# City of Albany, New York

# FY2017-FY2020 Financial Options

## Submitted to the Division of the Budget
## State of New York

## Project Overview

Over the past several years the government of the City of Albany has been actively seeking ways to deliver public services more effectively and efficiently while controlling cost growth. At the same time, the State of New York has asked the City to reduce its dependence on State aid as a revenue source. Important parallel efforts have included a 2015 review by the State's Financial Restructuring Board for Local Government (FRB) that suggested economy measures the City could undertake and recommended funding a long-overdue replacement of the City's enterprise resource system (ERP) software and a new electronic timekeeping system. Also in 2015, a consortium of officials from Albany County and its constituent governments developed a shared services strategy (the Albany County Government Efficiency Plan). The Plan included a catalogue of existing efforts and endorsement of additional steps the governments could take to ensure that County taxpayers would be eligible for State real property tax rebates. Eligibility is triggered by jurisdictions complying with the property tax cap and the approval of a strategy to share services, consolidate or merge, and develop and implement operational efficiencies.

In order to build on this progress, the FRB retained the consulting arm of Public Financial Management (PFM) to further analyze the City of Albany's finances to identify potential measures to reduce expenditures or slow their growth, generate greater revenues, and improve service efficiency over the next four years (2017-2020). This report summarizes PFM's findings and suggests an approach the State and the City may take in phasing down State aid as the City increases efficiency.

PFM's project team is made up of experienced local government financial analysts, many of whom have served in leadership positions in municipal governments. The team included PFM professionals as well as staff from MFR Consultants with a background in public accounting and finance; shared services and information technology experts from the Bronner Group; energy analysts from Mondre Energy, Inc.; and solid waste management consultants from Gershner, Brickner & Bratton, Inc.

The project team met with the City's finance team (Budget Director, elected Treasurer, elected Auditor) and with the heads of departments as well as other staff. The project team reviewed available annual and interim annual audit material, financial reports, budgets, prior studies and other documents provided by the City and related agencies, as well as publicly-available reports. In conducting its review, the project team had excellent cooperation from City and State staff, and appreciates their assistance.

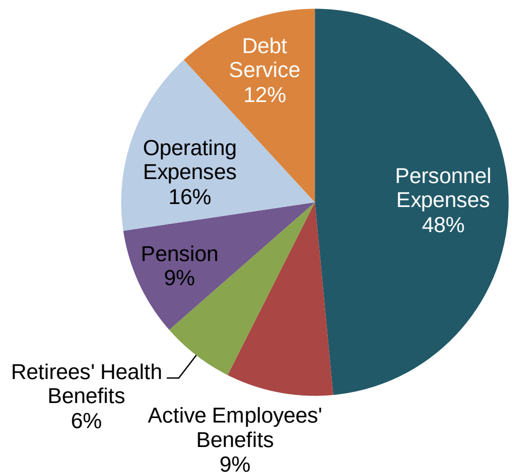
PFM also built a simple budget projection model to establish the City's future financial trend. Since the City's 2017 budget was still in development, the model was based on the 2016 budget. Assuming that current policies continue, and that known future events occur, the baseline forecast projected annual General Fund budget shortfalls in the range of $20.8 to $23.5 million if no corrective action is taken. This document identifies steps the City can take to substantially reduce those projected annual shortfalls.

## Budget Overview

To provide some context for the recommendations in this report, it is helpful to have a general overview of the City of Albany's budget.

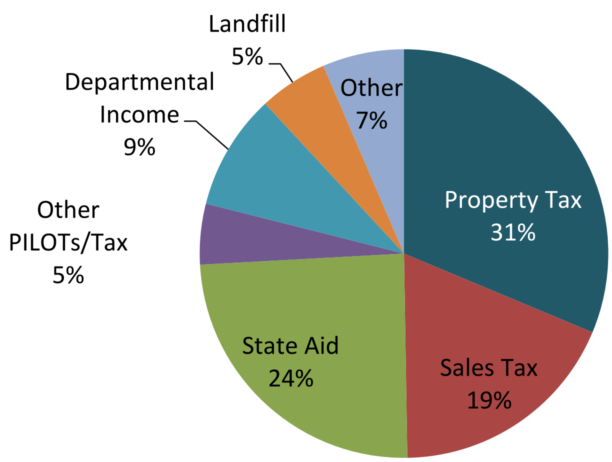
The City's annual expenditures, like those of most municipal governments, are primarily composed of wages and benefits for the women and men who police the streets, fight fires and respond to EMS calls, maintain thoroughfares, collect solid waste, and provide services ranging from recreation activities to building inspections. The chart below shows the major categories of Albany's General Fund expenditures in the $180.6 million adopted 2016 budget. Over 72 percent of the City's budgeted expenditures are for current and retired employees.

**City of Albany 2016 Adopted Budget – General Fund Expenditures**




On the other side of the equation, Albany's budget is characterized by substantial revenue from the property tax and sales tax, and from state aid and grant payments. The chart below shows the major categories of City General Fund revenues, based on the 2016 adopted budget:

**City of Albany 2016 Adopted Budget – General Fund Revenues**




**<u>Other Background</u>**

In reviewing the City's finances, the project team found that several factors have a major influence on the City's ability to achieve significant future budget savings.

First, since taking office in 2014, Mayor Sheehan has recruited a strong corps of senior personnel who have brought great enthusiasm to the challenge of day-to-day operations and long-term reform. Many long-desired changes have already been implemented or are in process, including the important and complex introduction of electronic timekeeping and the new ERP. However, the City has extremely limited staff capacity to use the data and information generated by these new systems to improve management and service levels and control costs in the future. Therefore, a key recommendation of this report is that a small cadre of central agency staff be tasked with providing management and productivity improvement resources for a prioritized list of City projects.

Second, the lack of capacity has led departments to formally or informally replicate central services to ensure that they have the necessary support to meet their mission. As a result, there are numerous entry points to hiring, purchasing, IT and fleet support. This means that there is limited ability for the City to comprehensively direct risk management, IT and budget compliance. In conjunction with the central agency management team, we recommend that the City trade a guarantee of service to departments for a more unified and less expensive menu of central services. This will mean required approvals for purchasing and hiring, as well as more consolidated fleet services and more detailed and more regular budget oversight and performance review. It is our understanding that the City is proposing to create a strong central administrative unit as a move in this direction.

The remainder of this report identifies over $14.3 million in expenditure savings achievable over the next several years, as well as almost $7.3 million in revenue initiatives even generally using conservative valuations. While not all ideas will be implemented – the City is constrained by State law, its Charter and collective bargaining agreements, and will have to achieve political and public consensus on some changes – substantial room for reform and savings is still available to fill the identified budget gap.

In reviewing the ideas in this report, note that while implementation timelines mean some expenditure control/reduction and revenue enhancement initiatives cannot be fully in place in 2017, there are multiple opportunities for the following years as the City builds internal management and productivity staff capacity and gains the advantages of the new ERP and timekeeping system. This suggests that a phased approach balancing City expenditure reforms, targeted revenue initiatives, and State aid reflecting Albany's unique situation could lead to longer-term budget stability. We recommend that the State challenge Albany to steadily implement these changes, and others of the City's own devising, to allow the State to phase down its annual support to the City over the next several years.

**<u>Efficiency/Mayor/Budget/Central</u>**

As stated in the introduction to this report, the combination of a focus on improved efficiency and the implementation of electronic financial and timekeeping systems are poised to support Albany's move to more cost-effective government. This section of the report describes a variety of areas in which the City can use information provided by the new systems to provide enhanced oversight of programs and spending, ultimately yielding better service at reduced cost. Given the City's lean staffing in the policy and evaluation areas, we also suggest the retention of a focused group to fully develop and help implement these management and productivity initiatives.

Two other points are worth noting. First, many of these efficiency initiatives are interrelated, and are also related to initiatives elsewhere in this report. Second, the City will have to prioritize and sequence the initiatives, as it will not be possible to implement all of them simultaneously. That said, the potential for change, including greater revenues and reduced costs over the next several years is significant.

Create an Annual Vacancy Allowance in the Budget
The City annually budgets the full employee complement, even though some positions will regularly be vacant and others may be new or otherwise temporarily unfilled. In 2016, the City budget included a 2.0 percent anticipated savings from the new ERP. The number was generated by reducing the budgeted salary and Social Security totals in most City departments by 2.0 percent. Since the savings generated by the ERP will be difficult to estimate and are accounted for elsewhere in our analysis, we recommend that the City eliminate the ERP savings and instead assume an annual vacancy allowance to account for turnover and other factors.

If the baseline budgeted amounts for salary, Social Security, health care, and undistributed retirement benefits are adjusted for vacancies, the City can achieve 2017 savings of $1.7 million more than the ERP savings amount, assuming a vacancy allowance of 3.0%. As the City implements other initiatives identified in this report and reduces its personnel complement while streamlining hiring, we anticipate that it can lower its vacancy allowance towards 2.0 percent, which will also reduce the amount of savings somewhat each year, reaching $1.2 million in 2020.

Reduce the Number of Payroll Clerks
With the full implementation of its new payroll system, the City has suggested that a majority of existing Payroll Clerk positions can be eliminated. Several departments aver that their payroll clerks also provide myriad other services, and are needed. Others have suggested that the payroll clerk position should be upgraded to a higher-performing administrative support job in some departments. However, with automated timekeeping, a new ERP, and an effort to combine or eliminate administrative positions, the City should be able to provide necessary departmental support with fewer administrative positions. For example, to the extent that those now holding Payroll Clerk positions provide purchasing, processing, delivery, or administrative support, those functions can be spread among remaining employees or in some cases delivered centrally. Some cities have created small administrative clusters that provide support for multiple related departments.

Our analysis suggests eliminating 10 Payroll Clerk positions across all departments (including at least one from the Police Department), and shifting two of the remaining positions to the Human Resources Department to manage and support the new timekeeping system (including expanded departmental assistance). If five positions were eliminated by attrition or transfer in 2017, and five more in 2018, the first year savings would total $248,008, and reach $494,736 in 2018 and beyond.

Create Management & Productivity Capacity
As described earlier, the City currently lacks the capacity at the departmental and central levels to take complete advantage of the new ERP and timekeeping data as it becomes fully available in 2017. Moreover, many of the challenges the City faces are a result of decentralized functions. Therefore, we support the City's recent trend toward reuniting key functions, many under a broad administrative unit. In particular, unifying purchasing, payroll/HR, budget and management analysis is recommended. We understand that there have been discussions about bringing treasury functions into this combined

agency as well, a change we endorse. In the future, the City should consider whether a Citywide grants management unit would be desirable and allow for greater coordination and leverage of outside funding (among the grants the City should consider for applying for are competitive grants from the Local Government Efficiency Grant, or LGEG, program, as described in the 2015 FRB report on the City's finances. LGEG grants appear to be well-suited for support of many of the initiatives in this report).

This year, to support the changes made possible by reorganization, the ERP and the timekeeping system, we recommend that a small group of central agency staff be recruited and tasked with providing management and productivity improvement resources for a prioritized list of City projects, many of which are outlined in this report. The City might hire two members of this team immediately, and two more as needed toward the end of 2017 or in 2018. Alternatively, for some more complex projects requiring one-time specialty knowledge, one or two of the later hires could be replaced by outside resources retained on contract.

The positions would report to the head of administration and budget, but could lead projects across the organization, including the fleet, workers' compensation, purchasing and position control initiatives described in this section, and ongoing predictive analytics efforts. They could also assist with more robust monthly budget and performance reporting. While a salary and/or contracting amount for these new positions would appear in the budget at a fully-loaded average cost of $75,000-$90,000 per person per year, these additions are expected to be offset by savings in other areas as described below.

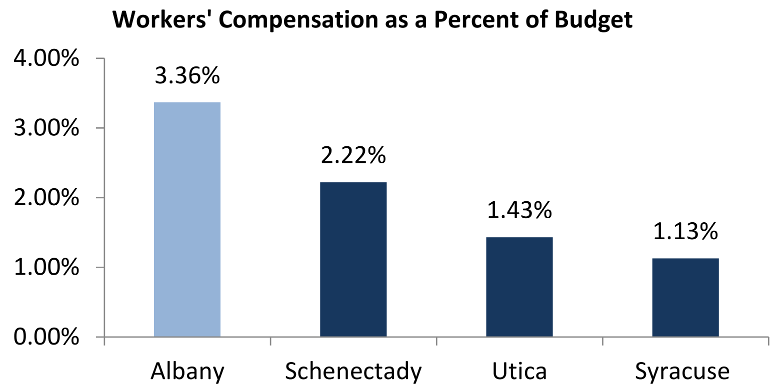
Capital Budgeting

At present the City does not have a formal capital budget, but rather a list of key projects included in the budget each year. These projects are typically funded by notes and, depending on their useful life, permanently funded by bonds several years later. The Treasurer is responsible for funding the approved requests, and the Budget Office for compiling the list, but there does not appear to be a full, comprehensive historic catalogue of all approved projects, their expected cost, approved and funded amounts including detailed breakout by each funding source, progress on completion, and remaining project elements. Moreover, although there is a multi-year project list in the annual budget, there does not appear to be a fully-developed out-year projection of remaining and new projects and expected funding sources. Finally, many of the included projects appear to be on the list because they are funded with notes tied to their expected life; they may not meet typical definitions for capital eligibility.

We recommend that the City develop a full capital budget and plan that lists but also includes descriptions of each project, its funding type and source(s), and whether it is expected to result in a long-term asset. In conjunction with this the City can clearly identify capital assets and complete life-cycle planning in critical areas (for example fleet, as described below). In the long run, the City should have a quarterly report on the construction/purchasing status of all uncompleted capital projects, and establish a formal process for vetting, qualifying and annually funding an affordable group of projects tied to a formal project evaluation system. The City should also update and maintain debt and debt funding policies, and report on them each year in its budget document.

Create a Risk Management Task Force/Appoint a Safety Officer

The City has very high annual spending on workers' compensation (budgeted at over $6.0 million in 2016, more than 3 percent of the City's budget), and has not had a coordinated safety program in recent years. Other upstate governments spend far less on workers' compensation, as shown below:




Source: 2016 adjusted municipal budgets

The new Administration has used an RFP process to retain a new third party administrator (TPA), and expects to recapture some funds from its prior TPA. However, there is an opportunity to further reduce spending related to workplace injuries using a multi-faceted strategy including the following elements:

- Reducing new injuries through a revitalized Citywide safety committee including experts from the Department of General Services, the Water Department, Human Resources and Budget (where the new Director has a workers' compensation background);
- Specifically targeting groups with a high number of injuries, such as solid waste collection;
- Focusing on technological change that will reduce injuries, such as the introduction of automated waste collection;
- Working with the new TPA to settle and remove from the rolls certain legacy workers' compensation cases (which requires some initial investment for long-term savings). For example, the City of Pittsburgh has reduced its legacy workers' compensation claims by more than 50 percent over the past ten years in part by increased claims adjuster staffing, ensuring full use of a workers' compensation pension credit, improved internal communications on labor and employment cases, and a targeted workers' compensation settlement program that has realized an estimated 12:1 return on investment.

The City is taking an aggressive approach to this issue and is estimating much lower expenditures in 2017. Given that workers' compensation typically includes many legacy costs, and savings can take time to achieve, this report assumes that the City will achieve approximately half of its estimated savings next year and three-quarters after that. These savings are significant – over $1.0 million next year and almost $1.6 million in future years.

<u>Enforce Position Control</u>

The project team's discussions with departments revealed that new hires can start work in the field without notice to central human resources, budget approval or filling out required paperwork and undergoing City-wide introductory training. With the new, more centralized administrative structure, the City should implement strict position control, including requiring budget and HR approval before any employee begins employment. Savings from this approach are incorporated in the vacancy allowance initiative described earlier.

Enhance Budget Controls

In addition to position control, enhanced central administration will provide other benefits. As noted elsewhere, the management and productivity unit can develop monthly and quarterly budget reporting procedures and meet at least quarterly with departments to ensure that budgets are achievable, help anticipate variances, and more effectively address emergency spending needs. The budget group can also experiment with budget management and control techniques such as target budgeting, which sets aside contingency funds by department, or pool contingencies; across-the-board budget targeting for marginal reductions in materials, supplies and equipment and other areas; and centralization of grant approvals so that grant matches, maintenance of effort, and grants accounting are anticipated, known to the budget office, and integrated into budget management. Savings from this initiative are included in other parts of this report.

Enforce Centralized Purchasing

Based on discussions with departments and the City purchasing unit, limited resources have been available to create more cost-effective purchasing. With the new ERP providing increased data and a management and productivity group to match purchases and budget, the City should be able to enforce prior approval of all purchases over a set threshold and all requests to the Contract & Supply Board, increase use of local and shared purchase orders (POs) and state contracts, and monitor and control spending against blanket POs. The City has recently approved best value purchasing, which should provide life-cycle savings by allowing departments to choose the most appropriate goods and services even when they don't have the lowest initial price. This higher level of coordination and oversight should lead to greater efficiency, an amount equal to at least one percent of annual materials, supplies, equipment and contract expenditures ($35,559 in 2017 growing to $37,847 by 2020).

Better Coordinate Fleet Management

The City currently has a patchwork fleet maintenance operation, and no apparent long-term fleet management and replacement program. The DGS nominally directs the fleet program, and has six mechanics assigned to four locations – the central garage, the landfill, the park maintenance facility, and the golf course. In addition, the Fire Department has three mechanics and Water & Wastewater Services has six. The Police Department contracts out most of its fleet maintenance.

To improve fleet quality and control costs, the City can begin to realign fleet operations, starting with required use of centralized contracts (maintenance, repair, roadside assistance, and supplies like tires, etc.). Over time, they can move toward consolidation of independent fleet operations and expanded use of the State's repair and maintenance contract (assuming it is cost-effective). The use of new tools and technology, including car share (sedans) and intergovernmental vehicles pools (for specialty equipment), vehicle GIS/fuel tracking, and software for vehicle review and lifecycle costing can also be added to the mix. The City should be able to reduce annual fleet personnel and parts/equipment costs by five percent per year in 2017, saving $146,280, growing towards 10 percent or $241,139 by 2020.

Replace Roadway Streetlights with LEDs

In June 2016 National Grid published a tariff for electric service for light-emitting diode (LED) streetlights. If the City's high pressure sodium lamp roadway streetlights – which are 73 percent of the City's fixtures – were replaced by LEDs, the City would increase annual fixture charges by $225,939, but reduce the City's streetlight electricity supply and deliver charges by $537,803. The City would capture

$311,864 in net savings. If the City were able to work with National Grid to replace 25 percent of its roadway fixtures in 2017 it would save $77,964; when the remaining roadway fixtures are replaced annual savings and the remainder in 2018, annual savings would reach the full amount or more. Additional, somewhat harder-to-achieve savings could come from replacing the remaining non-roadway lamps with LEDs.

<u>Achieve More Competitive Streetlight Energy Supply Costs</u>
In 2015 the City experienced streetlight supply price fluctuations from 10.5 c/kWh to 1.5 c/kWh. The average monthly supply price for the year was 4.6 c/kWh. In December 2015 the City began paying a fixed price 6.2 c/kWh and has continued to pay that price through the first seven months of 2016. The City's average supply price increased 35 percent from 2015 to 2016 year to date; meanwhile, retail commercial sector electricity prices throughout the state of New York declined 8.7 percent for the first six months of 2016 compared to the first six months of 2015.

If the City can identify suppliers offering prices that better reflect market trends it would be exposed to some price fluctuation but could pay less overall. If the City's streetlight electric supply costs for the rest of this year are at the average of the year to date, it will pay $484,634. If it can reduce this figure by 5 percent it would save $24,232. If it can reduce its streetlight electricity supply figure to last year's rate, it would save $68,213. Additional savings might be possible for other electric supply costs.

<u>Alternative Streetlight Option</u>
In lieu of replacing the existing roadway streetlight lamps with LEDs and lowering energy supply costs, as described in the two initiatives, the City has been considering the option of purchasing its existing streetlight network. Under this approach it would buy the 10,300 existing street light poles, fixtures and related infrastructure at an estimated $28.0 million, replacing the lights with modern LED technology and using a contractor to maintain the network. The City's debt service to finance the purchase, cost of maintenance, and lower energy costs due to the LEDs would total approximately $1.75 million less each year than its current $4.15 million in annual power costs and payments to National Grid for the system. If the City was successful in securing grant assistance to defray part of the system purchase price, annual savings could be as high as $2.75 million.

<u>Invest in Additional Energy Savings Strategies</u>
The New York Power Authority's Five Cities Master Plan suggests four key areas Albany should focus on in the development of energy efficiency, cost reduction and resiliency projects. Based on these suggestions, some additional projects that don't appear to be included in the City's current energy audit reports might include fuel switching (installing chillers that operating on natural gas instead of electricity); installing electricity self-supply options to produce lower-cost power; and adding water source heat pumps. It might also be possible to become "greener" at a slight premium by adding solar power systems in some locations. Potential annual savings start at $100,000 and could rise to $500,000, but additional analysis is needed on how to fund projects at the front end.

## <u>**Shared Savings**</u>

Albany County and its constituent governments have spent considerable time in recent years identifying and acting on opportunities to reduce spending by combining or transferring various duplicative or overlapping services. In the 2015 Albany County Government Efficiency Plan, a blue-ribbon commission of senior officials (including Mayor Sheehan and County Executive McCoy and an advisory board including County Sheriff Apple) endorsed a number of future shared services initiatives that could save the City of Albany money while providing equivalent or better services. There are numerous possible projects. Several initiatives including shared services are noted below; there are other more department-specific joint working ideas in other chapters of this report.

Transfer Public Records to the County

The City has reached an agreement to move the Public Records function to the County effective for 2017. Savings are expected to be over $170,000 per year in personnel and other expenditures.

Add Additional Local Governments to the ERP

The 2015 Albany County Government Efficiency Plan recommended consolidating other area governments into the City's new Enterprise Resource Planning (ERP) system once it was up and running. Since the licensing and operational costs for the City are relatively fixed, adding other County local governments to the system should reduce the City's costs of operation while also saving money for neighboring towns that join the system. It may also make sense to add a small one-time buy-in fee to the extent that the ERP purchase and installation was not fully covered by the State grant. Conservative estimated savings for the City could be at least $50,000 per year.

Transfer Dispatch/911 to the County

The County Government Efficiency Plan also noted potential savings from consolidating Albany's emergency dispatch operations into the County's system, and cites $900,000 in annual savings from an earlier consolidation of four smaller municipalities. The 2016 budget for the City's public safety communication system included 39 dispatchers and supervisors and totaled $3.4 million, a figure that does not include allocated costs for retirement. The project team was not able to obtain any relative cost data for the County's system. However, based on estimates from a 2011 consultant study of other area local systems later folded into County dispatch, City savings are potentially 15 percent or more of existing costs, $515,513 or greater.

Make Animal Control County-Wide

While the City has only a modest animal control effort – three staff and contracted expenses budgeted at just under $300,000 in 2016, the same services are duplicated in other jurisdictions throughout the County. It is likely that many local governments hold contracts with the same providers, and some economies of scale may be possible. It is recommended that the City work with other jurisdictions to determine whether a county-wide approach could provide equal or better service and more competitive rates on contracted services. This unit is located within the Police Department, and urban animal control officers often collaborate closely with police officers, code enforcement officers and other public employees who have to enter abandoned properties or encounter hostile animals. This aspect of the work can be taken into account in reviewing structural options. This initiative was also mentioned in the County Efficiency Study.

Consider County Assumption of V&T Prosecutions

The City is responsible for thousands of vehicle and traffic (V&T) cases each year. The small City Law Department staff has increasingly been burdened by this work, which in some parts of New York State is handled at the County level. Since all County jurisdictions have such cases, and many of the defendants are from other parts or the County, State and nation, this is an area that could be assumed by the

County.  Countywide operations might also make changes such as pleas by mail and other reforms easier to adopt and implement.  Alternatively, the City could work to ensure that court fees cover the full cost of this function, including hiring any additional Law Department staff if warranted.

## Department of General Services

### Improve Solid Waste and Recycling Routes

Municipal solid waste (MSW) collection and recycling collection in Albany has traditionally been done by a swarm method (crews are assigned to cover an area during the day and supervisors ensure all daily collection is completed).  Once longer-term solid waste/recycling collection reforms are implemented (including automated collection), a thorough re-routing effort should be undertaken.  In the meantime, the City and its new collection manager should be able to reduce collection overtime by establishing some basic routing to increase efficiency and reduce the need for routes after scheduled hours.  We estimate that a simple initial effort could yield interim savings equal to ten percent of budgeted collection overtime, or $17,500 in 2017.

### Convert to Automated Collection of Solid Waste & Recycling

The City's Department of General Services has estimated that 50 percent of their current solid waste collection routes could be converted to a fully automated service.  To do so, the City will need to design, pilot test, purchase equipment for and successfully implement an automated collection system.  However, it can expect substantial operating savings from this effort, as it could reduce two sanitation workers on MSW collection trucks and one on recycling trucks.  The City could save $269,018 annually by converting two MSW routes to fully automated collection and a further $134,509 each year by converting two recycling routes.

Some portion of this possible savings would be offset by the amortized cost of new equipment, including trucks and containers.  In addition, the savings might be phased in assuming that the City would reduce the number of workers by attrition.  However, it may be possible for the City to secure grant assistance for the transition, especially for recycling.  For example, the State's Department of Environmental Conservation offers grants for recycling containers, vehicles and processing equipment.  Also, the City could explore loans or grants from quasi-private recycling support providers such as the Closed Loop Fund or the Recycling Partnership (which provides grants, with technical assistance, for buying carts when a community is converting to carts).

### Direct C&D Waste Elsewhere, Raise Rates on Remaining Waste

At current rates of disposal the City is likely to exceed its 2016 revenue target for solid waste revenue ($8.067 million for commercial landfill usage; petroleum-contaminated soil at $469,700; and landfill usage by other governments at $764,000; a total of $9.301 million).  At the same time, the City is exceeding the disposal level needed to keep the landfill open through 2022, and is accepting a large amount of construction and demolition (C&D) waste.

The City should seek to adjust pricing to drive C&D waste elsewhere and continue to raise prices on other waste to balance revenue targets with landfill capacity.  The City may need to make allowances for C&D waste from City-sponsored demolitions, and take into account other qualities of its full waste stream.  To the extent it is possible to reduce recent tonnage and still exceed the 2016 revenue targets, additional funds should be divided between budget relief, funding of post-closure obligations, and funding of remediation efforts. Additional analysis will be needed to determine whether specific waste streams, tariffs, and volumes can be balanced to preserve baseline City revenues, generate targeted additional revenues, and still keep the landfill open through 2022.

Create a Solid Waste Master Plan

As the previous three initiatives indicate, the City's solid waste services are at a critical juncture. It has agreed to close its Rapp Road Landfill by 2022, or sooner if certain landfill capacity milestones are met. In part to address this challenge, in 2015 it began to charge certain multi-family dwellings for MSW collection. The City has also begun to explore expanding this idea and a broader volume-related "pay as you throw" concept to all residences; has initiated a pilot program for semi-automated and automated collection of MSW and recyclables; has raised landfill fees to ensure capacity can be extended to 2022; and has ongoing efforts to ensure proper closure and remediation of the Rapp Road site and timely selection and construction of new disposal alternative.

While each of these issues – method of collection, collection routing, landfill capacity, future disposal methodology, revenues from disposal and the effect of collection fees – are separate, they are also interrelated. In order to meet environmental mandates, maintain a clean City, and become more fiscally sound, the City must undertake multiple overlapping efforts to deal with the challenges in each area. We recommend that the City establish and implement a coordinated solid waste plan that unifies its strategy for all of these matters. Various interrelated components of such a plan would include the identification of future disposal and recycling facility options for the City; truck/equipment/container acquisition for existing routes and the new automated/semi-automated routes; capital spending; route optimization; and coordinated financial planning including rates.

The solid waste plan should be developed by the Commissioner of DGS and the Solid Waste Manager with support of the central agencies and input from key stakeholders. The plan should cover the issues noted above and others that may arise in the next five years; include an outline and implementation timeline for the major actions needed to address those issues; assign responsibilities for action; and make preliminary financial estimates. Given the dynamic situation with landfill capacity, potential changes to collection, and other factors, the plan should be reviewed quarterly and revised no less than annually (preferably in advance of the annual budget process).

Enhance Asset/Inventory Management

The City currently has limited capacity to track the age, condition and repair history of equipment and other assets. As a result, it cannot easily plan for replacement or determine when equipment should be replaced rather than repaired. In order to improve life cycle planning and replacement spending for major equipment and other assets, the City should implement an asset management system across all departments. While overall responsibility for maintenance management should reside with the Department of General Services, this is an area where considerable knowledge and experience typically resides in water/sewer utilities. Water & Wastewater Services should be asked to provide substantial assistance and support to this initiative.

Related aspects of this program should include the fleet maintenance and vehicle life-cycle planning work described elsewhere in this report, alignment with best value procurement, and an expansion of the building inventory compiled as part of the City's energy conservation efforts.

Building Evaluation and Disposal

The City owns approximately 45 properties with over 510,000 square feet of space, and occupies additional space (most notably at City-related non-profits and used for Police communications, planning and buildings and codes). Many City facilities house critical City functions (police and fire stations, recreation centers and maintenance facilities), while others are not used or are leased or given to related public agencies or arts and community organizations. In addition to further energy initiatives as described above, the City's buildings should be reviewed for upcoming capital needs (see the asset management and capital budgeting discussions, also above). A plan should be developed to balance current and future space needs, the current building inventory, and the condition and maintenance needs of the available buildings. Special attention should be paid to uncompensated use of older, less efficient buildings by non-profits, disposal of under- or un-used properties, and opportunities for City agencies to consolidate into fewer locations. Swing space required during upcoming renovations should also be considered.

## Police

Reduce Court Overtime

The City budgets over $900,000 per year for court time for police officers. By collaborating with the District Attorney and the Courts, it should be possible to reduce the number of officers required to appear (especially for preliminary proceedings) and improve scheduling of the remaining appearances. The City should set a goal of reducing court time by one-third, saving up to $305,000 per year.

Bring Police Training In-House

The APD desires to move to in-house recruit training to better inculcate new officers in its preferred community policing approach – they estimate $150,000 in annual savings.

Reduce Police Headcount to Level of Comparable State Capitals

The Albany Police Department's 2016 budgeted uniformed personnel headcount of is 342, or 3.5 officers per 1,000 residents and 2.1 officers per 1,000 individuals during the daytime when state workers and other commuters increase the City's population. Using comparable 2014 federal data, these figures are tied for the lowest among other large upstate cities for daytime population and tied for the highest among other large cities for resident population. The other cities have a median of 2.35 officers per 1,000 in daytime population and median of 2.95 officers per 1,000 residents).

**City of Albany Sworn Officers Compared to Other New York Cities**

| City | Population | Daytime Population | Total Officers | Officers/1,000 Population (Daytime) | Officers/1,000 Population (Resident) |
|---|---|---|---|---|---|
| **Albany** | **98,595** | **163,528** | **337** | **2.1** | **3.4** |
| Buffalo | 258,419 | 314,733 | 737 | 2.3 | 2.9 |
| Syracuse | 144,534 | 189,126 | 451 | 2.4 | 3.1 |
| Yonkers | 200,624 | 166,196 | 611 | 3.7 | 3.0 |
| Rochester | 210,347 | 284,463 | 713 | 2.5 | 3.4 |
| Schenectady | 65,834 | 69,373 | 143 | 2.1 | 2.2 |
| Utica | 61,702 | 73,308 | 163 | 2.2 | 2.6 |
| **Albany Rank** | **5 of 7** | **5 of 7** | **5 of 7** | **7 of 7** | **1 of 7** |

Source: 2014 FBI UCR, 2010 American Community Survey

If APD had 2.95 officers per 1,000 residents, the median of the other upstate cities, it would have 291 sworn officers – or 51 less than 2016 budgeted levels. However, given Albany's status as the State capital and a daytime population growth much greater than that of other upstate cities, it likely requires a police force more commensurate with levels seen in other State capitals.

Among selected State capital cities, Albany's sworn police force remains comparatively higher on a per resident basis (3.4 officers per 1,000 residents compared to a median of 2.5 officers per 1,000 for the other cities), and only slightly higher than the median officer to daytime population ratio seen in other capital cities (2.1 officers per 1,000 in daytime population as compared to a median of 2.0 officers per 1,000 in daytime population).

**City of Albany Sworn Officers Compared to Other State Capital Cities**

| City | Population | Daytime Population | Total officers | Officers/1,000 Population (Daytime Pop.) | Officers/1,000 Population (Resident Pop.) |
|---|---|---|---|---|---|
| **Albany, NY** | **98,595** | **163,528** | **337** | **2.1** | **3.4** |
| Hartford, CT | 124,943 | 187,512 | 420 | 2.2 | 3.4 |
| Trenton, NJ | 84,324 | 103,048 | 224 | 2.2 | 2.7 |
| Providence, RI | 178,640 | 217,292 | 443 | 2.0 | 2.5 |
| Lansing, MI | 113,901 | 148,326 | 192 | 1.3 | 1.7 |
| Springfield, IL | 117,134 | 148,889 | 232 | 1.6 | 2.0 |
| **Rank** | **5 of 6** | **3 of 6** | **3 of 6** | **3 of 6** | **1 of 6** |

Source: 2014 FBI UCR, 2010 American Community Survey

This discrepancy is likely due in part to the impact on deployment of the Albany Police Department's highly-valued community policing approach. However, if Albany had 2.0 officers per 1,000 in daytime population (the median of the other capital cities), then it would have 327 sworn officers, or 15 less than the 2016 budgeted level.

In 2016, the average fully-loaded budgeted cost for one full-time, sworn member of APD is $102,885, a figure that would increase to $106,416 by 2020 due to growing health and retirement benefit costs. If Albany is able to reduce its sworn police complement by 15 officers beginning in 2017, it would save over $1.5 million in 2017 and almost $1.6 million per year by 2020.

Review Police Civilian Levels

The City budgeted for 465 Police Department employees in 2016, of which 342 are police officers and 64 are crossing guards.[1] This leaves another 59 civilians in positions ranging from community policing support to grants accounting to crime analysis and mapping. The Department has successfully kept civilians in support positions, and can also be expected to have a slightly higher number of civilians given the non-uniformed outreach staffing associated with its community policing efforts. However, the City should still review its civilian levels and determine the optimal Police Department civilian staffing level. Note that other parts of this report recommend reducing payroll clerks and consolidating grant writing and accounting positions, all of which exist in the Police Department.

[1] Other units in the Police budget include 39 employees in Communications, 7 in Traffic Engineering and 3 in Animal Control.

As part of this review, the City should also explore if there is room to reduce the number of crossing guards. Syracuse, for example, has only 54 crossing guards with a population that is almost 50 percent higher. Troy, which has a population half of Albany's, has 18 crossing guards, about one-quarter of what Albany employs. Each municipality and school district has its unique needs, and the details of staffing may also vary by City, but Albany should explore if there is room to reduce its crossing guard staffing level as part of the overall staffing review.

## Fire

### Consider a Revised Shift Schedule

Albany's Fire Department currently operates on a four-platoon, 42-hour workweek schedule using 24-hour on/off cycles. Because firefighters receive overtime payments for work in excess of 40 hours per week, they receive four scheduled 24-hour shifts off per year, also known as Kelly Days, to reduce the average work week from 42 hours to 40 hours.

In 2014, the City of Baltimore and the firefighters' union (IAFF) reached an agreement to change the shifts to what is often called the "Houston Schedule" that increases average workweek from 42 hours to 47 hours. The new schedule requires Baltimore firefighters to work two 24-hour shifts over three days, followed by 5 days off. By increasing work hours, the City can reduce the number of positions assigned to suppress fires over a period of time. In exchange for the schedule change, the City of Baltimore and the City's firefighters' union reached an agreement that increases the salary for these suppression positions by 10.5 percent in exchange for the schedule change, which is expected to save the City about $72 million over nine years. Approximately 10 percent of the firefighting positions are to be eliminated through attrition, with savings accruing from reduced benefit costs offset by the salary increases.

Absent other factors, if Albany were to reduce 27 firefighters over four years through attrition and provide a linked phased-in wage increase in exchange for the schedule change, the City would save approximately $1.2 million on an annual basis.

### Achieve Planned Overtime Savings

In 2014 the Mayor proposed closing the Fire Department's Ladder 1 unit to save the City $1.2 million in overtime. Eventually the City and the firefighters' union reached a compromise to leave the unit in service but reduce the number of firefighters allowed to take vacation on the same day from 12 to 8. This was intended to reduce overtime costs during the most desirable vacation periods, which was projected to save an equivalent amount to the Ladder 1 closure.

Unfortunately, the savings were not realized in the short term because of delayed hiring of a new firefighter training class and in the long term because some firefighters who did not get their desired vacation slots instead exercised their right to compensatory time to take off the same shifts. The City should return to discussions with the union to discuss ways to achieve the original target savings. The discussion should be broad-ranging, and include deployment and configuration options such as unit closings and brownouts, changes in apparatus that may require lower staffing, as well as changes to work schedules and rules that could achieve the target savings.

The City may also wish to engage a fire operations expert to consider its station locations and response times to develop a longer-term plan that could locate future stations in a way that would maintain public safety with fewer units. No additional savings are included in this report since the City has already incorporated an adjusted Fire overtime figure in its budgets. It must, however, still find a way to achieve that figure in practice.

Continue Grant Funding Efforts

The Fire Department received a two-year, $1.9 million federal Staffing for Adequate Fire and Emergency Response (SAFER) grant that is funding suppression positions and reducing overtime costs for the City. Depending on staffing levels, equipment needs, and federal funding levels, before the grant expires next year the City should explore the possibility of reapplying for a SAFER grant or achieving the same level of support with a federal Assistance to Firefighters Grant (AFG) or Fire Prevention & Safety (FP&S) grant.

Analyze the Possibility of Outsourcing EMS Transport or Bringing It In-House

The City currently operates an unusual hybrid ambulance service where City paramedics and emergency medical technicians (EMTs) respond to calls for medical assistance. However, when transport to a hospital is required that service is separately delivered by a private provider. Medical reimbursement systems are set up to recognize a continuum of care from arrival on scene through arrival at a hospital, and much of the revenue is tied to the transportation function. As a result, the private provider receives a majority of the reimbursement; the City budgeted less than $500,000 in EMS revenue in 2016 and had just $281,283 in actual EMS revenue in 2014 against millions of dollars in expenditures.

The City should evaluate the potential benefits of two alternative models – taking over full emergency response or transferring the full responsibility to private providers. Under the first approach, the City already has trained personnel and a budget for equipment and supplies. Major additional costs would be for more staff (since the time spent transporting would have to be covered), regular purchase or lease of additional ambulances, and billing and collections. The second option would likely save the City substantial amounts as it could shed current staff and equipment. While the project team assumes that City leaders, residents, businesses and staff would prefer to maintain EMS as a public service, understanding the financial and service impact of this option would allow the City to make a better choice about which direction to take. In either case, the current hybrid system is less desirable from a continuity of care perspective for patients, and has extensive City response requirements while passing up substantial revenue potential. In the absence of a full analysis it is difficult to know the financial impact of these two alternatives, but at a minimum they are likely to be financially positive for the City in the range of hundreds of thousands of dollars each year.

Civilianizing Firefighter Code Functions

Under the current collective bargaining agreements certain firefighters receive a $1,400 stipend for commercial code inspection work. In most jurisdictions it is generally not efficient to fund firefighters to perform these functions, especially if it takes them away from suppression or other fire duties. The City should seek to eliminate this subsidy, and the related function if there is one, and centralize all code enforcement in the Department of Buildings & Regulatory Compliance.

Operating or Capital Support for Disproportionate City Mutual Aid

It is common that central cities with larger paid fire departments and more equipment provide more mutual aid to surrounding communities than they receive in return. This appears to be the case in Albany, and the Fire Department has sought to recapture some of this subsidy by pursuing joint purchasing and training opportunities with neighboring communities and with other regional departments like Troy.  However, the City should analyze its mutual aid balance and determine whether there are neighbors who are consistent net beneficiaries and should help defray the cost of Albany's providing service.  This could take the form of a small operating contribution, or perhaps investment in apparatus that is frequently called upon (for example a ladder truck that regularly responds to a neighboring community that doesn't have one).  A budget target of approximately $25,000 annually should be set to ensure focus on this issue.

**Workforce/HR**

Because the City is currently in negotiations with most of its bargaining units, and because its pension benefits are managed through the state's plans (and were subject to a comprehensive reform in 2012), the project team did not focus on these matters in great detail.  However, the City's long-term future is strongly affected by these issues – as shown at the beginning of this report, over 70 percent of annual City costs are related to salaries and benefits, with almost 50 percent for salaries and nearly 25 percent for pension costs and active and retiree health benefits.  Therefore, in addition to the gainsharing and benefits audit recommendations above the City should continue to work in the bargaining process to achieve a more affordable employee cost structure, and should strive to limit long-term salary growth to an amount commensurate with overall revenue increases.

The health care issue was clearly articulated in the 2015 FRB report, which noted that "A majority of City of Albany employees (54.4 percent) are required to share in the cost of the health insurance premiums – 10 percent for individual coverage and 25 percent for family coverage. Less than 10 percent of retirees contribute towards their health insurance premium, as the City currently gives all retirees health insurance at the premium contribution rate at which they retired.   If the City could employ health insurance practices that the State achieved with its unions in the most recent round of bargaining, there is the potential for millions of dollars in annual savings for the City."

The City has benefitted as a result of a 2013 change in law that required arbitrators to take into account eligible governments' ability to pay and to limitations on their ability to raise property taxes.  In addition, however, the City should continue its existing efforts to move toward market norms on employee health care contributions and copayments for all bargaining units, and collaborate with state associations to monitor the impact of pension reform.

In addition to these broad issues, the project team recommends several initiatives described below.

<u>Conduct a Benefit Audit and Reprise Biennially</u>

The City's prescription drug benefit provider, Express Scripts, has completed a benefit audit relatively recently.  However, it appears that the City has not completed a review on medical and dental benefits in some time.  While it is likely that most primary beneficiaries are qualified, recent turnover and hiring process decentralization may mean that there are some possible savings.  Moreover, it is very likely that significant savings are achievable from a dependent eligibility verification.  At a conservative assumption of 1.0 percent of health care spending, the City could save $250,000 in 2017.  While some of the initial savings would phase out over time due to turnover, the audit should be repeated every other year, stabilizing the savings amount.

Establish a Gainsharing Committee

The City is exploring an internal gainsharing labor-management committee focused on helping employees more efficiently access health care benefits and programs. Ranging from reducing costly emergency room benefits to workplace safety to emphasizing the more effective wellness options, a similar body has been successful in Rochester. Through collaboration and more effective use of coverage, estimated City savings of 1.0 percent of active and retiree health care, or $250,000 annually, could be achievable.

Increase Payroll Efficiency

The City currently pays its employees on a weekly basis with a direct deposit option. Many governments and most private-sector entities have long required direct deposit to increase efficiency and eliminate the issues that arise with preparing and delivering checks to workplaces. In addition, it is unusual to pay employees weekly; most employers pay bi-monthly or evenly monthly to reduce administrative costs and better manage cash flow. Consistent with the introduction of the ERP and timekeeping system, and this report's recommendation to reduce payroll clerks and potentially outsource the City's payroll function, Albany should move to direct deposit and a bimonthly payroll, including this change in collective bargaining proposals where applicable. Over time, through elimination of error and theft, savings of 0.1 percent of annual salaries budget, or $75,514, should be achieved.

**Other**

Reduce City Portion of Special Events Funding

The City's Special Events Office raises $573,000 per year for the Tulip Festival, Alive at Five, 5K race, Jazz Festival and other events. It also appears to contribute $428,000 in City funds as well as other staffing and support. While these events are part of the City's fabric, they are also not core services of government. City direct funding could be replaced by increased sponsorship or events could be scaled back to meet available funding.

Review Golf Operations

The City's Capital Hills at Albany golf course is viewed as a regional asset, and provides an affordable recreation option for City residents. Over the past several years the facility has generated a slight budget benefit of approximately $100,000 on expenditures of about $1.0 million, not including any current, deferred, or future capital investment or a small portion of unallocated overhead costs.

The City should review its commitment to golf and explore alternate models for the facility. To begin, it should ensure that fully-allocated costs are being recouped, and consider establishing a funding model that sets aside revenue annually in a capital reserve for reinvestment to ensure that golf will not need support from the City's General Fund. Subsequently, the City should evaluate current operations – including cart rental, pro shop, restaurant, and whether there are opportunities for improving operations (including joint operations with the adjacent private course). Finally, the City should consider the short- and long-term market for selling the course to a private operator, and whether there may be possibilities for residential or commercial development of some or all of the property.

Adopt a Purchasing Card

The City currently has blanket purchase orders for certain materials and supplies that are used by multiple departments, making it difficult to track when caps are exceeded and to monitor and enforce spending limits and item controls. It also appears to have limited purchase options when departments need items quickly. Finally, while discounts can be built into individual POs and contracts, it does not seem to have a standard rebate. These issues can be addressed by using a purchasing card for materials, supplies and perhaps other items. If the City were to buy 70 percent of budgeted materials and supplies with a purchasing card, it would be eligible for an annual rebate of over $40,000. Moreover, it would be able to pre-set spending limits and block purchase of specific items, while improving tracking and reporting in conjunction with the new ERP.

<u>Further Consolidate IT Functions, Including GIS</u>

The City's information technology group has focused on what can be achieved with limited resources, successfully shepherding the implementation of the new ERP and timekeeping system. Given the rapidly changing IT field and strong competition for human resources in this area, the City has chosen remote hosting for most of its applications. Past inability to meet client department needs has caused some IT fragmentation, however. The Police Department and some others have their own IT staff.

The City cannot afford to pay for duplicate or overlapping IT resources. Over time, the CIO should be provided with appropriate resources and authority to bring together disparate systems, assuming that departments can be guaranteed the services they need by central IT. Specific service support contracts with the central administration should allow some savings on licenses, staff and other resources. IT can also play a key supporting role in many of the data-centric initiatives mentioned elsewhere in this report, and in other areas such as increasing the number of City services accessible on-line and improving the City's cybersecurity. The CIO may need some latitude to offer more competitive salaries in targeted areas to achieve these various potential benefits.

<u>Outsource Payroll</u>

With the full implementation of the timekeeping system in 2017, the City should be able to move to a more automated payroll process. In addition to the direct deposit initiative elsewhere in this report, outsourced payroll should improve the City's reporting, automatically update as tax and other laws change, and offer strong employee self-service to reduce staff inquiries. Currently, several Treasury employees are at least partially engaged in processing the City's weekly payroll. It is estimated that outsourcing payroll and implementing employee self-service could allow the Treasurer to reduce approximately one position by attrition, a net amount after costs equivalent to about $50,000 per year when benefits are included.

<u>Complete Installation of Code Enforcement Software</u>

Enhancements at the City's Buildings & Regulatory Compliance Department have been hampered by a partial implementation of its new code enforcement software. The issues appear to be related to customization and vendor time on task. Completion and full implementation of the software would allow for inspectors to complete more work, for managers to better schedule, direct and evaluate work, and eventually heighten compliance while assuring full collection of fees. The Administration should engage the CIO, Law Department and others as appropriate to prioritize the completion of the software installation and its rollout. While this report does not include savings from the project, it is likely that the higher volume of inspections will generate additional funds in the short term, and better compliance and more accurate fees in the longer term.

Third Party Code Inspectors

The Buildings & Regulatory Compliance Department reportedly has been having difficulty retaining trained inspectors and will face an increased number of inspections as new City fees go into effect and are enforced. The City should consider the viability of accepting certified third-party inspections, especially for specialty permits where it is hard to recruit, train and retain certified in-house inspectors. While this initiative will not have a substantial monetary impact, it could increase the pace of inspections (making the City more attractive to development), improve the quality of inspections in specialty areas, and allow more time by managers and Department staff to focus on oversight, analysis and new categories of permits and fees requiring review.

Periodic Fee Review

In the 2016 budget the City sharply increased revenue estimates for a number of fees, but the projections were not borne out. In 2017 the City will revise those estimates to more achievable levels, but it should not abandon a long-term commitment to ensure that City fees fully capture the costs of inspection and oversight; to regularly increase fees to match administrative costs driven by salaries, benefits and general inflation; and to compare City fees with those charged in adjoining communities. Given the retrenchment in fee revenue that is expected next year, and the time needed to evaluate the cost of service and comparables, no additional revenue is assumed in 2017. However, after landfill-related fees and state-mandated fee amounts are removed, the City has $5-6 million in other departmental, fee, license and permit income. This should grow at an inflationary amount over time as fees are adjusted to reflect the cost of service. For this report, an amount equal to 2.0 percent, or $100,000 in fee growth, is assumed after 2017.

## Revenues

Continue Existing PILOTs; Seek New PILOTs

In 2016 the City is receiving $500,000 in PILOTs from three local institutions: the Albany Port Commission, Albany Medical Center, and the State University of New York. However, one of these was scheduled to expire after 2016 and another after 2017. Mayor Sheehan has negotiated an extension of the first expiration so that the full $1.5 million will be received in 2017. Extending the two expiring PILOTs permanently would increase City revenue by $1.0 million in 2018 and beyond. The City should also determine whether there are other institutions that have a significant impact on City services or otherwise are candidates to make PILOT payments, and develop an organized strategy to solicit PILOTs. One possibility might be a version of the successful 2010 Boston PILOT task force, which brought stakeholders together to build consensus for and participation in a fair, broad-based PILOT structure for that city.

Conduct a Non-Profit Eligibility Audit

A substantial portion of the City's property is tax-exempt. While much of this is attributable to other governments, especially the State, there are also numerous small and large non-profit entities that own land in the City.

In some jurisdictions, assessments for tax-exempt entities are not regularly updated, as it is assumed that they will rarely be needed. Moreover, eligibility for tax exemption is infrequently reviewed. Since market values and eligibility can change over time and there is a new assessment in place for Albany, the City should engage in a review of tax-exempt entities to determine if their current tax-exempt status is justifiable. Allegheny County, Pennsylvania, for example, recently undertaken countywide tax-exempt status reviews. In 2013 Allegheny County requested owners of 2,800 parcels to substantiate their tax-exempt status. As a result, 20 owners self-reported that they were taxable and another 170 did not respond and automatically lost their tax-exempt status. The review increased the County's taxable assessed value by $59 million (or 0.1 percent of the County's total taxable assessed value) and increased the County's property tax revenues by $200,000. New York City may have completed a similar review in recent years.

In some cases in other jurisdictions, non-profit audits have faced pushback because of perceptions that they are onerous for small organizations. To address this, for non-profits below a certain threshold a simple test such as production of an IRS letter should be sufficient to confirm their status, and verification for all entities can be every three to four years rather than annually.

<u>For-Profit Activities of Non-Profit Entities</u>

Many non-profit entities have operations ranging from bookstores to gift shops to residence units that are taxable. For example, in the case of Allegheny County noted above, some of the properties previously listed as tax-exempt and self-reported as taxable in response to the validation request were sub-units of larger institutions that remained primarily tax-exempt. For this reason, and in order to have current valuations and lists for the PILOT initiative described above, the City should also periodically survey its non-profits to determine whether they have taxable activities. The City may also wish to institute a formal tax on these operations, an approach used by the City of Pittsburgh, which generates approximately $500,000 per year in this manner.

<u>Gross Receipts Tax Audit</u>

The City is currently undertaking an audit of gross receipts tax payments by businesses operating in Albany. Depending on the results, the City may wish to expand this process to other taxes, repeat the exercise periodically, or even set annual reviews for very large payers. The City should evaluate whether it is cost-effective to create internal capacity to conduct these sometimes complex audits, or identify outside contractors who can complete them more efficiently.

<u>Maximize Market-Based Revenue Opportunities</u>

Cities around the country have entered into a variety of licensing and marketing agreements from creating "official" beverages to advertising and leased space for communications equipment. These "market-based revenue opportunities" (MBROs) are potentially valuable, especially when multiple opportunities are packaged together to leverage full investment and the government receives expert professional advice about the market and value of its amenities. In Albany, the Recreation Department has been considering some limited contribution or in-kind arrangements to support key programs, and the Law Department has been reviewing how that might work under City and State statutes.

In lieu of this *ad hoc* approach, it is recommended that the City retain a specialist contractor to consider the full range of market opportunities; work with the Mayor, Council and residents to determine which ones would meet community standards; and support an RFP or series of RFPs to maximize City revenue from those opportunities. Typically, qualified consultants receive a portion of revenues, or an upfront payment initially and a lower percentage of the eventual revenue stream, but are able to identify revenue opportunities that are not easily found by governments unfamiliar with market interest and pricing. Revenue potential is up to 2.0 percent of locally-generated revenues, but a more conservative estimate would be $100,000 in 2017, growing to as much as $500,000 in future years.

Water PILOT

The City's water/sewer utility provides the City with free service, pays interfund charges, and supports other City efforts. However, other such utilities make PILOT payments beyond these benefits. A Water PILOT of 2.0 percent of budgeted revenue would produce $629,124 per year for the City.

Street Fees

New York State's General City Law allows cities to charge a fee "to maintain…public works and public improvements," allowing cities to "assess and levy upon the property benefited thereby the cost thereof, in whole or in part."[2] For example, the City of Rochester funds certain street maintenance costs with "embellishments," a fee charged separately and allocated based on frontage. Albany's street and sidewalk maintenance, street sweeping, streetlights and snow plowing services total $8.9 million annually. If the City funded a portion of these with a fee rather than general revenues, it would realign payments so that more of the benefits were allocated to beneficiaries of the service, since all City properties would be covered. For example, if 10 percent of the street-related costs were allocated to this charge, the City would receive up to $888,303.

Expand Waste Collection Fee/Move to "Pay As You Throw"

In 2016 the City began charging certain multi-family residences for MSW and recycling collection. Expanding this fee to all residences is estimated to generate another $1.35 million annually based on the number of households. However, if the fee is linked to volume set out, there may be a decline over time as residences seek to reduce their non-recyclable set outs. There could be corresponding reduction in disposal costs, although the City does not pay for disposal now and may not pay full cost under various future disposal alternatives.

Support Development of Downtown and Harriman Properties

The 2015 FRB report anticipated requests for proposals (RFPs) for new development at the State's Harriman campus and downtown adjacent to the new Convention Center. With transfer of these properties to private operation, the report suggested that new PILOT and property tax revenue could be generated for the City. Unfortunately, neither RFP has yielded a viable development proposal that will generate revenue for the City in the very near future. However, both sites continue to have development potential and the RFP processes may help the offering agencies to refine their proposals so that future rounds do result in strong responses. In light of the focus of this report on City finances over the next four years, no specific new incremental revenue is expected. However, the City should continue to collaborate with the offering agencies to bring both properties onto the tax rolls as soon as feasible.

Regularly Increase Property Taxes to Permitted Levels

The City has understandably resisted regular property tax increases, fearing loss of residents and businesses to less expensive neighboring jurisdictions. However, in the long run even a well-managed general government will see expenditure increases at inflationary levels or slightly above since its spending is driven by personnel costs, where salaries must remain competitive and health care and pension cost growth traditionally exceeds general inflation. Moreover, one of the Albany's other two

[2] New York State General City Law, Article 2-A (General Powers of Cities), Section 20, Subsection 11.

major revenue sources, the sales tax, grows with the economy but is volatile. The other, AIM and 19-A State aid, is not expected to increase. Finally, the City has just completed a periodic property tax reassessment which generally reduced values for residential properties, so some portion of an increase would be absorbed by lower values for many homeowners.

Therefore, to ensure that revenues keep pace with natural expenditure growth, the City should regularly increase property taxes to the state-permitted cap. 2017 is the first year that the City can take the benefit of the increased valuation from its recent property reassessment, and the Mayor has included a $1.172 million increase in revenue at slightly lower rates in her proposed budget. In future years the City is eligible for a rate increase from the cap's inflation factor and a carryover from unused prior year tax cap. We have assumed a 1.0 percent annual rate increase, which can also be met by valuation growth, and which will yield slightly higher amounts each year. By 2020, this year's reassessment and the subsequent increases will total $2.9 million.

## Contingencies

This report has focused on the current City budget, the project team's projected future budget gap, and possible gap-filling measures. Of course, public finances are dynamic, and other conditions could change and affect the City's financial position in a positive or negative way. The following items are identified as having the potential of altering the City's baseline financial condition:

- All but one of the City's 12 bargaining units is in arbitration/negotiation. There have been limited general salary increases over the last 3 years, so awards increasing pay and related costs are very possible but are not factored into current projections;
- Dating to 2011 the City has deferred $16.1 million in pension costs, which need to be repaid with interest;
- The City must close its landfill by 2022, and currently plans to substitute a large regional transfer station, requiring up-front investment beginning in approximately four years;
- Substantial landfill restoration and post-closure deposits must be made in coming years;
- The City's Fire staffing costs are supported by a $1.9 million federal SAFER grant that expires next year but possibly could be applied for again, as described above.

## Conclusion/Recommendation

As noted at the outset, in coming years there are substantial opportunities for the City to control spending and increase revenue, especially after 2017. Appendix 1 to this document summarizes the 2017 and 2020 budget impact of the initiatives in this report, $12.1 million next year and $21.6 million four years from now. However, in most cases these are conservative estimates, and many initiatives that are likely to improve the City's budget are not costed due to lack of data, diffuse impacts, or uncertain timing. While not every idea here will be implemented, and it will take some time to reach full implementation, the universe of financial opportunities is certainly even greater than those items included in this report.

Accordingly, we recommend that the State challenge Albany to steadily implement these changes, and others of the City's own devising, to allow the State to phase down its annual support to the City over the next several years. This will require continuing support and guidance by the State, but also continuing focus and commitment by the City. The Mayor has taken an important first step by reducing spending in her proposed 2017 budget.

To move the City towards longer-term budget stability, we recommend a balanced approach combining City expenditure reforms, targeted revenue initiatives, and State aid reductions. In 2016 and 2017 the City proposed $12.5 million in special State aid.

One way to reduce this figure over time is to assume a phased implementation of changes of the scale included here (or greater), recognizing some implementation lag for these recommendations. If the City can implement just 75 percent of the estimated efficiency savings and 60 percent of the estimated revenue enhancements for 2017, it should be able to meet its requested State aid figure (which could also met all or in part by other actions).

In future years it should be able to do substantially better even if it can implement just a portion of the recommended initiatives: 50 percent of the eventual 2020 efficiency recommendations in 2018, 75 percent in 2019 and 90 percent in 2020; 60 percent of the eventual 2020 revenue enhancements in 2018, 75 percent in 2019 and 90 percent in 2020 yield the result shown in the table below.

| Budget Gap and Impact of Changes ($MM) | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Projected Budget Gap 2017-2020 | 21.1 | 21.3 | 20.8 | 23.5 |
| Efficiency Savings (75% of 2017; 50% of 2020; 65% of 2020; 90% of 2020) | 6.5 | 7.1 | 9.3 | 12.9 |
| Revenue Enhancement (60% of 2017; 60% of 2020; 75% of 2020; 90% of 2020) | 2.0 | 4.4 | 5.5 | 6.6 |
| Remaining for Additional Action/Assistance | 12.5 | 9.8 | 6.0 | 4.0 |

It is hoped that the ideas raised in this report can provide a base for improved finances for the City and more efficient services for its residents, businesses and visitors in coming years.

**Appendix 1: Revenue and Expenditure Initiatives, 2017 and 2020 ($)**

Expenditure Initiatives

| Expenditure Initiatives | 2017 | 2020 |
| --- | --- | --- |
| Create Vacancy Allowance | 1,709,738 | 1,150,448 |
| Reduce Payroll Clerks | 248,008 | 494,736 |
| Create Management & Productivity Capacity | - | - |
| Capital Budgeting | - | - |
| Create Risk Management Task Force | 1,032,915 | 1,579,753 |
| Enforce Position Control | - | - |
| Enhance Budget Control | - | - |
| Enforce Centralized Purchasing | 35,559 | 37,847 |
| Coordinate Fleet Management | 146,280 | 241,139 |
| Replace Roadway Streetlights with LEDs | 77,964 | 311,864 |
| More Competitive Streetlight Energy Costs | 24,232 | 24,232 |
| Alternative Streetlight Option | - | 2,750,000 |
| Additional Energy Savings | 100,000 | 500,000 |
| Transfer Public Records to County | 170,356 | 179,060 |
| Add Additional Governments to the ERP | 50,000 | 50,000 |
| Transfer 911/Dispatch to the County | 515,513 | 515,513 |
| Make Animal Control County-Wide | - | - |
| Countywide V&T Prosecutions | - | - |
| Improve Solid Waste & Recycling Collection Routes | 17,500 | 17,500 |
| Automated Solid Waste & Recycling Collection | 403,527 | 403,527 |
| Direct C&D Waste Elsewhere; Raise Disposal Rates | - | - |
| Create Solid Waste Master Plan | - | - |
| Enhance Asset/Inventory Management | - | - |
| Building Evaluation and Disposal | - | - |
| Reduce Court Overtime | 305,000 | 305,000 |
| Bring Police Training In-House | 150,000 | 150,000 |
| Reduce Police Headcount | 1,543,275 | 1,596,240 |
| Review Police Civilian Levels | - | - |
| Revise Fire Shift Schedule | 1,200,000 | 1,200,000 |
| Achieve Planned Overtime Savings | - | - |
| Continue Grant Funding Efforts | - | 1,900,000 |
| Analyze Emergency Transportation Alternatives | - | - |

| Expenditure Initiatives | 2017 | 2020 |
|---|---|---|
| Civilianize Code Functions | - | - |
| Contributions for Mutual Aid | - | 25,000 |
| Conduct a Benefit Audit | 250,000 | 250,000 |
| Establish a Gainsharing Committee | 250,000 | 250,000 |
| Increase Payroll Efficiency | - | 75,514 |
| Reduce City Special Events Funding | 428,000 | 428,000 |
| Review Golf Operations | - | - |
| Adopt a Purchasing Card | 20,000 | 40,000 |
| Further Consolidate IT Operations; Use IT for Efficiency Improvements | - | - |
| Outsource Payroll | 50,000 | 50,000 |
| Complete Installation of Code Enforcement Software | - | - |
| Third Party Code Inspectors | - | - |
| Periodic Fee Review | - | 100,000 |
| ***Subtotal Expenditures (Streetlight Alternative in 2020)*** | ***$8,727,867*** | ***$14,289,277*** |

Revenue Initiatives

| Revenue Initiatives | 2017 | 2020 |
|---|---|---|
| Continue/Expand PILOTs | 500,000 | 1,000,000 |
| Non-Profit Eligibility Audit | - | - |
| For-Profit Activities of Non-Profits | - | - |
| Gross Receipts Tax Audit | - | - |
| Maximize Market-Based Revenues | 100,000 | 500,000 |
| Water PILOT | 314,562 | 629,124 |
| Street Fees | - | 888,303 |
| Pay As You Throw | 1,350,000 | 1,350,000 |
| Development of Harriman and Downtown Properties | - | - |
| Increase Property Taxes to Permitted Levels | 1,127,110 | 2,929,568 |
| ***Subtotal Revenue*** | ***$3,391,672*** | ***$7,296,995*** |

Total Initiative Impact

| | 2017 | 2020 |
|---|---|---|
| Expenditure Initiatives | 8,727,867 | 14,289,277 |
| Revenue Initiatives | 3,391,672 | 7,296,995 |
| **Grand Total (Streetlight Alternative in 2020)** | **$12,119,539** | **$21,586,272** |

Note: 2017 expenditure totals assume Roadway Streetlight and Streetlight Energy Cost initiatives only. 2020 expenditure totals assume Alternative Streetlight Option only.