30,000, one over \$40,000 and one was paid \$52,000. The Security Division has a 4 day on 2 day off work schedule and the employees are group two for retirement purposes. The work schedule contributes to the overtime costs. The answer is to reduce the number of shifts, reduce the locations where security is provided and get this group back to working a five day work week. Discussions are ongoing to make some appropriate changes but if those steps fail to work then the City should consider privatizing the entire security function. There is no acceptable rationale for a \$1 million plus annual overtime bill. Property Management has a number of other employees being paid significant amounts of overtime and the solution is to eliminate overtime spending through the end of the fiscal year.

The Public Works Department has forty-two employees earning in excess of \$20,000 annually in overtime. The most problematic division in Public Works is its Street Lighting Division with seven employees earning over \$30,000, one of whom earned \$55,000. Two years ago the Street Lighting Division of PWD and the Traffic Signal Division of Transportation were supposedly merged into one agency. But the merger was not implemented. The two divisions are in different locations and the manager in charge of both is in yet a third location. The Commission has brought this matter up with the Chief of Transportation and Public Works yet nothing has changed. The merger should be implemented and if current managers are unable to implement it then someone should be put in charge who will get the job done.

Overtime is an expense that can be managed. It should be expected that City departments stay within their respective overtime budgets.

The Finance Commission recommends that the Mayor and Chief Financial Officer Lisa Signori direct every department head, other than the Police and Fire Commissioners, to justify, in writing, the overtime for any employee within their respective department which exceeds \$10,000 in a single year. There are too many employees who are being paid excessive amounts of overtime. The Commission is certain that if Department Heads were required to personally justify those costs in writing that there would be a dramatic reduction in overtime.

Police and Fire Department overtime spending has been a constant problem. The Finance Commission suggests that the City's Auditing Department and CFO assign a payroll manager to assist these departments in controlling overtime expenses.

Eliminate Jobs at the High End of the Salary Scale

The city has a significant number of employees who have more than thirty years of service, all of whom are either at or near their maximum pension eligibility. The Finance Commission recommends that the City attempt to reduce 300 to 400 of those jobs and not fill at least one-third of any jobs that are eliminated. This is a good time to review the organizational structure in many city departments, structures that were established years ago that may no longer be appropriate.

According to the Actuarial Valuation and Review of the City of Boston as of January 1, 2008 completed for the State Boston Retirement Board by the Segal Group, Inc. there are 980 city employees with more than thirty years of service. In addition there were 547 School Department employees with that amount of service. Almost 600 of those employees have more than thirty-five years of service with an average annual pay of \$87,000. The average salary of the employees with between 30-34 years of service is \$76,000 annually for city employees and \$87,500 for those employed in the School Department. The majority of these people have not reached their maximum pension benefit but they are all relatively close. A limited but reasonable cash retirement incentive could result in as many as 300 to 400 employees opting to retire. The City should be able to then eliminate thirty to forty percent of those jobs. The result would be payroll reductions and salary savings even considering the actuarial analysis with respect to future pension costs.

The City must be cautious when considering retirement incentives. The State Boston Retirement Fund experienced a major loss in 2008 when its portfolio value dropped from \$4,653,624,000 as of December 31, 2007 to \$3,328,755,000 as of December 31, 2008, a loss of 25% in the value of the portfolio. The city had made considerable progress addressing its unfunded pension liability prior to this past year with the system expected to be fully funded

by June, 2023. The major losses incurred in 2008 creates problems in the funding of the system and limits the ability of the City to consider certain types of retirement incentives, some of which were used in the past.

The City is offering an 8% bonus to certain employees who have reached their maximum pension eligibility if they retire between July 1, 2009 and June 30, 2010. The offer is currently available to all exempt non-union employees and any employee if the employees union accepts the wage freeze. The bonus is an incentive to help convince city unions to agree to a one year wage freeze.

The Commission suggests that the retirement bonus offer be expanded in an effort to convince more people to retire and encourage the City's unions to accept the wage freeze. The pool of employees with over thirty years of service who have not reached their maximum pension is larger than the number of people who have reached the maximum. An expanded bonus offer might need to be adjusted for employees who are not at full pension eligibility but if it could be negotiated there would be greater salary savings. Based on the average salary of employees with excess of thirty years of service, the retirement of 300 to 400 employees would result in salary savings of up to \$34million. The key to such a plan is making sure at least 30-40% of the jobs are eliminated as the result is permanent salary savings.

The combination of a wage freeze along with the retirement of employees at the high end of the wage scale would make a significant impact. The Commission encourages the City Administration to discuss this type of option with its unions and take an immediate survey of city employees with more than thirty years of service to gauge their interest. While this proposal may not eliminate the need for layoffs it would limit the number of employees who would otherwise lose their jobs.

Sick and Injured Payrolls

Another longstanding unresolved issue with both the Fire and Police Departments is the payroll expense for injured officers and firefighters. Combined the two departments paid over \$22 million to injured employees in 2008. The numbers point out the fact that the Fire Department has a much more prevalent problem. The Fire Department has fewer employees and a personnel budget of \$148,621,000. It spent \$14,682,698 in 2008 in sick and injured pay. The Police Department has more employees and a personnel budget of \$248,745,000 but spent half as much in payments to injured officers, \$7,423,390 in 2008. The Fire Department problem was severe enough that it must provide budget measures on the injured status of firefighters. Commissioner Fraser and his chief financial officer are addressing the problem and the payroll numbers are beginning to reflect that effort. But the City cannot afford this annual expense particularly when layoffs of other city employees may be needed. The solution is to retire anyone on the payroll who will not be returning to work. The City should also consider employing outside help to monitor questionable disability cases.

While the Police Department's injured payroll is lower, it too remains financially significant. Any employees on this payroll who is not going to return to work should be retired.

Time to Reduce the Cost of School Transportation

The Boston School Committee has finally received a recommendation to change the current student assignment plan to reduce Transportation costs. This change has been discussed for years and is long overdue. The current structure of three zones was established over twenty years ago. The cost of transportation has more than doubled in those twenty years now costing over \$76 million.

One major factor regarding school bus transportation that is not discussed but is a reality is that in many cases, choice is dictated by transportation and not solely the quality of the school. The examples are plentiful and commonplace. If a student attends school A which is too close to offer the student transportation, many parents opt for school B which is similar academically but will result in transportation being offered. Yet that same school A is chosen by other parents from other neighborhoods because their kids will receive transportation to that school.

Changing the assignment plan is one of the most effective ways to reduce costs for the City of Boston. The Superintendent proposed a five zone system but an eight or nine zone plan would reduce the size of the school bus fleet more dramatically and save more money. It would reduce the fleet by several hundred buses; reduce the number of school bus drivers and the costs associated with maintaining the fleet. It will allow the City to reduce the number of facilities housing the buses from four to perhaps two. The City owns the buses and can sell most of them. It seems to the Commission that saving money in transportation costs is preferable to laying off school teachers.

Reduce contract payments.

The City of Boston provides a multitude of services with outside contractors. In December, the City's budget office promulgated a directive for all City Departments to

reduce contract payments by 25%. The benefit of cancelling contracts, not issuing contracts or reducing them in amount results in instant savings.

The Commission reviews all unadvertised contracts and over the past month has reviewed a number of contracts that should not be awarded due to the need for cost savings. Many of the unadvertised contracts are for personal services. The Commission has recommended to the Mayor that certain contract request, such as those listed below, not be awarded in this economic climate.

- A \$100,000 personal services contract to provide professional development services to the Boston Public Schools Leadership Institute, payable at the rate of \$750 daily for the period of January 1, 2009 to December 31, 2009;
- Two School Department contracts proposed to be awarded in the amount of \$30,000 each and payable at the rate of \$800 per day to two consultants from Oregon;
- A \$40,000 contract to a former Miami, Florida School Superintendent payable at the rate of \$1,500 daily;
- A \$48,600 contract payable at \$810 per day contract to provide support services to the Academic Superintendent for High Schools.

Fire Department

The Boston Fire Department (BFD) is the city agency most in need of reform. Every outside study or analysis of the Fire Department has included recommendations for change. The most meaningful change was the appointment of a civilian Fire Commissioner. Commissioner Rod Fraser has shown a refreshing willingness to bring management change to the Fire Department. He now has qualified civilians in charge of the Division of Administration and Finance along with Labor Relations and Legal Affairs. The Finance Commission would like to see more qualified professionals brought on board. Due to the fact that the overall Fire Department budget for FY 2009 includes \$148 million in personnel costs the Personnel Division should be staffed with civilian expertise. The current of Director of Personnel is a Deputy Fire Chief who earned \$179,440 in 2008, well above the salary paid any the Human Resource or Personnel Director in any city department. The City's Director of Human Resources, for example, is paid \$115,500.

The Fire Department has been trying to reinvent itself over the past fifteen years. The Fire Department expanded its role and the number of calls for service by becoming medical first responders. While that role provides a benefit to the public, the basic responsibility of the BFD remains its fire suppression role.

Significant financial savings can be made in the Department by reorganizing it to reflect changes that have occurred over the past thirty years in a way that makes economic and operational sense to the City of Boston. The first step should be to start at the top and reduce the number of high paying jobs, many of which are no longer needed to effectively manage the BFD.

Span of Control

The Fire Department responds to far fewer fires annually than was the case 20 years ago. Yet the Fire Department continues to operate with a costly district structure that was established decades ago and is no longer appropriate or affordable. The Fire Department should change its span of control with respect to district management and reduce the number of districts from eleven to seven districts. (See attached district reorganization proposal)

District Fire Chiefs earned a combined total of \$8,553,000 in 2008 which included \$1,082,000 in injured pay and another \$1,051,000 in overtime pay. The Fire Department budget provides for forty-four District chiefs who manage the eleven districts. Currently some District Chiefs oversee as few as five pieces of equipment and three stations. The Commission recommends retaining the management level in the more geographically isolated districts such as East Boston, and Brighton. The rest of the City can be merged from nine to five districts as suggested in the following chart. A seven district structure would mean that the districts would be managed with twenty-eight district chiefs as opposed to the current forty-four. It would also result in a similar reduction in aides to those chiefs. This change will help curtail overtime expenses, reduce the injured payroll and help control an alarming disability pension problem.

Maintenance

The Fire Department is the only city agency with a fleet operation that does not employ licensed mechanic to maintain vehicles. The Police Department has a fleet in excess of 700 vehicles and employs qualified mechanics. The School Department bus fleet totals over 600 vehicles and employs 13 mechanics. Every school bus owned by the School Department undergoes three detailed inspections per year. Central Fleet Maintenance is responsible for 1100 vehicles and employs 19 licensed mechanics. Four mechanics maintain the EMS fleet.

The mechanics in every other city department, except the Fire Department, are in an appropriate union. Many of them hold specific certifications with respect to their jobs as

well as Commercial Drivers Licenses. They are also category 1 employees for retirement purposes.

Maintenance is an area which has been identified in every outside review of the Fire Department as needing to be reformed, including the Massachusetts Municipal Association (MMA) report completed fourteen years ago and cited recently as being an impartial and objective analysis by the firefighters union. But despite the longstanding and obvious shortcomings of the maintenance operation, the Commissioner and the Firefighters Union disagree on how to solve this problem. The only reasonable answer is to hire professional mechanics to maintain the fleet. Commissioner Fraser has correctly explained that there is no preventative maintenance program for the City's fire apparatus because there is nobody employed in the Fire Department who is qualified to create such a program. The Commissioner is now moving ahead on professionally evaluating the maintenance needs and employing qualified civilian mechanics. And while the Firefighters Union supports employing qualified mechanics their agreement to this change comes with an unreasonable quid pro quo. They want qualified civilian mechanics to be members of the firefighters union, a position which defies common sense.

What is also troubling about the dispute is that not only would the Fire Department have a properly maintained fleet but there would also be a cost savings to the city. There were five members of the motor squad who earned between \$137,000 and \$167,500 in 2008 which included significant amounts of overtime. The Director of the Fire Departments Fleet and Maintenance Division earned \$161,707 in 2008. His Assistant Director earned \$141,000. Both salaries are considerably higher than the \$107,500 salary paid to the City of Boston's Director of Fleet Management.

Fire Alarm

The Fire Alarm Division is another area of potential salary savings. There are 69 employees in the alarm and construction division, all of whom are members of the Firefighters Union. The Fire Alarm Division is another that has been cited in every outside review as a one that should be reduced in size with an eye towards elimination.

A Finance Commission report issued fifteen years ago recommended that the number of fire alarm boxes be drastically reduced which would similarly reduce the size of the Fire Alarm Division. The 1995 MMA report recommended cutting positions. Once again, in these economic times where critical services and jobs might be cut, the value of this division must be revisited.

Boston Transportation Department

While the City is losing revenue in many critical areas one significant revenue item can be increased with effective management. The combination of parking meter revenue and the revenue received from the issuance of parking tickets combined to be \$74 million in FY 2008. The city purchased 9,500 new single space parking meters and an addition 63 multi-space meters in FY 2009. Those purchases should lead to increased revenues but it is critical for the Boston Transportation Department (BTD) to install the new meters it purchased last summer as soon as possible. BTD encountered numerous installation delays and those delays adversely affected revenue. But recently BTD has ramped up the installation process.

The first phase of the process was to swap out the old mechanisms for new ones. Over 6,100 were swapped out by January 24, 2009. Phase two is ongoing and will replace the approximately 900-1000 missing meters around the city. BTD has installed about 450 of that total and within a few weeks that number should reach 900. Phase three of the process is to install approximately 1,000 to 1,500 meters managing parking spaces that are presently managed with one and two hour parking signs because BTD did not have any inventory to place meters in those locations. Once that phase is complete, Boston should have between 8,000 and 8,300 functioning meters on the streets.

Meter revenue should increase from \$10 million per year to \$13 million. Parking fine revenue will also increase. It was projected to be \$76 million in FY 2009 but that number will not be reached. Through February 9, 2009 parking fine income was \$39,682,671 or about \$156,000 below revenue at the same time in 2008. While that number is well below budget projections, revenue will increase by the end of the fiscal year as the impact of the new meters is realized. Last year BTD issued 1.4 million parking tickets and it projected FY 2009 issuance of 1.7 million tickets. Issuance will increase for the rest of the year although it will not reach budget projections. The added revenue is significant. Three hundred thousand additional parking tickets will generate \$12 million in parking fine income.

BTD should be planning to introduce debit or smart cards to the new meters as that capability will increase revenue and provide the parking public with an alternative form of payment, something proven valuable and popular with the multi-space meters. Not only does it offer a second method of payment but it reduces expenses as the meters will not have to be collected as often.

BTD then needs to revisit parking rates and hours of operation. Currently the overall parking plan is basic with every parking space having the same value or \$2 hourly. But all spaces do not have the same relative value and for example, spaces on Newbury and Boylston Street should have a higher value than some other areas. Similarly the hours of operation for certain areas should be extended.

Management Opportunities

The City also needs to look at services that can be centralized and merged as it moves forward in a difficult economic climate. Services such as vehicle maintenance, now performed by several different departments, could be merged. Building management and the repairs to municipal buildings are too decentralized. Various personnel functions such as overtime, sick leave, workers compensation and injured time would benefit from central management.

While personnel savings should be the focus moving forward there are other things that can be done to reduce expenses, such as some of the following options:

Charge Credit Unit for space at City Hall

The City of Boston Credit Union has occupied space in City Hall for decades without paying rent, utilities or the cost of security. Yet a vendor operates a snack bar on the 8th floor of City Hall and pays \$16,000 annually to the City to rent the space. The Credit Union has expanded to several locations in recent years and it is no longer feasible for the taxpayers to subsidize the Credit Union. The Credit Union should be charged rent based on the same rate as the snack bar which would generate about \$50,000 to the City of Boston.

Implement bi-weekly payrolls city-wide;

As the City works with the various unions the value of bi-weekly payrolls should be fully explained. While some departments are on a bi-weekly payroll system there is no reason not to have all employees paid bi-weekly. The bi-weekly payroll change needs to be negotiated with some unions. This step would free up time within departments and in the City's Auditing Department which would hopefully allow for a post audit payroll function.

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The employees of these agencies should be subject to the wage freeze.

Implement Haymarket recycling plan and put the entire cost on the vendors;

This past year the City's new PWD Highway Chief developed a plan to end the expense paid by the City to service the Haymarket Vendors on their weekend operation. He introduced a recycling plan and planned for the takeover by the vendors. But there have been delays in implementing the plan. There is no reason for the taxpayers to continue to subsidize the private Haymarket vendors and they should be told that the rubbish expense will be transferred to them immediately.

Curley House

The City of Boston purchased the Curley House 21 years ago through the George Robert White Fund for \$1.5 million. The Finance Commission was opposed to that purchase at the time as there was no plan in place to use the Curly House. The Curly House has been used less than ten days annually over the past few years. The maintenance expense is paid by the City and performed by Property Management but the expenses are not itemized. Capital improvements have been funded through the Trust Office. There was never a plan to use the Curly House and as an underutilized asset it should be sold.

Parkman House;

The Parkman House is an asset of the Parkman Trust. The income generated from the Parkman Trust principal is used to help maintain the parks in the City of Boston that existed prior to 1887. The City leases the house from the Trust at an annual lease of \$153,000. The City pays for the insurance on the house at \$22,000 annually. It also pays for the maintenance and improvements to the house. A portion of that is paid under a three year \$210,000 contract with the Fund for Boston. But while the contract provides for maintenance, the bulk of the maintenance is performed by the staff of and under outside contracts held by the Office of Property Management. The Parkman House does retain some value and the trust is receiving money from the city which helps support the budget of the Parks Department. The City could save money here by eliminating the \$210,000 contract with the Fund for Boston.

152 North Street

The offices of the Finance Commission are at 152 North Street but the building is underutilized and could be sold. The City should conduct an inventory of its property and identify any buildings that are no longer in full use and could be sold.

Civilianize a portion of Harbor Patrol;

Boston is the only coastal community in Massachusetts which employs only Police Officers in its Harbor Patrol Unit. It would be cost effective for the City to employ some part time civilian harbormasters, as is the case in other communities, to perform some of the routine

summer tasks of the office, one of which would be to monitor the payment of boat excise taxes and mooring fees. The Police component should remain. It is needed for Port Security but overtime for the Harbor Patrol needs to be better managed.

GPS

Currently the City has an outside contract for GPS services. While GPS is an effective control, it is expensive. There are installation fees, deactivation fees and monthly operating costs. There are numerous vehicles no longer in use for which the city is paying GPS costs. The City can eliminate the current contract when the new digital radio system is installed in city vehicles as the new system includes built in GPS.

Working Merger of Parks and Public Works

The Highway Division of the Public Works Department and the Parks Department should develop a working relationship that takes into account seasonal factors for both departments. Both agencies have fluctuations in their annual work and could work together on a District basis. This particular time of the year when the snow is off most city streets but street cleaning has yet to start is an opportunity to work together. This is also the pothole season when added staff would help the Highway Division. The Parks Department could be aided in the spring when its peak season arrives. The two could also work out plans where parks that are directly adjacent or close to PWD yards could be cleaned by PWD.

Eliminate gas tax for municipalities

Cities and towns in Massachusetts are exempt from pay the 5% sales tax on goods they purchase. Yet those same cities and towns are required to pay the \$.21 per gallon gas tax. The Governor and Legislature have discussed ways to lessen the burden on cities and towns and exempting them from this tax would help. Cities house state offices without receiving any real estate taxes. And in Boston the City generates millions of dollars for the State through sales taxes. Exempting all cities and towns from the financial burden of the fuel tax is an appropriate step

Winthrop Square Garage

The Boston Redevelopment Authority has been leasing the Winthrop Square Garage since July 1, 2007. It appears that the site will continue to be operated as a parking garage for some time as the development of the site is unlikely to occur in the near future. Parking at the garage is limited as three floors are closed due to safety concerns. An engineering firm hired by the City to evaluate the condition of the garage suggested that the safety issues could be resolved with the expenditure of approximately \$400,000. Due to the fact that it appears

that the garage will be leased for the foreseeable future it seems prudent to make the needed repairs to fully utilize the garage and generate more income for the City of Boston.

This economy is a challenge for the City of Boston and it is critically important to do everything possible to effectively manage the city payroll. The entire city workforce is aware that the economy will impact the City. While the Commission suspects that layoffs are inevitable, steps can be taken to minimize them and city officials should be able to work with its unions to make some needed financial changes that will preserve jobs and provide service to the public.