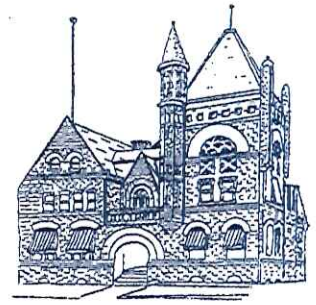




Office of the Mayor

City of West Haven
355 Main Street
West Haven, Connecticut 06516



City Hall
1896-1968

Nancy R. Rossi
Mayor

January 15, 2019

State of Connecticut, Office of Policy and Management
Municipal Accountability Review Board
450 Capitol Avenue
Hartford, CT 06106

Re: Memorandum of Agreement (MOA) between the State of Connecticut's Office of Policy and Management and the City of West Haven

Dear Municipal Accountability Review Board (MARB) Members,

One of the conditions of this referenced agreement states that "by January 15, 2019, the City, in consultation with OPM consultant Michael Milone, shall submit a status report to MARB about the preliminary plan related to the operational consolidations and shared services as described" in that MOA.

On January 15, 2019 I submitted the status report about the preliminary plan and am complying with Part I of this referenced document, which states that "as a condition for receipt of restructuring funds, the City is required to submit to MARB a preliminary plan related to operational consolidation and shared services not later than February 15, 2019. The preliminary plan shall include, but not be limited to, the following:

"..a list of potential operational efficiencies to be achieved through consolidation, shared services, technological enhancements, and other operational improvements that have been given consideration."

This referenced document is followed by other conditions associated with this plan but I want to start by clarifying our approach and goals in this initiative.

As my previous letter stated, it has been my understanding that our ultimate goal in the City of West Haven is to establish a financially sustainable government achieved through the implementation of fiscal management best practices and policies, efficiencies, revenue enhancements and cost saving measures of which shared services and/or consolidation are possible options or outcomes.

It is my intent to institutionalize these changes so that they become the foundation of the government to protect and ensure its financial stability.

In reviewing the myriad of options being proposed, you will note that they take on many forms and are qualitative as well as quantitative objectives. Some of these proposals are tangible and measurable, others such as policies, practices and processes, which could be near impossible to measure, are equally important to accomplish, if we expect to integrate and coordinate the multiple elements of this organization to achieve our goal.

Some of the items listed are in process while others will be newly adopted and the purpose of each proposal listed below is to accomplish one or more of the following: generate savings, create efficiencies, and achieve service, operational and technological enhancements or revenue growth. Many other initiatives will be pursued even though they do not appear on this list.

Please note that each of these items listed on the attached sheets will be thoroughly evaluated but will not necessarily be pursued if they are not practical, beneficial or cost effective.

Sincerely,



Nancy R. Rossi
Mayor

Efficiencies, Cost Saving Initiatives and Revenue Enhancements Being Proposed and Evaluated

I. Medical Benefits / Health Insurance

This initiative is our highest priority since it is our largest cost item after salaries and debt service at approximately \$12.0 million inclusive of the general fund, sewer fund and Allingtown Fire District. It is also the most complex undertaking due to the multitude of elements that comprise its totality, involving consultants, labor negotiations, plan design, third party administrators, enhanced internal administration and advisory services, expanded fiscal controls and monitoring oversight, multiple but very divergent benefit program options, as well as establishing a wellness component. This initiative will entail review and consideration of at least the following:

A. Administration and Process Improvement

1. Consolidation and coordination of all elements of benefit administration into one entity and explore potential of merging this function with the Board of Education to achieve efficiencies and economies of scale (in process). This is one of our most fragmented and financially vulnerable functions which will require the assistance of a consultant to address. We expect to have a consultant approved by mid-May.
2. Develop a comprehensive and timely monthly claims and eligibility financial review mechanism and report to strengthen internal controls and reliability of budget projections. (July 2019)
3. Continue to expand COBRA audit and census eligibility review and aggressively pursue collection of payments from participants who are delinquent in payments or are provided coverage beyond eligibility (this is ongoing).
4. Develop a policy to guide future funding of the medical benefits trust fund account to ensure the maintenance of a healthy fund balance (policy development July 2019).

B. Medical Plan Coverage

1. Negotiate or bid the medical benefits plan coverage and evaluate alternative providers and costs (this is ongoing since Oct. 2018).
2. Analyze the cost savings of various plan design changes and the contractual feasibility of implementation (this is ongoing).

C. Consulting Services

1. Reevaluate medical benefits consulting services and third party COBRA administrative consulting services and conduct an RFP as needed (FY 2020).

D. Wellness Program

1. Introduce a wellness program in collaboration with medical benefits consultant and medical benefits coverage provider to educate and encourage employees in the pursuit of healthy life styles (FY 2020).

E. Financial

1. Develop a strategy to eradicate the amount of the medical benefits incurred but not reported (IBNR) claims liability (July 2019).

F. Plan and Expected Outcomes

1. As I stated in my introduction, some of our proposals are not readily quantifiable, and there is no better illustration of this than in our medical benefit insurance program. Each of these objectives, if executed effectively will yield benefits; however, until we complete our analysis, their impact is unrealistic to estimate a potential cost savings or cost avoidance. Nevertheless, I can state that we will fund the medical benefit expense at the appropriation level recommended by our medical benefits consultant, which should mitigate the past budget shortfalls in this account.

II. Energy Projects

The Connecticut Conference of Municipalities (CCM) has developed a very successful energy cost saving program consisting of numerous initiatives such as energy purchasing, energy saving performance contracting, solar installation and street light acquisition. We will be working with them in the following areas, which at this time have been identified as being the most feasible to pursue.

A. Municipal Energy Purchasing

Through the assistance of CCM and their energy consultant, Titan Energy, the City would competitively bid our procurement of electricity from multiple suppliers. Having never previously conducted such an initiative, it is expected that we would realize a good savings given our current market rate. Additionally, this change will allow the City to negotiate future more favorable changes to our electricity rate as opportunities develop through the ever-changing market conditions.

Our four major cost centers – the City, Board of Education, the Water Pollution Control Department and the Allingtown Fire District – have an aggregate budget of approximately \$3.650 million for electricity in this fiscal year. CCM estimates that our savings could range from 10-20% of our current expense or approximately \$365,000-\$730,000. Additionally, this initiative can be implemented within a couple of months, which would allow for some savings this fiscal year. Anticipated implementation is May 2019.

B. Energy Saving Performance Contracting

A second initiative we will pursue with CCM would be the establishment of an energy saving performance contract program. This program allows for the acquisition and installation of a myriad of energy efficient equipment and systems such as LED lighting upgrades, lighting controls, energy management systems (EMS), building weatherization and insulation, electrical equipment replacement, oil to gas conversion, etc. The cost of these items is paid through the energy savings realized from these equipment and system upgrades. Additionally the City would also realize energy savings from these changes beyond these payments which will greatly increase once the projects have been paid. The City has no out-of-pocket cost and this initiative would also be extended to the Board of Education, Water Pollution Control Department and Allingtown Fire District.

This is a longer term initiative and would also require integration with the Capital Budget process; however, the benefits while not immediate due to its complexity and scope have been significant as evidenced by the results achieved in municipalities throughout the state.

While we intend to initiate this program at the start of the next fiscal year, the capital project integration would not occur until the Capital Budget process of winter/spring 2020. Additionally, while it is premature to provide any potential savings estimates the City could aggregate multiple projects totaling a few million dollars at no cost while realizing significant energy cost savings in electricity, natural gas and fuel oil, as well as savings in equipment maintenance expenses associated with older, inefficient equipment.

III. Sale of Fixed Assets

The City has some unused fixed assets that are marketable for sale. Two such fixed assets are the vacant Stiles and Thomson elementary schools that have been put out to "Request for Proposal" (RFP). We have received a number of proposals that are currently being evaluated by staff.

It is our expectation that these sales will yield thousands of dollars in revenue for the City that was unanticipated and unbudgeted. However, rather than utilize these proceeds as general fund revenue, my preference is to establish a reserve fund for these and future proceeds from the sale of fixed assets. Additionally, I intend to develop a policy to guide the use of these and future proceeds as a prudent and formal measure to appropriately direct their utilization.

We are exploring the potential sale of other fixed assets and will provide MARB with an update on our analysis, outcome of this current RFP and our fixed asset sale policy in our subsequent report due May 31, 2019.

IV. User Fee Evaluation

The City issues approximately 24 types of user fees categorized as licenses, charges, permits, fees, fines, penalties and rents. These user fees are imposed by numerous City departments and generate approximately \$3.150 million in revenue.

This analysis and evaluation of these fees will necessitate calculating the direct/indirect costs associated with the services for which the fees are charged, equity of charges, comparative charges by similar municipalities providing like service and programs (market rates), and changes to those user fees over the recent past.

Additionally, we will explore opportunities for developing new user fees in situations where it is warranted as well as evaluating the effectiveness of our collection of these existing fees to ensure that revenue opportunities are being maximized.

We expect to use the services of CCM to assist with this initiative and may also require some services from an outside consultant, but that has yet to be determined.

This project is likely to take approximately nine to ten months to complete (Jan. 2020). If we are successful in generating 2.5-5.0% more revenue from this effort it would yield approximately \$78,750-\$157,500 but it is premature to estimate any outcome until we are well into this initiative.

V. Establish a Single Installment Payment of Personal Property and Motor Vehicle Tax

Currently the three classes of property taxes (real estate, motor vehicles and personal property) are paid in two installments (July and January). However, to reduce postage costs the City issues the two bills for each class of taxes in July and the bills have separate due dates (July and January). Continuing the two bill installments saves the cost of printing and mailing approximately 65,770 bills twice a year. This has been a very prudent practice and saved thousands of dollars annually.

The City Council currently prescribes this two-installment billing process. I would propose that through charter revision this decision be made at the determination of the legislative body by local ordinance in accordance with state statutes. **(If included in Charter Revision and Charter Revision is passed, would not be implemented until FY 2022)** This single installment payment is not an uncommon practice as many municipalities have implemented such a single installment payment for motor vehicles and personal property taxes for the potential benefits that can be realized as illustrated on the chart below.

Based on the Oct. 2017 Grand List:

	# of accounts	Est. Tax Revenue
Real Estate	16,340	\$81,376,753
Personal Property	2,131	\$ 4, 796,320
Motor Vehicles	38,440	\$ 9,593,799
Supplemental Motor Vehicles (SMV)	8,866	\$ 1,683,918
TOTAL	65,771	\$97,450,790

The total estimated tax revenue generated from motor vehicle and personal property taxes is \$14,390,119; conversely splitting the tax in two installments yields \$7,195,060 in July and January.

Transitioning to a single motor vehicle/ personal property installment payment in July of approximately \$14,390,119 would allow for the additional \$7,195,000 to be invested for at least 180 days. At the current interest rate received from the State’s Short Term Investment Fund (STIF) of 2.42%, this will generate approximately \$80,000 to \$100,000 in additional investment interest earnings.

Additionally, savings would be generated since 40,571 fewer personal property and motor vehicle bills would need to be printed, and the postage cost for the mailing would be reduced as a result of the lower weight.

Finally, the Collector’s staff would be relieved of processing the second installment motor vehicle and personal property tax bills, freeing up their time to more quickly process real estate and SMV bills, pursue delinquent taxes and reduce overtime.

So the estimated additional investment income could yield about \$80,000-\$100,000 annually and it is estimated that the savings realized from the items identified could be \$5,000-\$10,000 annually.

VI. Reevaluate the City's Current Solid Waste and Recycling Collection and Disposal Program

The City uses the traditional rear loader trash truck for solid waste and recycling collection and contracts for this service through a private hauler. This fiscal year, the annual contract for this service is \$460,000 for recycling and \$1,273,000 for trash removal. These costs do not include the estimated expense of \$1,024,000 for the tip fee associated with the disposal of this waste.

There are some alternatives to this traditional method of providing this service which we intend to pursue.

The first option would be to change this collection process from the traditional rear loader to an automated trash and recycling collection truck. The benefit of this change is that the hauler is able to reduce his workforce from three maintainers to one per truck. And while this would provide savings opportunities for both the trash and recycling collections, it likely would be more advantageous to start this with the recycling program.

The automated collection program would require that the City provide each homeowner with a standard size and designed container to facilitate the automated trash/recycling pick-up, usually a 96 gallon container. In the case of recycling collection, homeowners would have a 96 gallon recycling container replacing their 18 gallon container. Given the increased container capacity (more than five times larger), the recycling collection can be modified from a weekly to a biweekly collection system.

Consequently, in this program the hauler saves funding by the staff reduction per truck from three to one maintainer and reduces the annual pick-ups from 52 (weekly) to 26 (biweekly).

However, there is a cost involved to the City to initiate this program as the City would likely have to acquire the trash/recycling containers for each homeowner. The hauler can also acquire the containers and build the cost into the service contract but it is not cost effective for the City. This expense is considered a capital item. It can be acquired in the Capital Budget and amortized over a number of years. The trash containers cost about \$50 per container and with 13,000 residential collection points; this total cost would be about \$650,000.

A second option to reduce the cost of trash collection that will be explored is a "pay-as-you-throw" service, which the State Department of Energy and Environmental Protection has been promoting. This is a dramatically different approach to providing this service as it shifts more of the cost of the service to the homeowner. In short, the homeowner would have to acquire specifically identified and designed trash bags and the trash hauler would only collect those designated bags from each household.

The savings to the City would accrue in two ways under this program. First, the homeowner would be subsidizing this program directly through a user charge and it is anticipated that this pay-to-throw homeowner expense would incentivize the homeowner to increase recycling and thereby reduce the tip fee cost of trash disposal. However, since the City is now forced to pay a tip fee for recycling disposal, there is no longer this added benefit.

The existing solid waste/recycling collections agreement expires on June 30, 2020, which is our target date for implementing any changes to this service if our analysis shows it to be of significant financial benefit. The potential cost savings and cost avoidance cannot be estimated until the discussions ensue with various waste haulers. We expect that cost estimates will be available with the May update to this report.

VII. Transition to a Biweekly Payroll Disbursement Process

The City currently disburses payroll to all employees on a weekly basis and it approximates about \$600,000 per week. Payroll disbursement has become increasingly complex, voluminous and very time consuming. Performing this process on a weekly basis is an inefficient and costly cyclical process.

Due to the frequency and demands of this process, audit time is limited and overtime for processing is frequently unavoidable. A biweekly payroll process would enhance the opportunity for a more effective system of checks and balances, reduce the likelihood for overtime, allow for expanded responsibilities for payroll staff and also reduce paper and printing costs.

An additional benefit would be improved cash flow and a modest increase in investment income earnings.

It is our intention to attempt to implement this at the start of the new fiscal year, July 1, 2019.

VIII. Institute the Social Security Exclusion for Temporary/Part Time/Seasonal Employees

Section 218 of the Social Security Agreement allows for an exclusion from social security payments for temporary/part time/seasonal employees who qualify under this provision. This exclusion would provide the City and Board of Education an exemption from the 6.2% social security wage contribution on employees falling into these classifications.

It is estimated that the City expends approximately \$830,000 annually in the social security contribution for these categories of employees and the Board of Education, approximately \$1,350,000. This converts to a savings of about \$51,500 for the City and \$74,400 for the Board of Education.

Qualification for this exclusion does require approval by the Social Security Administration and also does require that the qualifying employer establish a defined contribution plan for these employees.

If this initiative proves feasible it would not be implemented until the start of the next calendar year, Jan. 1, 2020.

IX. Expand and Enhance Utilization of the MUNIS Financial Management Software System to All City Departments

The City of West Haven has contracted with Tyler Technologies for many years to provide their MUNIS financial management software system to the City. Some of the key modules of this system are purchase order/purchase requisition; budgeting; human resources; payroll and accounts receivable, just to name a few. However, this MUNIS system has either not been used or significantly underutilized by most City departments except Finance. This problem has resulted in deficiencies and few safeguards in the financial system of checks and balances, an overdependence on a manual system, unreliability of information and numerous inefficiencies. The area most affected by this is the purchasing/accounts payable process and payroll process.

As MARB members recall, we responded to this issue many months ago with the hiring of BlumShapiro Consulting to conduct a MUNIS Operational Assessment. Their findings and recommendations have formed the blueprint for our action plan on this initiative.

We initiated training for our employees on this software about two months ago and will continue this training periodically throughout the winter and spring.

However, to ensure that we thoroughly address this problem, OPM Program Director Alison Fisher will be providing guidance on the process improvement element of this purchasing/accounts payable function that is critical to a successful outcome.

Our priority in this initiative is to introduce a purchase requisition requirement in this process, which is not currently utilized in the purchasing process. The current process uses vouchers for purchases, effectively eliminating any system of checks and balances or internal controls by the finance department. This may result in overspending of line items and potentially the department budget, and mischarges to accounts. Adding a purchase requisition step will decentralize the purchasing function by placing more responsibility on the initiating department, greatly increasing their financial accountability. Finally this added purchasing component will allow user departments to directly access multiple financial reports and not burden or rely on the finance department to develop them. The expected outcome will be greater cost control, enhanced efficiency and effectiveness for the finance department and user departments and greater department financial accountability. Until this new process is fully implemented we cannot quantify the benefits of these expected results.

We expect to have the majority of this phase of the initiative completed by the end of this fiscal year. It is absolutely integral to accomplishing an effective, reliable financial management operation.