

CITY OF PHILADELPHIA

OFFICE OF THE DIRECTOR OF FINANCE

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ROB DUBOW
Director of Finance

November 17, 2008

The Honorable Bill Green
City Councilman
City Hall Room 599
Philadelphia, PA 19107

The Honorable Curtis Jones
City Councilman
City Hall Room 404
Philadelphia, PA 19107

The Honorable Maria Quinones-Sanchez
City Councilwoman
City Hall Room 592
Philadelphia, PA 19107

Dear Councilman Green, Councilman Jones and Councilwoman Quinones-Sanchez:

At a press conference on October 20, 2008, you introduced "The Freshman 15: 15 Ways to Save \$60 Million Annually," as suggestions for closing the \$650 - \$850 million gap in the City of Philadelphia's budget over the next five years. On October 21, 2008, during City Council's Hearing of the Committee on Fiscal Stability and Intergovernmental Cooperation, Councilman Green proposed an additional fifteen suggestions to close the anticipated budget shortfall.

We appreciate your suggestions as well as those we have received from your Council colleagues as well as members of the public. As you know, the City Administration had to consider numerous options, including revenue increases, efficiencies, and program reductions to meet this significant challenge for Fiscal Year 2009 and for the life of the Five Year Plan. Your thoughtful and creative input has been helpful.

According to your estimation, the first 15 proposals outlined below total approximately **\$64.8 million**. Our calculations yield total savings of **\$35.9 million**, not including an unknown amount of savings from outstanding bail collection and closing tax loopholes. Many of your suggestions had already been incorporated into our budget reduction plan. Of the **\$36**

million in quantifiable suggestions included in your proposal, we had already included **\$35 million** in our rebalancing plan prior to the public release of your recommendations.

The remaining five new ideas that have not been included in the proposed budget balancing actions consist of the Electronic Transfer of Funds from the State, Updating Mail Policies, Banning Swag and Custom Printing, Cellular Phone Antennas, and Electronic Statements for Direct Deposit. Initial savings from implementation of these policies would total an estimated **\$950,000**, and we plan to further explore these potential savings.

My staff has carefully analyzed each proposal, and our analysis follows:

1. Electronic Transfer of Funds from the State

Freshman 15 Proposal: The City receives \$250 million annually from the Commonwealth. Of that amount, \$1 million is lost in interest due to the delay in deposit. Another \$1 million worth of checks are lost or misplaced.

Estimated Savings: \$2,000,000

City Analysis: This is an important idea, yet one that the City cannot affect without State agreement. The City has been in touch with representatives from the State Treasurer's office regarding the electronic transfer of funds. The estimated savings from lost interest accrual in the 30 days it takes to deposit a check is a small sum. On an annual basis, the City might be able to float \$400,000 through direct deposit. As for lost or misplaced checks, the City currently has \$225,000 in unclaimed monies with the State. However, the City does not lose this money – the State sends it to the City's treasurer's office for disbursement periodically.

City Estimated Savings: \$400,000 – currently pursuing, not yet included in the Mayor's proposal

2. Increase Car Sharing

Freshman 15 Proposal: In 2003, the City eliminated 330 vehicles, resulting in \$9 million savings over 5 years. The City should eliminate 500 more vehicles for \$2.72 million in savings annually.

Estimated Savings: \$2,720,000

City Analysis: We agree with the principle of reducing the size of our fleet. The Office of Fleet Management will forego \$7 million for the purchase of new vehicles for FY09 and FY10. Yet such savings are only short-term, as the City must eventually replace vehicles.

City Estimated Savings: \$7,000,000 for FY09 and FY10 - included in the Mayor's proposal

3. Utility Savings

Freshman 15 Proposal: Install daylight-sensing light controls on fields and City buildings to reduce electricity costs. City employees should also be incentivized to reduce energy consumption.

Estimated Savings: \$250,000

City Analysis: We agree that conserving energy is indeed an efficient way to save costs. A 5% energy reduction plan across all City buildings for electricity has been proposed by the Office of Sustainability and is estimated to total \$900,000 in annualized savings. Yet, this

initiative will require some capital investments and cannot be implemented in time to realize savings for FY09.

City Estimated Savings: \$900,000 annually beginning FY10, less the required capital investment costs – to be included in the Mayor's proposal when capital costs are determined.

4. Implement Travel Freeze

Freshman 15 Proposal: Following the State's example, the City should ban all non-essential, out-of-town travel, which can cost up to \$1,000 per employee for a "several-day" trip.

Estimated Savings: \$100,000

City Analysis: The City agrees with this notion and travel is currently limited to essential trips, such as audits, social work, and critical training for highly specialized professions. Savings will be imbedded in each department.

City Estimated Savings: \$100,000 – implemented, included in the Mayor's proposal

5. Update Mail Policies

Freshman 15 Proposal: If 50,000 pieces of mail are no longer sent either by full or bulk rate via USPS, savings would be at least \$25,000 annually.

Estimated Savings: \$25,000

City Analysis: This is a significant source for potential savings, assuming 50,000 pieces of mail are sent with a stamp from one department to another annually. The Administration is planning to take steps to curtail this practice.

City Estimated Savings: \$25,000 – currently pursuing, not yet included in the Mayor's proposal

6. Ban Swag and Custom Printing

Freshman 15 Proposal: A ban on custom printing is estimated to save \$100,000

Estimated Savings: \$100,000

City Analysis: The City is reviewing the production of such items and their related costs. The printing of some, but certainly not all, stationary and other office supplies is seen as a necessity of doing business. We intend to establish standards regarding the necessity of these expenditures. However, most of the funding for such items is in the Water and Aviation Funds. The City intends to be mindful of how funds for specialized printing is utilized moving forward. The majority of savings from the implementation of such a policy would not be realized in the General Fund.

City Estimated Savings: \$25,000 – currently pursuing, not yet included in the Mayor's proposal

7. Recoup Outstanding Bail

Freshman 15 Proposal: The District Attorney reports that the City is owed \$1 billion in bail. If the City successfully pursues just 1%, we would generate \$10 million savings annually.

Estimated Savings: \$10,000,000

City Analysis: There is \$1 billion in outstanding bail from 1971 to 2006. Since 2006, the City has averaged a collection of \$1.1 million on an annual basis, which is approximately 4% of the judgments assessed that go uncollected. The First Judicial District has submitted an

RFP for a third party collections agency. However, the candidates have not yet submitted estimates regarding their projection on the amount of bail they believe they would collect, nor the percentage they would take as payment for services performed. Additionally, since the \$1 billion was accumulated between 1971 and 2006, it is unlikely that the majority would be collectable, as 88%, or \$886 million, of the outstanding balance dates prior to 2000. Although this is an important recommendation that has the potential to generate revenue, it would only be a one-time savings.

City Estimated Savings: Unknown – not yet included in the Mayor's proposal

8. Burglar Alarm Service Fee

Freshman 15 Proposal: In 2007, 98% of the 91,918 burglar alarm activations were false alarms. If the City increases the fee for registration of alarms from \$35 to \$50, the false alarm fee from \$25 to \$75, and decreases the number of "free" false alarms from 3 to 1, it would generate an additional \$2.5 million annually.

Estimated Savings: \$2,500,000

City Analysis: We agree that the burglar alarm service fee should be revised and have included a similar proposal in the budget revisions. The proposed increase in revenue includes: increasing the alarm registration fees from \$35 to \$50 (\$393,000), increasing alarm violation fees to from \$25 to \$75 (\$306,000), and reducing the number of "free" false alarms from 3 to 2 (\$104,000). Had we decreased the number of free false alarms from 3 to 1, we could expect to generate an additional \$104,000 in revenue.

City Estimated Savings: \$803,000 - included in the Mayor's proposal

9. Strategic Use of Overtime

Freshman 15 Proposal: The City is projected to spend \$187.9 million on overtime pay in FY09, reflecting 10-13% of City payroll costs. Meanwhile, other municipalities spend an average of 5% of payroll costs on overtime. The City should strategically reduce overtime expenditures by 5%, saving \$9.4 million annually.

Estimated Savings: \$9,400,000

City Analysis: We agree - overtime savings are incorporated into the budget reductions of several departments. However, rather than impose a 5% cut across the board, which is a common tactic in other municipalities, the City has planned to reduce overtime in a strategic manner while not compromising the need for overtime in the Public Safety area. \$12.9 million in overtime savings has been identified across City departments, while an additional \$6 million in savings has been identified from redesigning the Crime Plan. It is important to note that Philadelphia, unlike most municipalities, is responsible for funding prisons, a large generator of overtime. Thus the comparison with other municipalities may not be appropriate.

City Estimated Savings: \$18,900,000 - included in the Mayor's proposal

10. Technology Reorganization

Freshman 15 Proposal: Centralized IT Procurement and Strategic Sourcing, including thin client devices and floating licenses, would garner \$10 million in savings annually. *Estimated Savings:* \$10,000,000

City Analysis: We agree that there is an opportunity to generate substantial IT-related savings in the City by centralizing IT Procurement and Strategic Sourcing, as well as consolidating IT infrastructure and resources across the City. In order to accomplish this, DOT is undertaking a citywide IT consolidation and reviewing all central and departmental IT functions, projects, processes, needs, and gaps. Yet, this initiative will require some capital investments and cannot be implemented in time to realize full savings for FY09. At this time, we have identified \$850,000 of specific savings which can be implemented in FY09. We will continue to pursue aggressive, ongoing IT savings in order to generate additional savings.

City Estimated Savings: \$850,000 - included in the Mayor's proposal, potential for increases in the future

11. Paperless Government

Freshman 15 Proposal: *Paper:* Every dollar spent on paper creates \$13 - \$31 in indirect costs, such as shipping, ink, and storage. Reduce paper use through email and double-sided printing by 50%, resulting in a direct savings of \$500,000 annually. This would translate into \$6.5 million to \$15.5 million in secondary savings, for a total of \$7 million to \$16 million annually. Savings are captured in moving basic City functions, such as applications, field work, and service requests, to an electronic form. Additionally the efficiency of City services is increased.

Electronic Procurement Initiatives: Posting bid announcements would save Procurement \$2,500 - \$5,000 annually. Combined with efficiencies from electronic submissions of bids and reports could result in total annual savings of \$100,000.

Paperless Paychecks: If all City employees and pensioners enrolled in direct deposit and received their pay stubs electronically, the City would experience a savings of \$0.75 per employee per pay period, for an annual savings of about \$500,000 (transaction fees are \$1.10 for paper vs. \$0.35 for electronic).

Estimated Savings: \$13,000,000

City Analysis: *Paper:* Council's proposal suggests that direct paper costs be reduced by \$500,000 on an annual basis. According to the Procurement Department, paper costs average only \$330,000 per year. Procurement will incur a \$15,000 reduction to their materials and supplies budget as part of our budget reductions. Furthermore, we estimate that double-sided printing and email will initially be used only 25% of the time suggested, and that a decrease in the suggested indirect costs will be uncertain and may not be immediate. The City has begun to explore several options of computerizing functions, especially within the Department of Licenses and Inspections. Approximately \$150,000 in savings has been identified through the consolidation of functions into an electronic system and we plan to explore other opportunities across the City, in hopes of ultimately transforming the manner in which the City conducts business.

Electronic Procurement Initiatives: Procurement will incur a \$275,000 reduction to their advertising budget. However, all mandated paper advertisement must continue.

Paperless Paychecks: We can identify savings of approximately \$18,000 from the discontinuation of statement printing for payroll employees on direct deposit. Yet, after deducting \$15,000 in salary costs for the operators of the printers that produce the checks, as they likely will take on other responsibilities, we anticipate savings will be negligible. Meanwhile, we are examining whether register printing is required, and if these records can be maintained electronically. We must also consider that a portion of the workforce and the pensioners do not have computers. The Board of Pensions and Retirement and the City Treasurer have undertaken several measures to encourage use of direct deposit, especially for new employees or when an employee's check is lost or stolen. The Board of Pensions has taken steps to increase direct deposit by communicating the advantage of it during retirement interviews, seminars, and through their newsletter. We have seen a steady increase in direct deposit for the payment of salaries as well as pension checks. Direct deposit for salaries has increased from its inception in 1986 to 70% in 2004 and to 75% as of 2007. Concerning pension payments, in October of 2008, there were 28,924 direct deposits representing 85% of total payments.

City Estimated Savings: \$450,000 – included in the Mayor's proposal

12. Switch to VoIP

Freshman 15 Proposal: Switching to VoIP would decrease the cost of a phone line from \$7 per month to \$4 per month for the City's 33,000 phone lines, resulting in a savings of \$1 million. Migrating the City to a common Ethernet Network would save an additional \$500,000 per year, and VoIP technology could save \$1 million more by eliminating charges for conference calls, voicemail, etc.

Estimated Savings: \$2,500,000

City Analysis: The City has pursued this initiative. Savings associated with this proposal can not be realized in FY09 but has been included in the budget beginning in FY10.

City Estimated Savings: \$3,000,000 - included in the Mayor's proposal beginning in FY10

13. Cellular Phone Antennas

Freshman 15 Proposal: City-owned properties and land are among some of the most desired locations for cellular phone antennas. The City could save \$1,800 to \$5,000 per month, per site, per carrier on lease revenues for antenna sites.

Estimated Savings: \$2,000,000

City Analysis: We calculate the following: assuming the average lease payment is \$3,500 per month (average of range given in the proposal) the total maximum revenue would be \$500,000 annually. This estimate assumes the four major carriers all had antennas on the three City buildings in the Triplex, and no antennas on City Hall. The City attempted such an arrangement in 2005 with poor results, but will reconsider such offers as they present themselves to implement this plan.

City Estimated Savings: \$500,000 if implementation were successful – not included in the Mayor's proposal

14. Hire Additional Audit Staff

Freshman 15 Proposal: Five additional Revenue examiners and one supervisor would cost \$379,611. They would generate \$3,168,714 in additional revenue, for a net increase of \$2,789,103

Estimated Savings: \$2,790,000

City Analysis: As part of the budget revisions, audit staffing will increase by six and is expected to generate an additional \$3.5 million in revenue, resulting in a net increase of \$3 million

City Estimated Savings: \$3,000,000 - included in the Mayor's proposal

15. Close Tax Loopholes

Freshman 15 Proposal: The expanded real estate investment trusts (REIT) deduction cost the City \$10 million in FY07. A repeal would recoup between 50 and 100% of those costs. Other tax policies should be developed and enforced as well.

Estimated Savings: \$7,500,000

City Analysis: The proposed REIT deduction repeal would require changes to the tax code and additional funds to be spent on enforcement. While a revision of the tax code has begun, we are unable to predict the amount of savings the City would receive and, therefore, have not included immediate savings. We have identified that there will be savings, and have estimated this as part of an additional \$8 million in collections that we expect to receive. The City, however, proposed a number of loophole closings. While we are not able to estimate the revenue impact of those actions, we do believe that it could be substantial.

City Estimated Savings: Included in the Mayor's proposal as part of \$8,000,000 in additional collections.

16. Review collections policies – the City gives up a lot of money owed to it to collection firms.

City Analysis: Current arrangements with collections agencies require that the agencies receive a portion of the collections received as payment for their services. However, the City still receives more revenue after the fees to agencies are paid than if the City pursued collections by itself. On October 23, 2008, the Administration transmitted to Council legislation which will increase the pool of vendors the Law Department may contract with for collection of delinquent taxes, will allow fees to relate to the level of collection activity and enforcement efforts, and will provide that collection costs be charged to the delinquent taxpayer rather than the City for certain municipal claims. This was introduced by Councilwoman Tasco and is now Bill No. 080791.

17. Negotiate better terms for leases of City-owned property to SEPTA.

City Analysis: Currently, SEPTA relies on a subsidy from the City to cover a portion of its operating costs. Charging SEPTA for leases would result in the higher costs being transferred to customers and likely a larger subsidy from the City, which would negate the revenues gained by such an initiative.

18. Review City office space needs to identify potential savings, including by moving departments from leased space in privately-owned buildings to City-owned buildings.

City Analysis: The Department of Public Property is in the process of evaluating space allocation in City buildings. On October 30, 2008, the Administration transmitted to Council legislation which amends the terms of the lease for office space at 1101 Market Street which will result in an immediate rent savings of \$1M in the current fiscal year, and annual savings of \$1M-\$1.2M over the remaining seven year lease term. This was introduced by Councilman DiCicco and is now Bill No. 080835. We plan to pursue similar opportunities as they are identified.

19. Increase parking meter rates (with attendant agreement from PPA to pass additional revenue back to City, as well as agreement from parking operators to lower short term rates).

City Analysis: The Administration has transmitted to City Council legislation to increase parking fees. It would, however, require a change in state law for the City to receive more than \$25 million plus inflation in any given year. Any amount above that cap goes to the School District.

20. Join Cooperative Purchasing Program, which allows state and local governments to purchase information technology (IT) goods under federal GSA schedules.

City Analysis: The Procurement Department currently engages in such practices, "piggybacking" on the State's contracts for certain goods.

21. Explore joining existing purchasing collectives in Philadelphia, such as the one including Penn, Drexel, and other universities.

City Analysis: The City is happy to explore such an option, bearing in mind that participation may be limited to educational institutions. City Charter provisions may impact our ability to utilize these mechanisms.

22. Issue an RFQ to explore revenue-creating opportunities related to hydrogen-generated fuel, including using existing utility infrastructure to transmit the same.

City Analysis: The Office of Sustainability is looking into all forms of renewable and alternative energy production.

23. Sell Public Property's surplus equipment.

City Analysis: The Department of Public Property has been engaged in this practice for approximately four years.

24. Ask businesses to pay real-estate taxes and PILOT payments early. By collecting the revenue earlier, the city has to borrow less money to pay for operating expenses.

City Analysis: The City can ask businesses and residents to pay earlier, but, since the real estate tax is levied on a calendar basis, rather than a fiscal basis, it would be difficult to enforce.

25. Try to meet the Street Department's goal of increasing the City's residential recycling rate from 8% to 18% by 2011. If we can do that, annual recycling revenue will jump from \$1.4 million to \$3.64 million, and avoided disposal fees will increase from \$3.4 million to \$8.1 million. The Finance Department is aware of this goal, but will not build it into the five year plan until they believe it can be achieved.

City Analysis: The Finance Department is being appropriately cautious in its revenue estimates, but has included a modest increase in recycling revenues. Beginning in FY10, we also plan to examine potential revenue from increased recycling in commercial areas.

26. Explore creating a SCOPE (Selling City Owned Properties Efficiently) program, similar to Baltimore's successful program, to make all properties available to all citizens and not just insiders. This will move properties off our books more quickly – providing needed cash flow – by incentivizing any licensed broker to bring us offers and receive commissions.

City Analysis: The City will explore this idea.

27. Review licenses and fines structures in light of recent changes to state law increasing maximum allowable fine (a few years ago the maximum fine was \$300; it is now \$1,800 and will be \$1,900 in 2009). Also, increase fees. For example, inspection fees are only \$75.

City Analysis: Council can offer legislation to clarify the maximum fine for certain penalties. However, several years ago, a Code amendment was made to allow for a graduated scale of fines. There are planned increases for fees in the Mayor's proposal; however, they do not reach the maximum penalty level, as this would be six times that of the original maximum fine.

28. Explore creating more public-private partnerships, such as Franklin Square and Café Cret (on the Parkway).

City Analysis: The City is eager to engage in such partnerships, and has done so through private sector donations for events like the Phillies Parade.

29. Reinstate the Productivity Bank, thereby helping to support and incentivize City employees to pursue money-saving initiatives.

City Analysis: The Productivity Bank is being eliminated in order to help balance the budget. Recreating the bank would require an infusion of cash that would lower the City's fund balance.

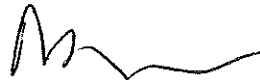
30. Centralize grant-writing functions for City departments within the Revenue Department, thereby enabling the City to cast the widest net possible and to take a strategic, centralized approach to seeking funding.

City Analysis: Grant writing functions have been centralized in the Mayor's Office under the Grants and Foundations Officer, where such an approach is currently being employed.

The Nutter Administration appreciates the thoughtful cost-saving suggestions from the members of City Council, as well as all other parties. We have given in-depth consideration to every proposal we have received, and look forward to working together to improve City government despite these challenging financial and economic circumstances. Thank you.

Please feel free to contact me if you have any questions.

Respectfully,



Rob Dubow
Finance Director

SJA/jmw

CC: Council President Anna C. Verna
Councilman Frank DiCicco
Councilwoman Jannie Blackwell
Councilman Darrell Clarke
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