

HARTFORD BUDGET FISCAL ANALYSIS TASK FORCE

March 26, 2010

Pedro Segarra, President
Hartford Court of Common Council
550 Main Street
Hartford, CT 06103

Dear President Segarra:

The Budget Fiscal Analysis Task Force is pleased to submit to you and the members of the Court of Common Council, a series of recommendations for addressing the fiscal challenges facing the City of Hartford.

The Hartford City Council took an important step in addressing the City's budget issues when it authorized the formation of the Budget Fiscal Analysis Task Force. The Task Force was charged with looking at ways to reduce spending and/or increase revenues. We, the four members of the Task Force, were somewhat limited in our experience and knowledge of the operation of City Government. However, with the very able assistance of David Panagore, Chief Operating Officer, and our staff person, Linda Bayer, we have been afforded access to the top administrators in City Government and in the Hartford Public Schools. This access gave us the opportunity to ask tough in-depth questions and we appreciate the candid responses of these officials.

We realized, early on, that the short time available for our work necessitated that we focus primarily on the most compelling areas for change and those that are likely to generate large scale cost savings or revenues. Additionally, we believe that systemic changes, as opposed to short-term adjustments, have the most potential for long-term benefits and avoidance of fiscal crisis. With this perspective, we offer a series of conclusions and recommendations for consideration by the Mayor and Court of Common Council.

We suggest that the City, perhaps with the help of independent consultants, undertake a more thorough analysis of our recommendations to determine the cost savings that could accrue and the feasibility of implementing these changes. We believe that implementation of the long-term systemic changes proposed herein will require significant political will. It will take significant courage to implement modifications to current operations that may offend some employees, create hardships in some cases, and generate opposition among some groups. However, we believe that the fiscal

viability of the City of Hartford is at stake and we believe that you, as Hartford's leaders, are committed to making the hard choices necessary for success.

We thank you for your confidence in us and for the opportunity to serve the citizens of Hartford. We stand ready to assist you as you consider our recommendations.

Sincerely,

The Budget Fiscal Analysis Task Force

Yvon Alexandre
Joseph Kask
Timothy Sullivan
Lyle Wray

cc: Council Members
Mayor Eddie Perez
David Panagore, COO

BUDGET FISCAL ANALYSIS TASK FORCE RECOMMENDATIONS March 26, 2010

The Budget Fiscal Analysis Task Force, during its four months of work, met with and received information from the City Treasurer, Superintendent of Schools, Chief Operating Officer, and Tax Collector, and staff of the Mayor's Office, Finance Department, Management & Budget Office, Procurement Division, Human Resources Department, and Hartford Public Schools. Having considered and discussed the information provided by these individuals and departments, the Task Force recommends five specific areas in which significant changes can be made in order to significantly improve the financial position of the City now and in the future. Those areas are health benefits, pensions, procurement, shared services, and implementation of innovative ideas.

Health Care Benefits

Health benefits are one of the fastest growing expense items within City government. The City is self-insured but pays for the administration of its health plan. Information provided by staff indicated that employees pay between 10% (City) and 33% (Board of Education) of the costs of health care benefits. Claims average \$4,200 per capita, compared with an industry average of \$3,500 per capita. The types of health benefits available to employees are specific to the bargaining unit the employee is a member of (or, in the case of non-union employees, the type of group the employee is a member of). Therefore, the types of coverage, the amount of "premium" the employee pays, and the co-pay amounts all vary.

We suggest three actions be taken with regard to health benefits. First, we recommend that an independent benefits consultant be hired to conduct a detailed study of the current system to identify specific areas for cost savings. For example, it may be cost effective to cease being self-insured. The City might also consider engaging a risk management consultant to look at the full range of insurances that the City purchases, not just health insurance. Second, we recommend that the City evaluate the benefits of a Health Saving Account (HSA) plan. HSAs provide accountability and place responsibility on the employees for keeping costs down. Third, we recommend that the employee contribution for health benefits be increased, thus reducing the costs being borne by the City. We recognize that, in order to implement recommendations two and three, the Administration must negotiate these changes with the bargaining units.

Pensions

The Task Force was advised that the Municipal Employees Retirement Fund (MERF) must maintain on-hand 100% of the funds needed for pension payouts. When investment income is sufficient to cover those costs, no contribution is needed from the

City, but, when investment income is low, the City must make a contribution to the MERF. The current estimate of how much the City must contribute in 2010-11 is \$20 million.

As with health benefits, pension benefits are negotiated with each bargaining unit. Hence, eligibility requirements and benefit calculations vary among employee groups. Presently, Fire Union and non-union employees can retire with full pension benefits after 20 years of service, with no minimum age. Police Union members may retire with 25 years of service, with no minimum age. All other employees may retire with 25 years of service at age 55 with full pension benefits. Early retirement requirements vary. *Note:* Teachers and members of Local 1716 AFSCME are members of the State retirement system; they are not part of MERF.

The Task Force was concerned that the pension benefits being provided to City employees who are members of the MERF will overwhelm the capacity of the City to pay. The most important component of the problem is the young age at which employees may retire. Both Police and Fire Union members, who make up the largest percentage of the workforce, may retire at any age. Therefore, they will be collecting pensions for long periods of time. A fire fighter who retires at 45 years old, for instance, may collect his/her pension for 40 or more years. As life spans increase, the greater the pension liability grows.

In order to reduce and control the City's contribution to the MERF, the Task Force recommends that the City give serious consideration to instituting a Defined Contribution Plan for all newly hired employees. Current employees and retirees would not be affected by this change.

The Task Force reviewed a September 3, 2002 report prepared by the Citizens Committee for Effective Government which also recommended that the City explore a Defined Contribution Plan as an alternative to the existing Defined Benefit Plan. To our knowledge, the recommendations of that report were not pursued by the City. Locally, the towns of Avon, West Hartford, and Hartford now offer defined contribution plans for all new employees.

There are a number of benefits to defined contribution plans, both for the employer and the employee. The employer (the City) not only lowers its costs but experiences more predictable levels of contributions and passes investment market risks on to the employee and retiree. The employee has a portable pension plan which can be maintained regardless of where the individual is employed, has the ability to accrue an asset which can be passed on to his/her heirs, can structure an investment portfolio consistent with his or her age and appetite for risk, and can create a tax-free income at retirement through Roth provisions.

The Task Force recommends that the City engage an independent consultant to document current costs and project future contributions and cost savings that would accrue to the City should a Defined Contribution Plan be implemented.

Procurement

The Task Force considered two aspects of procurement - the process of purchasing goods and services and contracting requirements – and has made recommendations in both areas.

Procurement Process: The City's procurement function is located in the Finance Department and handles procurement for both City Government and the Hartford Public Schools. A new procurement ordinance was adopted in March of 2009. The former Purchasing Agent left City employment and the position has not yet been filled. Perhaps because of this vacancy, the Procurement Division appears to lack clear direction and accountability. The Task Force recommends that a purchasing professional be hired immediately. A department responsible for well over \$100 million dollars in expenditures should have professional direction. The position should have the title of manager or director and report directly to the Finance Director.

The City's procurement process is currently being performed manually. Although the process was once automated, that system was abandoned when the Finance Department converted to MUNIS and the purchasing software was unable to integrate into MUNIS. The Task Force recommends that the City move quickly to automate the purchasing system to generate savings in both employee time and money. An on-line electronic bidding process would free up a buyer's time to undertake a more thorough analysis of bids and to negotiate lower prices for purchased goods and services. Automation would also reduce the turnaround time for requisitions to purchase orders.

The Task Force also recommends that the City investigate the modification of its procurement procedure to allow more negotiations with its lowest responsive bidders and to implement a Price/Cost Analysis Review. Further bidding requirements should include G&A and Profit Rate breakdowns on large dollar purchases and the Finance Department should periodically review and audit vendors to assure compliance.

Lastly, the Task Force recommends that an incentive program be instituted through which savings on purchases and contracts are placed in a separate fund available for future purchases. Such a program would assist in changing a mindset whereby departments may feel that they must spend money or lose it.

Contracting Requirements: During its meeting with the Superintendent of Schools, the Task Force discussed the cost of student transportation with Dr. Adamowski. The Superintendent indicated that the contract with the school bus provider is subject to the City's Living Wage ordinance. The operator must pay the living wage and, if that rate

increases, must increase the drivers' pay. The contract allows the operator to bill the Hartford Public Schools for 40% of any such increase. The Superintendent also indicated that the requirement that school buses meet the 2008 diesel emissions requirements has also increased the cost of transportation. The Superintendent estimated that, together, that figure is \$3 to \$5 million per year

The Task Force recommends that the City undertake a review of the impacts of the Living Wage Ordinance on all City contracts, but, in particular, the school busing contract. The review should include both an analysis of financial impacts and a compliance review, to determine whether contractors are actually paying the required wages. Additionally, the Task Force recommends that the City evaluate the effect of "green" requirements, such as those that have affected the school bus contract, on City expenditures.

Shared Services

The Task Force recommends that the City explore opportunities to share and/or sell services in two areas – internally, between the City and the Hartford Public Schools, and externally, among other communities in the Hartford region.

Internal Service Sharing. Several years ago, the City and the Hartford Public Schools combined their information technology functions to create MetroHartford Information Services (MHIS) which, by all accounts, provides excellent service to all parts of City Government. At least two areas are viewed by the Task Force as appropriate for a similar approach: buildings and grounds maintenance and printing and duplicating. Since the Superintendent of Schools suggested both of these functions as possible areas for combination, it is clear that there is a willingness on the part of the Hartford Public Schools to work with the City on this effort.

The Superintendent also suggested that branch libraries and school libraries might be combined and located in schools. The Task Force understands that the former Chief Librarian championed this idea some years ago and, as a result, the Ropkins Branch Library was incorporated into the construction of the new SAND School. It is the recommendation of the Task Force that the Hartford Public Library and Hartford Public Schools begin an exploration of additional opportunities for co-location.

External Service Sharing. The Task Force identified two aspects of external service sharing for consideration by the City. The first is the sale of City services to others (municipalities or other entities), either directly or through the Capitol Region Council of Governments. The Task Force recommends that an analysis be conducted to determine where there may be excess capacity, i.e. where the infrastructure exists to provide additional levels of service, and where there is a demand for such services. For example, MHIS may have sufficient equipment and technology to sell information technology services to smaller municipalities. Even if there is insufficient staff at

present, as long as the necessary infrastructure is in place, employees can be hired to carry out specific contract work.

Other services that are provided by individual municipalities may be shared regionally. The Metropolitan District Commission and the Capitol Region Education Council are examples of regional shared services that work well. The Capitol Region Council of Governments is currently engaged in ten shared service projects and the City should review these options to determine if Hartford's participation could save money. Additionally, the Task Force recommends that the City look at a broad range of services the City currently provides that could be provided regionally at lower cost. An example is 911 emergency dispatch. There are 109 dispatch centers in Connecticut in an area the size of Houston. Houston has only one dispatch center. The Task Force recommends that the City keep an open mind in searching out services that could be shared. For example, the City should not dismiss the idea of other towns doing snow plowing in Hartford without examining the possibilities fully.

Innovation Fund

The Task Force recommends that the knowledge and expertise of City managers be tapped for additional ideas for addressing the City's financial challenges. We recommend the creation of an enterprise fund within the City's financial structure - an Innovation Fund.

City departments/employees would be encouraged to develop ideas for programs or projects that reduce expenditures and/or increase revenues. They would then create and submit a business plan for implementation of their idea. Such a business plan would include specific actions and a timetable and might include redeployment of workers as well as capital investment. Upon approval of the business plan, funds would be made available for implementation of the strategies included in the plan. A portion of the resulting cost savings or increased revenues over the agreed upon term would be used to replenish the Innovation Fund so that additional measures can be developed and implemented. We also suggest that the employees whose ideas are implemented be recognized through financial rewards.

Conclusion

The Budget Fiscal Analysis Task Force is confident that the recommendations contained in this report hold the potential for significant cost savings. We recognize that these savings can only be generated over the long term, not in the 60 days between now and the adoption of the 2010-11 budget. We believe, however, that if we deal only with "quick fixes", we will never accomplish the long-term changes that can result in improved financial stability for the City. Consequently, our recommendations focus on systemic changes and we urge City leaders to begin now to make these changes.

Lastly, the Task Force recommends that the City, through its legislative delegation, keep informed about the work of the State Legislature's Blue Ribbon Commission on Municipal Opportunities and Regional Efficiencies (M.O.R.E.). The M.O.R.E. Commission is charged with exploring a wide spectrum of issues and opportunities facing municipalities, including multi-town collaboratives, Board of Education functions, regionally-based organizations, collective bargaining, mandates, revenue sources, health care and State grants. The Commission's work may be expected to result in additional opportunities for cost savings and revenue enhancements for municipalities, including Hartford.