
GUIDE TO SOUND FISCAL MANAGEMENT FOR MUNICIPALITIES





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Foreword

Transparency. As a kid, I thought being transparent was a bad thing. You know, easily seen through without any depth, maybe even in a fraud-like manner. Fast forwarding many more years than I care to admit, I find myself wanting my institutions and those leaders serving in them to be more transparent. It's as if the best way to ensure that the public gets to explore matters in depth and that their leaders are anything but frauds is to press for greater insight into their work products and the efforts that are behind them.

Notwithstanding my childhood sensitivities, being transparent is what I pride myself on. I've taken to social media a bit, although I'd rather email than tweet (that 140 character limitation drives me crazy!). I'm the author of "The Inside Scoop," an email revealing near real-time things happening in City Hall and throughout my beloved Chelsea, often times before word hits the newspaper or even the local rumor mill. The 1,000 or so people who get The Inside Scoop are constantly remarking that they feel more connected to the community and their government, and especially their municipal leader, and quite often they provide me with feedback, much of which is really good stuff.

Yet, even with my desire and the public reinforcement, I haven't quite figured out how to make the City's annual budget as transparent as it should be. Yes, I can take comfort in the realization that few have, but that's hardly a reason to not press on to be even more open about how we spend \$120 million dollars every year. I've turned my budget reporting up a couple of notches from what was once just a simple spreadsheet and a bunch of numbers. But, even after adding goals and accomplishments, mission statements and statistical glances for each of my departments, something has been missing and I hadn't quite figure out what. Missing, that is, until now, because I've had the opportunity to read this Guide and have been both impressed with the roadmap and moved by the charge provided to municipal officials like me.

Like the best of concepts first delivered, the concept of analyzing and reporting on performance seems such an obvious thing to do that I wonder now, in retrospect, why my fellow municipal budget writers and I haven't already been doing it. Of course the public ought to have some way of putting into perspective how their hard earned tax dollars are not only being spent, but what type of performance they're getting for their money. Some might even argue that this should be a requirement; and, while the Guide doesn't recommend that, I know I'm already challenging myself to do turn my own budget into a vehicle through which the public can peer farther into my City government and have a better way of judging just how we are doing. Come to think of it, I'd benefit from that deeper review myself.

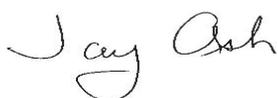
In terms of utilizing comparison data, I caution that attempts at benchmarking should be the start, not the end of the conversation about how one community's expenditures compare to others. At 6' 7", I long ago learned that one-size does not fit all, and that includes when looking at data. Comparison communities are often difficult to find, after all, we're not comparing two mid-size sedans with all the same options. Our 351 communities are all wonderfully distinct in their own sometimes maddening ways. For example, should I be thought less of or even penalized for spending far less on roadway improvements per capita than a community of similar population. No, not when one considers that Chelsea is the smallest municipality in the state and among the smallest in the country. Of course, with only 1.8 sq. miles, my 40 miles of roadways will cost less per capita to maintain than would, let's say, Billerica, which has roughly the same population living in 26.4 sq. miles and having 250 road miles to maintain.

As if the call to arm our budget reviewers and the general public with more information wasn't enough, I'm excited about opening up the Excel-based utility that is a companion to the Guide to start looking in one place for all the data that small and even mid-size municipal governments don't have the resources to assemble. That utility alone should give me and many more like me the ammunition to search for areas beyond the norms and rightly position us for more informed questioning about priorities and performance.

It's been well acknowledged for years that data driven performance analysis is a desirable goal for local governments. Unfortunately, that goal, just like the annual New Year's resolution to work out regularly, often gets easily tossed aside as the rigors of our everyday lives don't seemingly provide the time or structure to turn the goal into a routine that allows for the goal to be attained. For municipal managers, we just haven't the time to thoughtfully assemble data and then figure out a template for reporting it. That is, until now, and this Guide is that resource. (If the Pioneer Institute can also figure out how to get me to the gym three days a week, I'd be even better off.)

I'm looking forward to making this journey to a place where I've longed to be but never thought I would actually see. I have no doubt about what is at the end of this journey; a more transparent government whose questioning, both from within and from the general public, will ensure that we are more thoughtful in our spending decisions and more driven to achieve results that support those decisions.

I hope to soon be the most transparent one among us, and am so pleased to possess a new Guide that will get me there.

A handwritten signature in black ink that reads "Jay Ash". The signature is written in a cursive style with a large, looping initial "J" and a distinct "A".

Jay Ash
City Manager, Chelsea
Past President, Metropolitan Area Planning Council

Acknowledgements

Dear Reader,

Thank you for your interest in the *Guide to Sound Fiscal Management for Municipalities*. The Guide's purpose is to serve as a resource and allow for deeper engagement by citizens in the development and monitoring of municipal budgets, as well as the manner in which services are provided. It is also a manual for municipal professional and volunteers, which will aid in their efforts to improve the quality of budget management.

Pioneer is grateful to the authors who contributed to the Guide: Jarrett Conner, Sean Cronin, Stephanie Hirsch, Steve Lissauskas, and Devin Lyons-Quirk. In addition, we thank Martha Rounds for professional editing services and Aaron Powers for design and layout.

A number of individuals contributed to this effort by providing detailed reviews and feedback. We especially would like to thank Elizabeth Allison, Michael Libenson, William Lynch, Noreen Millane, Bob Sarno, Allan Tosti, and Mike Ward. Our thanks also to Jay Ash for penning the foreword.

As a companion to the Guide, an Excel-based data utility will be released shortly at www.pioneerinstitute.org/programs_muniguide. Norman Sheppard designed and developed the utility.

The fiscal challenges faced by local communities are not going away anytime soon. Those challenges are in part a function of ongoing pressures from public pensions, considerable (and often undisclosed) liabilities for long-term health care, and other benefits. Due to similar pressures at the state level, we expect at best modest increases in local aid due to tight state budgets.

It is certainly a time when municipal leaders and citizens need to work together in order to ensure that core public services are delivered in the most efficient way possible. We hope that *The Guide to Sound Fiscal Management for Municipalities* provides a platform for that collaboration.

We welcome your feedback as we develop complementary resources to the Guide.

Cordially,



James Stergios
Executive Director



GUIDE TO SOUND FISCAL MANAGEMENT FOR MUNICIPALITIES

Edited by Steve Poftak

Introduction

Welcome to the *Guide to Sound Fiscal Management for Municipalities*. This guide is intended to help engaged citizens, particularly the members of municipal finance committees, understand how best to perform an analysis of the effectiveness and efficiency of municipal spending.

The Guide begins with a brief overview of the budget process, and reviews where funds are spent and what budget areas should be prioritized. It also includes a discussion of how to conduct the analysis process. Those interested in a more detailed discussion of budget processes and related issues should consult the Association of Town Finance Committee's Finance Committee Handbook (further information at www.mma.org), along with the data sources identified in the departmental discussions that follow in this text.

The Guide presents major departments where municipal spending occurs. It discusses each department's role and presents key metrics of overall spending, comparative workload, and departmental effectiveness.

In addition, the handbook explores key functional areas of municipal government that cut across departments. In many cases, functional areas like collective bargaining and employee benefits have been key drivers of cost increases over the past few years; these areas warrant analysis which is separate from departmental analyses.

It is important to note that the depth of available data – and the utility of pursuing it – varies from municipality to municipality. Large cities may have sophisticated data collection abilities and pursuing detailed analysis may well prove worthwhile. In contrast, smaller communities may lack certain data, and analytical time may be better spent on the 'big picture' as opposed to detailed metrics.

As a companion to this Guide, an Excel-based utility is provided at www.pioneerinstitute.org/programs_muniguide. This utility contains all available public data on Massachusetts municipalities relevant to the analysis discussed in the Guide. The utility allows the user to determine peer communities or choose their peer communities based on selected criteria. The user's municipality is then compared (in both tables and graphics) to the peer communities with available data, permitting further analysis.

This Guide and companion utility should serve as a tool to deepen and improve municipal budget analysis. We appreciate your usage of the Guide and welcome your feedback at guidebook@pioneerinstitute.org.

Part I. Budget Basics

The Purpose of the Budget: More than Meets the Eye

A government's budget should do much more than document the allocation of resources; it should be more than a prospective accounting of spending for the coming year. While a detailed examination of spending is critical, a public budget can, and should, accomplish two distinct purposes in addition to resource allocation:

Communicate to the public and policymakers: The budget is an expression of priorities. Items that are funded are of a higher priority than those which are not funded. These priorities are generally established at the local level, though it should be noted that federal and state mandates may require that money be spent in particular areas. As a result, a budget expresses the priorities not only of those who developed it, but also of state and federal legislators and policymakers who establish mandates and priorities for municipalities.

As an expression of priorities, a budget should seek to inform and engage the public and policymakers in an understanding of the priorities being pursued. It is critical that a district's budget go beyond the mere allocation of resources by explaining what was done and why. Only then can a budget begin to communicate to the public and policymakers and engage them in a discussion about what is being done with public funding.

This engagement is critical to building public support for a municipality and its work. It is always possible to adopt a budget without communication, focusing primarily on informing a municipality's legislative body to win adoption, and then move on to other work. However, this presents a lost opportunity to engage the public and build its awareness and commitment to what the government is doing on its behalf.

[A] budget should seek to inform and engage the public and policymakers in an understanding of the priorities being pursued.

Provide transparency and accountability: In addition to communicating to the public the reason for expending public funds in a particular way, a budget should facilitate ongoing transparency and accountability. The budget should be easily accessible: both literally and in the sense that it is written in such a way that the general reader can understand and engage with it.

A well-structured budget should examine current and proposed spending levels against prior years' expenditures. This will support an examination of proposed spending and will also provide information on the accuracy of revenue and expenditure estimates in prior years. This is the first step in developing a system of accountability, and it will be expanded upon later in this paper to include a reporting of prior year, current year, and anticipated future performance and cost-effectiveness of services.

The budget should also examine the municipality in the context of other comparable municipalities. To better understand municipal spending and performance, it can be very helpful to examine the spending and performance of comparable entities. One of the great strengths of local government in the United States is that each municipality can approach the same problem with different solutions;

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a critical missing piece is the analysis of each solution and the dissemination of information about the most successful approaches to accelerate improvement across many municipalities.

A public sector budget should not be a transaction: something that is proposed, approved, and filed away with the municipal accountant or comptroller. A budget is an opportunity to review spending and performance; consider and adjust priorities; and communicate to the public the decisions that are being proposed in spending taxpayer money. The form of the budget can and should be used to facilitate this communication while supporting ongoing monitoring and accountability. Public participation is key to this process.

What a Budget Should Include

As discussed, the budget should communicate with the public and policymakers while facilitating accountability and transparency and providing a guide to a municipality's operations. This generally requires that a budget include a variety of sections to ensure that important financial aspects of the municipality are being considered. At its core, a budget should include:

Narrative

A budget narrative explains the budget's context and the major policy issues that it addresses. The narrative should discuss the reasons the district is proposing to eliminate after-school activities while preserving school sports and other services. This facilitates an informed discussion about the budget and can increase the likelihood that the final approved budget reflects the priorities of those involved in the process. It should also be noted that the budget should be a document that the average citizen can read and comprehend; a document filled with jargon and technical language may provide excellent information, but if the public cannot understand it, the document will do little to further the underlying purposes of the budget.

The narrative also provides the opportunity for policymakers to discuss the goals and strategies of the municipality, the progress being made in pursuit of these goals and strategies, and how they are being modified based on the progress being made and changing circumstances. This is of particular importance as the public and policymakers review proposed expenditures to ensure they support the municipality's overall goals.

The narrative also provides an opportunity for the municipality to explain current issues and challenges while providing information about future challenges that will need to be addressed. This could include discussions about future contract negotiations, the need to address infrastructure deficiencies, or potential changes to the economic or policy environment that could positively or negatively impact the municipality.

Revenues

The budget process typically focuses on expenditures, but inaccurate projections related to revenues account for many fiscal crises. A municipality should have a rational, consistent process by which it develops revenue projections for the upcoming year.

Municipal revenues come from a number of sources, the largest of which are typically property tax revenues and state aid. Property tax revenues are among the most predictable income streams because of limitations on their increase based on Proposition 2½ and their relative lack of exposure to economic conditions (unlike income or capital gains taxes). State aid comes in a number of forms (which can be reviewed in the state’s “Cherry Sheet” disclosure). Most communities receive their largest allotment of state aid through Chapter 70 education aid. The next largest amount for many communities is unrestricted local aid, a combination of the former Lottery and Additional Assistance categories of local aid. Other sources of revenue for municipalities include fee income and other locally-generated, non-property tax revenues.

Each of these sources of income has data available on historical receipts and some predictable factors for how it might change in future years. A municipality should carefully consider its projections for budgeting purposes, and it should be able to present a clear rationale for its projections and underlying assumptions.

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Assumptions underlying projections in the revenue budget – the portion of the budget which focuses on the money coming in to the municipality – can provide important context to the public and policymakers. How quickly is revenue increasing? How quickly is revenue increasing relative to expenditures? Are certain components of revenue growing faster than others? Have conditions changed, requiring policymakers to reexamine a particular source of revenue, and how this will affect the overall budget? Is there a cyclical component to revenue that we should consider as the economy slows or improves?

As discussed above, the budget is also an accountability tool. A well-structured revenue budget will detail each revenue source, including its anticipated amount, the actual amount received in prior years, and any restrictions on usage. This supports a public examination of revenue assumptions. Are they reasonable, too high, or too low? The budget also supports the development of a culture within the municipality where issues of revenue collection and control are addressed. Detailed attention to revenues – sources, assumptions, and collection – can help establish a culture that focuses on these important issues.

Expenditures

The portion of the budget related to expenditures, since it determines where resources will be allocated, generally receives the most attention in a budgeting process. This is natural and often appropriate, but this focus requires a context. The expenditure budget must be examined in the context of available revenue. Is there sufficient certainty that enough money will be received to cover planned expenditures? Do proposed expenditures match the district’s stated priorities? If not, why not? Have expenditures changed meaningfully over time, and why? Are expenditures flat or accelerating when revenues are declining, thereby creating a deficit that will need to be addressed?

Expenditure budgets should include not only the fiscal year being budgeted for but also, for comparison purposes, the current year’s budget and spending against that budget. Also, the expenditure budget

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should include the previous year's budget, or two or three years of prior year spending, if possible.¹ If the budget format is changed during this time period, a cross-walk between the different formats should be conducted prior to submitting the budget to ensure that the public and policymakers can understand the proposed budget in light of prior expenditures.

The expenditure budget should be organized and structured to facilitate public discussion of priorities, with enough detail to enable it to be used to establish priorities and ensure accountability. Depending on the size of the municipality, it may be appropriate to develop and present multiple summaries of the budget for different audiences and with varying levels of detail.

Performance

Taxpayers fund public services to achieve specific goals. It is critical that a budget focus on what is being produced in exchange for the investment of public funds.

Discussions of performance can be difficult for some municipalities and certain departments. Staff may resist the concept of performance measurement, rightly observing that many different factors impact performance, and only some of these factors can be impacted by the municipality. While this is true, the fact that something is difficult does not mean it should not be done, and the fact that a municipality has not established perfect performance measures should not prevent it from starting the process of doing so. The absence of perfect measures should not prevent an organization from establishing metrics; the only way to develop strong metrics is to establish metrics that are “good enough” and then refine and improve them. Performance management – and the development and use of performance metrics – is a constantly evolving process that features continual discussion and refinement.

Including an examination of performance in the annual budget serves an important communication role. Without this discussion, the public is forced to interpret a municipality's performance based on personal experience and anecdotal evidence. Municipalities, in reporting and discussing performance, can engage the public and policymakers in a dialogue about what is being done, what can be done better, and where additional resources are needed to produce better results.

Capital

Capital facilities are critical to municipal operations. Poorly maintained facilities can pose risks to employees, the public, and students and can increase operating costs. Conversely, responsible capital decisions and maintenance spending can lower operating costs and lengthen asset life. The capital section of the budget should include spending on asset construction, and it should examine issues of facility maintenance to ensure that sufficient maintenance preserves the investment made in facilities.

A capital budget should also examine other important investments in the municipality, including computer systems, transportation assets, and other items, including books, school computers, and management systems.

1. It should be noted that more is not always better in this regard. Providing ten years of spending data is generally unhelpful, as inflation alone will make comparisons relatively meaningless, and priorities should change over time, for example, as a district makes progress in improving education and addressing other needs.

Given the important communications role that a budget plays, it is critical for a municipality to raise capital issues and communicate them to the public and policymakers as part of the budget process. This is important in order to show the connection between the capital and operation budgets as well as to get policymakers engaged in the multi-year process of making investment decisions.

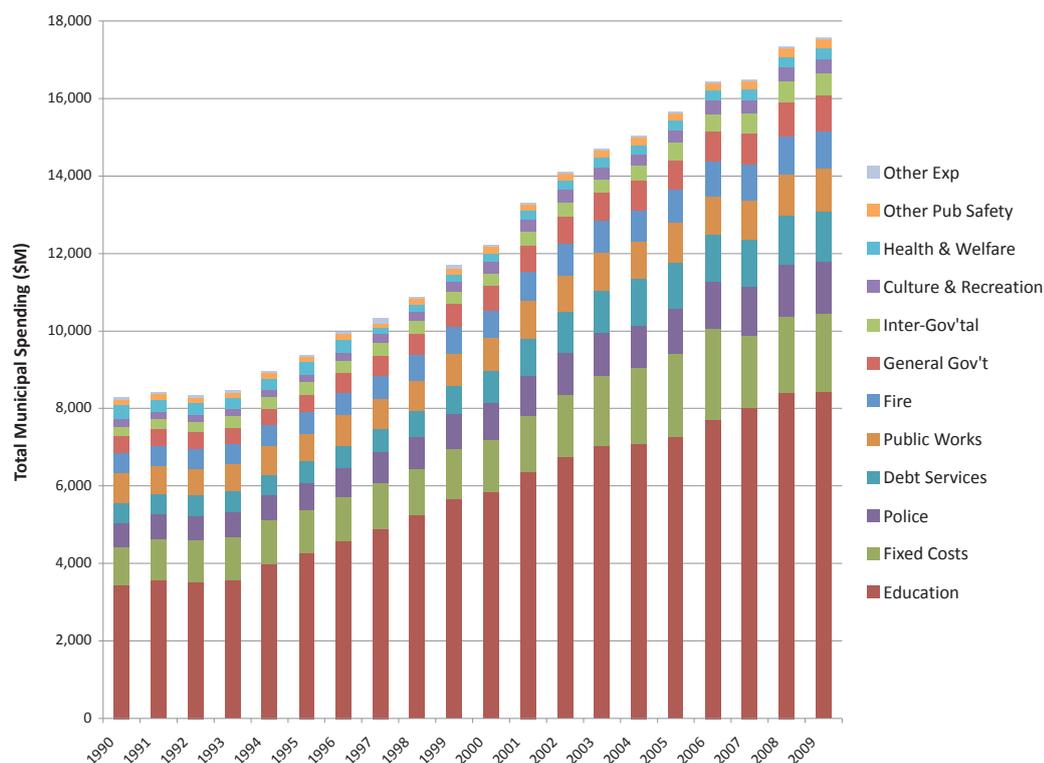
The Fundamentals of Budget Analysis

The goal of this portion of the Guidebook is to provide a foundation for insightful analysis of municipal spending. That foundation is based on three principles: focusing on what’s important, asking the right questions, and determining the causes of variation.

What’s Important?

Focusing on what’s important is a matter of determining where most spending is occurring and where the largest growth in spending is occurring. Many long-term budget participants may have experienced the phenomenon of the ‘inverse budget priority hearing’, whereby a public discussion of municipal finances focuses on a controversial but relatively immaterial spending item, resulting in limited time and attention paid to more material issues. One cause of this phenomenon is that expenditures on tangible items are easily understood while complex items, such as collective bargaining agreements and health insurance plan designs, are more difficult to assess. This Guidebook sets priorities about areas of inquiry and provides a framework for assessing some of the more challenging items in a municipal budget.

The chart below shows aggregate spending by category for all 351 communities in Massachusetts. Depending on individual communities’ size and nature, there may be different levels of spending on certain departments.



Source: Massachusetts Department of Revenue, Division of Local Services, Databank Reports

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It demonstrates that big ticket spending areas – education, public safety, employee benefits, and debt service – deserve the most attention because of the proportion of the budget they consume. Three of those areas also account for the greatest increase in spending over the above period. When allocating resources towards analysis, the Guidebook recommends setting priorities based on the current and projected levels of spending.

With priorities in place, a municipality must next consider the analysis of variance. Later sections suggest hundreds of possible metrics, and the companion utility provides data for many of them. The results of a municipality's metrics – an examination of the municipality's performance over time or against other peer communities – may show results that are out of line with past or peer performance. Then, the municipality must determine the cause of each variance, including differing strategies, demographic context, inadequate management controls, limited access to performance data, etc. This information enables the municipality to examine the efficiency and effectiveness of its spending.

Analysis of the Budget

The municipality must perform a critical examination of the budget document to understand the assumptions it relies on, the choices that were made in developing it, and the opportunities to use the budget to support transparency and improve service delivery. There are several ways to analyze a municipality's budget. Both qualitative and quantitative analyses provide vital information. To develop questions and support recommendations, qualitative analysis relies on subjective, non-quantifiable judgments, while quantitative analysis examines financial and numerical data.

Budget analysis often begins with an examination of the prior year's budget, as it provides a context for analysis. However, this context does not confer any degree of correctness to those prior budgets. Prior budgets serve as a stepping-stone for analysis and should not limit appropriate creativity or create a sense that what was done before was right or good.

Analyzing multiple years of spending can lead to observations such as “payroll and benefit costs have consistently been 78% of the budget, but they have recently increased to 81%.” Observations such as these can be a starting place for analysis by leading to inquiries such as: What has changed? Why has it changed? Is the change unavoidable, or can it be modified? Does the change support the municipality's goals and strategies? If so, which ones and how? If staff has been added, where have they been added and why? What else might the municipality do with the money? What additional performance do you expect because of this change in investment, and how will this performance be measured?

Information enables the municipality to examine the efficiency and effectiveness of its spending.

The answers to these questions can support the budget process by seeking additional context by benchmarking costs and performance against those of comparable municipalities and, in some instances, neighboring municipalities. If payroll has increased to 81% of the budget because health insurance costs are growing quickly, has this been a trend in other municipalities? What have they done to address this issue?

As can be seen above, one key to analyzing the budget is to determine what has changed and then to seek to understand why it is changing. It is also critical to understand the impact of these changes. The public and policymakers should encourage the use of data at each step of the question and answer phase of analysis. A reliance on data has benefits for all those involved in the process, as municipal officials will not be required to guess the answers to these questions – they can research them and respond appropriately – and the public can make decisions based on solid facts and reasonable projections.

Important analysis can also be performed on items that are not changing. For example, if professional development funding is not increasing, why not? Has the municipality entered into a multi-year, fixed-price contract? Has it sacrificed additional funding for professional development in order to prevent layoffs? A further level of analysis – often facilitated by a zero-based budgeting approach – examines the reasons that an expenditure exists in the first place. This approach can be helpful in some instances, though most budget analysis focuses on the incremental changes – or the lack of changes – in year-to-year spending.

Questions to Consider in Budget Analysis

Each budget is unique and represents a different set of revenues and expenditures. Nonetheless, municipalities across the country face many similar issues. This section is designed to provide questions that may be of assistance to readers as they participate in the budget process. In each instance, the reader should seek to understand these questions in the context of other communities.

As discussed above, the analysis of a budget begins with asking questions and requires an understanding of the performance generated as a result of the year's expenditures. This must be placed in the context of comparable neighboring districts to ensure that costs and performance are reasonable and appropriate. Information without context is interesting but not terribly helpful; information that exists in the context of performance data and benchmarking can be a powerful tool to advance the public good.

Budget analysis is a process of continual inquiry in which participants seek to understand what a budget will accomplish and how effectively services are being provided. This typically involves multiple levels of questions, starting on the departmental level and then examining greater levels of detail. This process should be informed by the many contexts within which a budget exists: the economy, the policy environment, the performance of comparable municipalities, national or industry standards, available revenues and revenue trends, prior year spending and the performance of the municipality. Each of these contexts provides important information within which a budget is formed and within which it will operate. It is incumbent on the municipality to describe these contexts, and to provide much more information to the public as part of the budgeting process in order to maximize public participation and engagement.

Data Sources

This Guide provides the user with a series of questions and metrics by which to measure their community's operations. To properly understand those measures, data on your community and other communities will be necessary. Some data may be available from your community's government upon request. Other data is more difficult, or even impossible, to find. This section seeks to point out sources of data for citizens to access depending on their area of interest.

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As a companion to the Guide, a data utility that permits comparison with peer communities is being produced by Pioneer. It is available for download at Pioneer's webpage for the Guide at www.pioneerinstitute.org/programs_muniguide. The utility takes almost all of the publicly available data for Massachusetts communities and presents it in a flexible, customizable format.

For those seeking the original data, the first stop should be the Massachusetts Department of Revenues' Municipal Databank (<http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/>). The Databank, and its underlying data tables, contain a wealth of data on municipal finances, property tax issues, state aid, municipal revenues and expenditures, and related topics.

Getting information on education spending and performance is a bit more complex, as many communities have at least a portion of their education spending going to regional activities (like regional school districts, voke-techs, and education collaborative) so it is harder to do accurate comparisons across communities. The initial source for data on education issues is the state's Department of Elementary and Secondary Education ("DESE") website, which has a section on school/district demographics and performance (<http://profiles.doe.mass.edu/>) and another section on finances (<http://finance1.doe.mass.edu/statistics/>).

A data utility that permits comparison with peer communities is available for download at Pioneer's webpage for the Guide.

Beyond the raw data on specific schools and districts, there are two sources that produce comparative data. Pioneer Institute's MassReportCards (www.massreportcards.org) provides a variety of comparative data on schools and districts. DESE also has "DART" (District Analysis Review and Assistance Tool) that provides a wealth of comparative data (<http://www.doe.mass.edu/apa/dart/>).

Lastly in education, detailed information on all district K-12 facilities can be found in the 2010 Needs Survey on the Massachusetts School Building Authority website.

A significant portion of any communities spending is on personnel – both their salaries and related benefits. Finding comparative data for other communities can be accomplished by having your community join the Massachusetts Municipal Personnel Association, a group related to the Massachusetts Municipal Association. For a nominal fee, your community will have access to personnel data from a number of other communities, permitting more detailed analysis of salary and benefits.

For information on land usage, there are two comprehensive sources of data. The first is the state's GIS database, containing detailed data on land use for each community (http://www.mass.gov/mgis/landuse_stats.htm). The second is a joint Pioneer Institute-Rappaport Institute website on housing regulations (www.masshousingregulations.com) that has zoning codes, subdivision requirements, and environmental regulations that governed land use in 187 communities in eastern Massachusetts, as of 2004.

For measures of crime and public safety, the FBI's Uniform Crime Reporting Statistics program offers an on-line tool that allows access to some crime information by community (<http://www.ucrdatatool.gov/>).

For employment and workforce data, the state's Department of Labor offers information on its website (<http://lmi2.detma.org/Lmi/town202data.asp>).

High quality analysis requires high quality data. In some cases, your municipality may be able to provide the needed data, in other cases the data can be found through public sources. Through this Guide and other outside efforts, the availability of high quality comparative data should increase.

Judgment and Conduct 

The analysis of a municipality's budget and operations should be informed by a realistic assessment of the available data and that data's potential analytical value. Some (particularly smaller) municipalities will not be able to provide data in response to many of the metrics detailed in this Guide. The intent of this Guide is not a relentless quest for every possible scrap of data; rather, it provides a template for the many possible levels of analysis. Citizens and policymakers should use their judgment about the appropriate level for their municipality.

Elected officials and administrators should be viewed as partners in the effort to develop deeper analysis of municipal budgets and operations. They should be treated with appropriate respect and decorum in public hearings and private interactions.

Part II. Departmental Analysis

Education

As the largest single category of expenditure in most local governments, it is critically important that school budgets receive appropriate analysis and review. School budgets often receive little review outside of the school system's administration and school committee. Indeed, it has often been remarked that a \$100 million school budget can be adopted by a city council or municipality meeting without a single question, while the replacement of a 25-year-old dump truck can involve a time-consuming examination of the need for a new truck along with alternative approaches to providing the services that the truck is used to support.

Budget Basics: Although many of this category's items apply to other areas of municipal expenditure, the size and complexity of education spending make these items important to include in an evaluation of a municipality's education budget.

Does the budget include a budget narrative, revenue, expenditures, an examination of performance, and a discussion of capital issues? Each of these budget areas provides critical information to support the analysis of results generated from prior year expenditures and proposed expenditures. These sections provide a structure to enhance communication and accountability.

Does the budget communicate:

- What the school district is doing?
- Why it is doing it?
- How it is doing it?
- The cost of doing it?
- The results of doing it?
- The cost and results of doing it compared to the costs and results produced by other comparable school districts?

Does the budget clearly communicate the goals the school district is pursuing and the strategies used to achieve them? Do proposed expenditures support these goals and strategies? What progress has been made from the prior year in achieving these goals? Should effective strategies receive additional funding? Should ineffective ones be modified or abandoned?

What is the district doing that its leaders would like to do differently? What do they perceive they could do better, and how can the budget support these goals? What is the district doing that adds the most value, according to its leaders? The least?

Does the structure of the budget facilitate accountability in practice? This question looks beyond whether the budget is readable and provides information that ensures that spending is appropriate. This question asks if the budget structure itself can be used to ensure that money is appropriately spent. For

example, are utility costs budgeted centrally or at the school level? If they are budgeted centrally, what processes are in place to ensure that each school principal is held accountable for the use of utilities in their school? If they are budgeted at the school level, are principals allowed to repurpose a portion of utility savings to create incentives for them to better manage these costs? The same questions can be asked for solid waste, facility maintenance, copying, and other services, but an important consideration is how the budget can be structured to provide managers with incentives to help them manage their budgets effectively.²

What revenues are charged, to whom, and what is their collection rate? Different revenue streams have different collection characteristics. School activity fees may be well collected because a failure to pay fees prevents a student from participating in programs. Conversely, there may be provisions made for students who cannot afford the fee, lowering collection rates. Facility rental fees can represent a challenge for some school districts, however, as facility users are billed after they use the facility. As these examples show, it is important for the public and policymakers to understand the different revenue sources, how they are billed, how they are collected, and how effectively the various collection processes work.

Are revenue estimates reasonable, supported by prior year actual collections and appropriate assumptions about future changes, and does the municipality have a high degree of certainty that these revenues will be collected at the proposed level? How often during the year are budget-to-actual revenues reported to policy makers?

Education is the single largest category of expenditure in most local governments.

What is the district's philosophy about grant funding? Does it seek grant revenue in order to fund programs consistent with the district's goals and strategies, or are grants being sought in a less strategic manner? How much of each grant is used to pay district overhead? Is this appropriate? Sufficient? How much of each grant reverts to the issuing entity? Why does this occur?

Does the district have non-recurring money available to it – money that is one-time in nature or which reoccurs in an infrequent manner, such as surplus money at the end of the year? Is this money being used for non-recurring purposes – the purchase of school books or computers, facility upgrades, or investments in management systems – to avoid building a deficit into future years' budgets?

Does the district have any revolving funds? What are the controls over the funds?

Do spending proposals include all costs, such that after-school and summer school programs or facility construction projects include the cost of all needed staff, employee benefits, overhead, custodial costs, utilities, insurance, maintenance, and other costs?

2. It may not be cost effective to create structural incentives in all cases. If it costs more in system development and staff time to track an item than one can expect to save, it may be reasonable to forego changing the structure of a budget item in order to reduce costs.

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Efficiency

Does the district report its expenditures on a monthly basis? If so, how quickly are the different expenditures made relative to prior years' spending patterns? Some expenditures, such as teacher salaries, are spread evenly across a fiscal year. Halfway through the fiscal year, approximately half of this money should be spent. Other items may not have a similar expenditure pattern, however, which makes it important for the district to track and analyze expenditures based on their expected expenditure level. This type of analysis can detect when money is being spent too fast, creating a potential deficit before the end of the year.

How much does the district spend on wages per employee? Per employee type (teachers, paraprofessionals, administrators)? How much does the district spend on employee benefits per employee and by employee type? How does this compare to other communities?

How much does the district spend on non-personnel services such as utilities, training, and other costs, and how does this compare to other communities as well as national benchmarks, e.g., custodial costs per square foot of facility maintained?

What are the staffing ratios used by the district and how do these impact education quality?

What is the impact of expenditures on professional development on educational performance or administrative effectiveness?

What is the district's staff turnover rate, and how does this turnover rate impact cost and the quality of education?

How much does the district pay for substitute teachers? Can this money be used to build wellness programs or incentives to reduce sick leave usage among teachers?

What areas of spending – unemployment benefits, injury pay (e.g., workers' compensation), and sick days – do not produce direct services and what is being done to prevent or better manage these costs?

What does the school system spend on technology? Can it demonstrate how technology spending contributes to educational effectiveness?

Workload and Effectiveness

Does the budget provide performance information to allow a discussion about the effectiveness of the district's resource allocation, such as:

- Graduation rates, promotion, and dropout rates by grade
- Current enrollment and enrollment trends over the last five years
- Performance on standardized tests and other testing metrics used to evaluate student performance
- Student grades by subject, including the averages and distribution of grades
- The years of educational progress achieved per year of education, including disaggregation by school and grade

- The years of educational progress achieved for each intervention, such as summer school and other programs
- Attendance rates

As noted, to provide contexts to the school district's performance, each of these performance indicators should be examined against comparable school districts, where possible, as well as national performance data. To provide information about educational equality, this data should also be disaggregated by relevant factors such as family income (where known), student ethnicity, language background, disability, and others.

What percentage of students is classified as receiving special education? How has this percentage changed over the last 10 years? What percentage of the budget goes to special education? How has this changed over the last 10 years? How many students receive special education services outside the school system? What is the average cost per student for these services? What is the 10th and 90th percentile cost per student for these services? How many of those receiving services outside the school system were unilateral placements?

What percent of teachers, administrators, and other professionals meet certification requirements or have other desired characteristics, such as a graduate degree, meet minimum experience requirements and others? How does this impact cost and educational quality?

What is the impact of step increases (based on years of experience) and the various lanes (typically based on education levels) in the teachers' collective bargaining agreement?

What is the educational impact of having a substitute teacher in the classroom for extended periods of time? Is there a better way of providing education to students in these classrooms?

What are the costs and the impact of summer school, after-school programs, and other interventions?

How much money is being spent on facility maintenance in each school and by type of maintenance work? How much money is being spent and how much work is being done to each school based on its physical condition? What would be the impact of more or less maintenance spending? More or less spending on custodial services?

What services are provided by the district that could be provided on an outsourced basis, and what would be the financial and service implication of this change? What services are being provided on an outsourced basis, and what would be the financial and service impact of in-sourcing these services? Does this analysis include costs of future pension benefits, retiree health insurance benefits, and lost time to vacation, sick leave, and other forms of leave?

If the district can reduce costs by outsourcing a service, for example, how would those savings be used? What would be the value produced by spending the money saved in other areas? How does

Each performance indicator should be examined against comparable school districts.

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the value of the outsourced service, as well as the spending in the other area, compare to the value of providing the service in an in-sourced manner?

Public Safety

After education, public safety is the next largest segment of municipal spending, accounting for 15% of the operating budget in Massachusetts municipalities. Public safety employees, after teachers, are the next largest group of employees in a typical municipality. This section covers police, fire services, emergency medical services/ambulance, and dispatch services.

Note that many communities budget some benefits costs separately from departmental operations. However, as stewards of the overall budget, reviewers should consider total costs, including all benefits, when considering personnel changes during the budget process. Additional positions come with increased benefits costs; similarly, position reductions should bring benefits cost savings.

Police

Police department budgets have three major components: compensation (salary and benefits), ordinary maintenance (supplies, fuel, etc.), and capital needs (cruisers, facilities, other equipment). With the cost centers identified, budgeting decisions must be evaluated in relation to each municipality's priorities, service expectations, and demographics.

The analysis process should begin with a discussion of two key areas:

What core services, beyond responding to calls for service (911 calls) does the department provide?

How have the municipality's expectations for police services changed over the last five to ten years?

What has been the organizational response and budgetary impact of these changes in expectations?

Efficiency

For police departments (and many other areas), efficiency is a measure of the resources committed to deliver services prescribed by the operating strategy discussed in the above questions. Given that a majority of department expenses are related to compensation, issues related to staffing are key.

Key Questions

- What does each element of compensation cost? What are the base salaries for each employee and rank level? What are additional compensation costs, including Quinn Bill, overtime, shift/night differential, and benefits for the current staffing level (including health insurance, retirement, injured on duty)? Have these changed markedly in the past few years? What, if any, are the budgetary impacts associated with details and detail compensation?
- How much is spent on overtime, and what are the key drivers of this spending? What is the anticipated number of overtime hours that the department requires? What was the actual number of hours used the prior year? Is there a staffing level for each shift that is achieved through overtime if absences occur (through mandatory minimums, similar collective bargaining requirements, or municipal policy)? What drives overtime use? Why is it assigned? When does it spike?

- What are the total costs for vehicles? How many vehicles (marked and unmarked) are operated by the police department? How many gallons of gasoline were required by the department in the last fiscal year? How is gasoline purchased? Is maintenance done in-house or by a vendor? What is the replacement plan/schedule for the fleet? What kinds of vehicles are being purchased? How many are allowed to be taken home by officers?
- What are the costs of facilities? Does the department have a facility of its own (separate from municipal buildings and fire or other emergency services)? What are the utility costs associated with the facility, including heating, electrical, maintenance, and snow removal? Is the facility being maintained properly, or is maintenance being deferred?

After education, public safety is the next largest segment of municipal spending.

Key Metrics

- Spending per employee (over time and against comparable communities): Provides a rough proxy for compensation levels over time and whether cost increases are sustainable when compared to overall revenue growth. Variations in trend should be explained and are most likely caused by a) changes in collective bargaining terms, or b) changes in staffing levels or composition.
- Spending per capita (against comparable communities): Provides a useful metric to determine level of spending relative to other communities. Variations may be due to a) differing strategies, resulting in different staffing levels, b) differing collective bargaining terms, c) different levels of need based on crime levels, or d) differing ability to afford these services.
- Spending as percent of the budget (over time): Reflects change in emphasis by municipality over time, based on expenditure priority.
- Sworn FTEs/1,000 population; police department total FTEs/1,000 population (against comparable communities): Shows variation in staffing levels against comparable communities. Variation is likely due to similar causes as spending per capita (above).
- Sick and injury leave (average per officer): Provides a useful measure of how much time is being taken off, which frequently leads to high usage of overtime in response.

Workload and Effectiveness

Beyond budgetary issues and with the first two questions in mind, measures of workload and effectiveness seek to quantify how well the police department does its work with the resources provided.

Key Questions

- How much work does the police department do? How many total calls for service? Arrests? Arrests for property crimes? Arrests for violent crimes?³ How many tickets are written (both civil motor vehicle infractions and parking violations)? What are the trends over a period of years for each of the above measures?

3. It should be noted that while the number of arrests can be an important indicator of police workload and effectiveness, its usage as a performance metric can create an incentive to emphasize the volume of arrests over their impact and appropriateness. Care should be taken to take measures in context and understand that a focus on specific measures can create incentives that impair overall performance.

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- Does the police department respond to calls rapidly? By what measure?
- Does the police department solve crimes effectively?

Key Metrics

- Total arrests per 1,000 population (over time and against comparable communities): Shows trends in potential criminal activity as well as activity level relative to others.
- Property crimes; property crimes per 1,000 population; see above
- Violent crimes; violent crimes per 1,000 population; see above
- Average response time to top priority calls/90th percentile response time to top priority calls: Provides perspective on how long police take to respond, both on average and in close-to-worst case scenario. Variation might reflect staffing changes or alterations to dispatch procedures.
- Ratio of arrests to reported crimes: Provides insight into how often police are able to resolve legitimate citizen complaints.
- Case clearance rate: Provides data on how effective police are at identifying criminals and developing effective cases against them.

Other Cost Considerations

- Sworn versus civilian: How many non-sworn personnel are in the department? What titles/function? Do sworn officers perform administrative/clerical, dispatch, IT, meter collection, or records management functions? If sworn officers are assigned to a significant number of administrative tasks, a net gain in service level may be achieved by assigning clerical duties to non-uniformed staff members and assigning sworn officers to more pressing duties.
- Sharing and regionalization: What services are shared with neighboring communities or the state police? What services could be shared with neighboring communities or the state police?
- Dispatch: Incorporating the two immediately preceding issues, how is dispatch currently structured? Is it staffed by civilian or sworn personnel? Is it shared with fire and EMS? Is it regionalized?
- Benefits: How much benefit time do current officers receive (vacation, sick, personal, etc.) and how much do they typically use? Does benefit time use impact overtime use? What is the policy on rollover of vacation and sick leave time?
- Injured-on-duty: How many officers are on injured-on-duty (IOD) status? How are IOD cases monitored and managed?

Fire Services

Fire department budgets have three major components—compensation (salary and benefits), ordinary maintenance (supplies, fuel, etc.), and capital needs (trucks, facilities, other equipment). With the cost centers identified, the significance of budgeting decisions must be evaluated in relation to each municipality's priorities, service expectations, and demographics.

The analysis process should begin with a discussion of two key areas regarding the strategy behind the department:

What are the core services of the department beyond responding to calls for service (911 responses)?

How have the municipality's expectations for fire services changed over the last five to ten years? What has been the organizational response and budgetary impact of any changes in expectations?

Efficiency

For fire departments, efficiency is a measure of the resources committed to deliver services prescribed by the operating strategy discussed in the above questions. Given that a majority of department expenses are related to compensation, issues related to staffing will be a key measure.

Key Questions

- What does each element of compensation cost? What are the base salaries for each employee and rank level? What are additional compensation costs, including education incentive, overtime, HazMat pay, defib pay, shift/night differential, etc. and benefits costs for the current staffing level (including health insurance, retirement, injured-on-duty)? Have these changed markedly in the past few years? How do they compare to comparable communities?
- What is the required staffing level? It is important to know whether or not the municipality has some form of mandatory minimum staffing level (e.g., 3-person staffing per fire apparatus). If there is, is it contractual or a practice of the department? If there is, does it differ by type of apparatus? If there is, what is the staffing factor⁴ required to maintain staffing levels at the required level? How does scheduling work (e.g., 24-hour tours with one on, three off), as that also impacts required staffing levels. Are any positions funded with grants? If so, when do the grants expire?
- What other divisions are staffed? Is there a fire prevention division or a training division? If so, how are they staffed? Are the firefighters assigned to these divisions on different work schedules than those assigned to fire suppression?
- Are emergency medical services (EMS) performed by the fire department? EMS is a critical component of public safety. Is the fire department responsible for EMS? Are firefighters manning ambulances and transporting patients from the scene to the hospital? Is the service contracted to a private ambulance company? Or is there a hybrid system with the fire department responsible for basic life support (BLS) transports with a private ambulance responsible for advanced life support (ALS)? If the system is run in-house with firefighters certified as paramedics, what does this system cost, and how much revenue is generated to cover the cost?
- What is the extent of overtime spending, and what are the key drivers? What is the anticipated number of overtime hours required by the department? What was the actual number of hours used the prior year? If there is a staffing level for each shift (see #2 above), is it achieved through overtime if absences occur? What drives overtime use? Why is it assigned? When does it spike, both seasonally and by day of week? Sick leave and injury leave can significantly impact overtime,

Reviewers should consider total costs, including benefits, if personnel changes are being considered.

4. A staffing factor is the number of additional staff required to assure 24 hour/7 day week coverage at mandated or desired levels. It is calculated by deducting contractual time off (e.g., vacation, holiday, sick, personal) from the total annual hours (or tours) of required work. The factor could be something like 1.25, meaning an additional 0.25 FTE is required for every one (1) position. During a discussion about adding another piece of apparatus, the staffing factor helps determine how many additional firefighters are required to staff it.

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so monitoring those categories of leave is critical.

- What are the total costs for vehicles? How many pieces of apparatus (e.g., engine, ladder, “quint,” rescue truck, ambulance) are operated by the fire department? How many are front-line versus reserves? How old are the pieces? What is the municipality’s replacement and/or rehab policy? How many gallons of gasoline were required by the department in the last fiscal year? How is it purchased? Is maintenance done in-house or by a vendor? Is it done by employees certified to maintain/repair fire apparatus? What other kinds of vehicles is the department purchasing (e.g., administrative vehicles, deputy vehicle)? How many are allowed to be taken home by officers? What is the rationale for allowing vehicles to be taken home?
- What is the municipality’s Insurance Services Office (ISO) rating? The ISO provides fire insurance ratings for communities on a 1 to 10 scale, with 1 being the best possible and 10 the worst. The ratings are based on a variety of factors, including fire alarm systems, the status of equipment, the number of personnel on duty, number and distribution of companies, travel distance, training, water supply, hydrant types, and distribution; it does not simply report response time or minimum manning levels per company. While a change in any factor can eventually affect the municipality’s ISO rating, any effect can be offset by other factors, since the rating is a function of many different elements. When was the ISO rating last updated? What changes, if any, occurred in the rating?
- What do the facilities cost? How many fire stations are there per square mile? What is the total number of stations? What are the associated costs for the facilities, including utilities and maintenance? Is the facility being maintained properly, or is maintenance being deferred? Who is responsible for facilities maintenance?
- Is the municipality part of a mutual aid agreement? How often is it used for both in-town and out-of-town service? Do certain members of the agreement need assistance at a level disproportionate to their size and number of structures? Is the mutual aid agreement being used to subsidize another municipality’s inadequate level of service?

Key Metrics

- Spending per employee (over time and against comparable communities): Provides a rough proxy for compensation levels over time and whether cost increases are sustainable when compared to overall revenue growth. Variations in trend should be accounted for and are most likely caused by a) changes in collective bargaining terms, b) changes in staffing levels or composition, or c) differences in towns’ ability to pay for services.
- Spending per capita (against comparable communities): Provides a metric to determine level of spending relative to other communities. Variations may be due to a) differing strategies, resulting in different staffing levels, b) differing collective bargaining terms, or c) different levels of need based on crime levels.
- Spending as percentage of budget (over time): Reflects change in emphasis by municipality over time based on expenditure priority.
- Sworn FTEs/1,000 population; fire department total FTEs/1,000 population (against comparable communities): Shows variation in staffing levels against comparable communities. Variation is

likely due to similar causes as spending per capita.

- Sick and injury leave – average per firefighter: Provides a useful measure of how much time is being taken off, frequently causing overtime use.
- Age of each piece of apparatus: Provides a key metric in terms of the fleet and allows for the long-term planning for apparatus replacement.
- EMS collection rate: If ambulance services are provided in-house, what is the collection rate for billing?

Workload and Effectiveness

Beyond budgetary issues and with the initial two questions firmly in mind, measures of workload and effectiveness seek to quantify how well the fire department does its work with the resources provided.

Key Questions

- How much work does the fire department do? How many total calls for service? What are the nature of the calls being responded to? How many fires are there annually? How many medical calls are responded to? How many inspections are performed? For all of these, what are the trends over a period of years?
- How rapidly does the fire department respond to calls?
- Does the fire department maintain its fleet appropriately?
- How much training does the department receive annually?

Key Metrics

- Total Number of responses
- Call type breakdown: Percent of the responses medical versus fire.
- Medical transports: How many medical transports are provided? ALS vs. BLS? Percent of calls that result in no transport required.
- Average response time to top priority calls/90th percentile response time to top priority calls: Provides perspective on how long fire/EMS takes to respond, both on average and in close-to-worst case scenario. Variation might reflect staffing changes or alterations to dispatch procedures.
- Number of inspections performed annually
- Cause of fire investigations: Provides data on how effective the department is in identifying the cause of fires.

Other Cost Considerations

- Sworn versus Civilian: How many non-sworn personnel are in the department? What titles/functions? Do sworn officers perform administrative/clerical, dispatch, IT, or records management functions? If firefighters are assigned to a significant workload of administrative task, a net gain in service level may be achieved by assigning clerical duties to non-uniformed staff members and assigning the firefighters to more pressing duties.

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- Sharing and Regionalization: What services could be shared with neighboring communities?
- Dispatch: Considering both issues immediately above, how is dispatch currently structured? Is it staffed by civilian or sworn personnel? Is it shared with police and EMS? Is it regionalized?
- EMS: what is the total cost and revenue associated with operating an ambulance service? Could it be done more cost effectively on a contract basis with a private ambulance company (or vice versa)?
- Benefits: How much benefit time do current officers receive (vacation, sick, personal, etc.) and how much do they typically use? Does benefit time use directly impact overtime use? What is the rollover policy for vacation and sick leave?
- Injured-on-duty (IOD): How many firefighters are on IOD status? How are IOD cases monitored and managed?
- Use of technology: To what extent is technology being utilized to improve efficiency? Technology can also improve firefighter safety, which has the added benefit of reducing costs associated with injuries.

Dispatch Services

Public safety dispatch is a critical local government function that plays a vital role in the delivery of emergency services. While its fundamental role is to dispatch public safety to the scene of an emergency, there are various models employed for the delivery of the service including separate police, fire, and EMS call centers; combined dispatch staffed with uniformed personnel; combined dispatch staffed by civilians; and regional dispatch. Each model carries advantages and disadvantages and each has its own costs.

There are two major cost components: compensation (salary and benefits) and IT/capital needs (dispatch center equipment, information management system, other equipment), with the potential for a third (facility maintenance). With the cost centers identified, the significance of budgeting decisions must be evaluated in relation to each municipality's priorities, service expectations, and demographics.

Efficiency

For dispatch services/departments, efficiency is a measure of the resources committed to deliver services prescribed by the operating strategy. Given that the vast majority of service/department expenses are related to compensation, issues related to staffing are a key measure.

Key Questions

- What are the costs for each element of compensation? What are the base salaries for each employee? What are additional compensation costs, including overtime, shift/night differential, holiday pay, etc., and benefits costs for the current staffing level (including health insurance and retirement)? If staffed by sworn police or fire personnel, other compensation costs include education incentive, pay for specialized training and responsibilities, such as hazardous materials handling and defibrillator usage. Have these changed markedly in the past few years? How do they compare to comparable communities?

- What is the organizational model for the delivery of the service? Do police, fire, and EMS have separate dispatch units? If so, why? What is the total cost of this model compared with a combined dispatch or with a regional dispatch approach? Are dispatch units staffed by sworn personnel or by civilians?
- What is the required staffing level? Does the municipality have some form of mandatory minimum staffing level (e.g., x-person staffing per shift)? If so, is it contractual or a practice of the department? What is the staffing factor⁵ required to maintain staffing levels at the required level? It is also important to understand scheduling (e.g., four 10-hour days/week with a four on/two-off schedule or a five 8-hour day/week schedule); this impacts required staffing levels. These questions should be asked of each department's dispatch unit if there is no combined dispatch.
- Is a computer-aided dispatch (CAD) system used? Use of CAD can greatly improve the efficiency of a dispatch operation and also allows for reliable information with respect to the number and type of calls, average response time, etc. If the municipality uses CAD, how old is the system? When will it need to be upgraded? If the municipality does not, what is the justification? What type of system backup is there in case of a power outage? To what extent can the system handle high call volume?
- What is the level of overtime spending and what are the key drivers? What is the anticipated number of overtime hours required by the service/department? What was the actual number of hours used the prior year? What causes overtime to be assigned? If there is a staffing level for each shift (see note above), is it achieved through overtime if absences occur? What drives overtime use? Why is it assigned? When does it spike, both seasonally and by day of week? Sick leave and injury leave can significantly impact overtime, so monitoring those categories of leave is important.
- What is the cost of facilities? Is there a separate dispatch facility/facilities, or is it housed in a police station, fire station, or public safety headquarters? What are the costs associated with the facilities, including utilities and maintenance? Is the facility being maintained properly or is maintenance being deferred? Who is responsible for maintenance of the facilities?

Dispatch services have two major costs – compensation and IT/capital needs.

Key Metrics

- Spending per employee (over time and against comparable communities): Provides a rough proxy for compensation levels over time and whether cost increases are sustainable when compared to overall revenue growth. Variations in trend should be explained and are most likely caused by a) changes in collective bargaining terms, or b) changes in staffing levels or composition.
- Spending per capita (against comparable communities): Provides a useful metric to determine level of spending relative to other communities. Variations may be due to a) differing strategies, resulting in different staffing levels, b) differing collective bargaining terms, or c) different levels

5. A staffing factor is the number of additional staff required to assure 24 hour/7 day week coverage at mandated or desired levels. It is calculated by deducting contractual time off (e.g., vacation, holiday, sick, personal) from the total annual hours (or tours) of required work. The factor could be something like 1.25, meaning an additional 0.25FTE is required for every one (1) position. `

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of need based on crime levels.

- Spending as percent of the budget: Reflects change in emphasis by municipality over time, based on expenditure priority.
- FTEs per 1,000 population (against comparable communities): Shows variation in staffing levels against comparable communities. Variation is likely due to similar causes as spending per capita (above).
- Sick leave – average per FTE: Provides a useful measure of how much time is being taken off, frequently causing overtime use.

Workload and Effectiveness

Beyond budgetary issues, workload and effectiveness seek to measure how well the dispatch service/department performs its function with the resources provided.

Key Questions

- How much work does the dispatch function/department do? How many total calls are taken? What is the average number of calls per staff member, and how does that compare to other similar communities?
- To what extent is updated technology utilized?
- Have there been complaints filed against the dispatch center(s)/department? If so, why?
- How much staff turnover has there been and why?

Key Metrics

- Total number of calls
- Call type breakdown: What percent of the responses are medical, fire, and police?
- Average time between receipt of call and dispatch of vehicle (police cruiser, fire truck, ambulance)?

Other Cost Considerations

- Sworn versus Civilian: As previously mentioned, it may be more cost effective to have civilian dispatchers rather than sworn police or firefighters.
- Sharing and Regionalization: What services could be shared with neighboring communities?

Parking Enforcement

The management of public parking is an important undertaking for a municipality for several reasons, including public safety (e.g., keeping fire hydrants clear, removing vehicles during a snow emergency), turnover of available parking in commercial areas (contributes to vibrant shopping/restaurant districts), and the provision of handicap-available parking. In addition, public parking can generate significant revenue. In order to enforce state laws and local parking regulations, a number of tools are utilized, including parking meters and labor to write tickets when violations occur. The responsibility for this function can fall within a department (e.g., police) or as a standalone department. In some cases, portions of the process are split amongst various departments.

The parking enforcement process is quite involved, starting with equipment to help regulate parking (e.g., parking meters); and personnel/procurement of services to enforce and issue tickets for parking violations when necessary. This includes the management of outstanding ticket information (database), potentially followed by an appeals/adjudicatory process, and culminating in the collection of fines. Vehicle towing is also part of the parking enforcement process.

Depending on the service delivery model, there are two major cost components – compensation (salary and benefits) and IT/capital needs (handheld technology, parking meters) – and possibly a third: vehicles (tow trucks, vehicles for enforcement personnel). If the service is primarily done in-house, then labor costs are the primary cost center. If the function is generally contracted out, then it is important to test the market periodically to make sure the municipality is getting the best price. With cost centers identified, budgeting decisions must be evaluated in relation to each municipality's priorities, service expectations, and demographics.

Efficiency

For parking enforcement, efficiency is a measure of the resources committed to deliver services prescribed by the operating strategy. Given that the vast majority of service/department expenses are related to compensation, issues related to staffing will be a key measure.

Key Questions

- What are the costs for each element of compensation? If performed in-house, what are the base salaries for each employee? What are the additional compensation costs, including overtime and uniform allowance, and benefits costs for the current staffing level (including health insurance and retirement)? Have these changed markedly in the past few years? How do they compare to comparable communities?

It is important to note that many communities budget some benefits costs separately from departmental operations. However, as stewards of the overall budget, reviewers should consider total costs, including all benefits, if changes in personnel are being considered in the budget. Additional positions will come with additional benefits costs and similarly position reductions should bring a benefits costs savings.

- What is the organizational model for the delivery of the service? Which department(s) is (are) responsible for the enforcement of parking laws/regulations? Are the units staffed by sworn personnel or by civilians? Which, if any, of the components of the operation are performed in-house versus contracted out, and why? Who is responsible for the appeals/adjudicatory function? Has a cost-benefit analysis been performed to see if the current service delivery model is the most cost effective?
- What is the required staffing level? How is the staffing level determined? Are the costs of enforcement being covered by revenue generated from parking meters/tickets? Would additional staff generate additional revenue while at the same time helping to reach the goals of the parking laws/regulations?

**Public parking
can generate
significant revenue.**

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- What type of technology is being employed? Use of technology makes the entire parking management process more efficient. Ranging from the type of parking meters used to the automation of parking ticket data management, questions should be asked about the utilization of technology. Are tickets manually entered into a database? Are enforcement personnel required to handwrite /enter all vehicle information or do they use ticket-writing technology that expedites the ticket issuance process? Are “smart meters” that notify maintenance staff when they stop functioning being used? Or are these functions mostly manual?
- What is the total cost of vehicles? How many vehicles are utilized in the operation? How many gallons of gasoline were required by the department in the last fiscal year? How is it purchased? Is maintenance done in-house or by a vendor? What has been the replacement plan/schedule for the fleet?
- How is towing performed? Do in-house personnel perform towing duties with municipality-owned tow trucks? If it is contracted out, what share of the tow fee does the municipality receive? When was the last time the contract was put out to bid?
- Has the number of issued tickets issued changed? If so, what are the causes of the increase/decrease? If there has been a decrease, does it mean that additional, or fewer, enforcement personnel are required?

Key Metrics

- Spending per employee (over time and against comparable communities): Provides a rough proxy for compensation levels over time and whether cost increases are sustainable when compared to overall revenue growth. Variations in trend should be explained and are most likely caused by a) changes in collective bargaining terms, or b) changes in staffing levels or composition.
- Spending per capita (against comparable communities): Provides a useful metric to determine level of spending relative to other communities. Variations may be due to a) differing strategies, resulting in different staffing levels, b) differing collective bargaining terms, c) different levels of need based on parking violations, or d) different levels of commercial activity requiring more or less paid parking.
- Spending as percentage of the budget: Reflects change in emphasis by municipality over time, based on expenditure priority.
- FTEs/1,000 population (against comparable communities): Demonstrates variation in staffing levels against that of comparable communities. Variation is likely due to similar causes as spending per capita (above).
- Tickets issued per employee per day: Demonstrates overall output of employees on a daily basis.
- Collection Rate: Demonstrates actual collection of funds against total fines issues. Low collection rates may indicate high (and successful) appeal rates and/or poor collection/non-payment practices.

Workload and Effectiveness

Beyond budgetary issues, workload and effectiveness seek to measure how well the parking enforcement operation performs its function with the resources provided.

Key Questions

- How much work does the parking enforcement unit do? How many tickets are written? What trends are there?
- What forms of technology does the parking enforcement unit utilize?

Key Metrics

- Total number of tickets written
- Number of tickets voided: for various reasons, a ticket may be voided (or reduced) by the person/department responsible for the appeals process. How many tickets are voided and why?

Debt Service

For most municipalities, items such as debt service are fixed costs and cannot typically be altered in the short term. Debt service is driven by the municipality's level of borrowing, and it must be repaid if the municipality is to avoid defaulting on its obligations.

Municipalities generally incur debt by issuing municipal bonds or notes. The debt service due by any given municipality varies from year to year based on the debts that are retired and added in the past year. All communities must annually report a statement of indebtedness to the state's Department of Revenue to demonstrate the changes in the municipality's level of indebtedness.

The interest costs associated with a given loan vary depending on the type and term of the borrowing, but generally speaking, interests costs are lower with a better bond rating from one or more of the credit rating agencies (Moody's, Standard & Poors, or Fitch Ratings).

Key Metrics

- Debt per capita: How much total debt is held on behalf of each citizen? How does it compare to comparable communities? Are there variations in investment, revenue, or spending strategies that explain variation? Has the level of debt per capita changed over time?
- Debt service/total budget: How much of the budget is devoted to servicing debt? How does this compare to other communities? How has it changed over time?
- Debt/Equalized Valuation (known as "EQV" and based on the state Department of Revenue's determination of the 'fair cash value' of a community's property): Typical municipalities depend on property tax proceeds and state aid for most of their budgets. This metric measures the debt load of a municipality against the value of the community's property assets where the municipality controls taxation and has some impact on property value. How does it compare with other communities? How has it changed over time? Given the volatility of the property market, special care should be taken to determine if variance is being driven by changes in the debt level or property values.
- Bond rating: How does the municipality's bond rating compare to that of comparable communities? How has it changed over time, and what have been the key drivers of that change?
- Average rate on debt: What is the interest rate on the municipality's debt? How does that compare

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with comparable communities? How does it compare with comparable communities with the same bond rating? Average rate will largely be determined by market conditions at time of issuance; however, bond refunding can be done to take advantage of lower rates at a later date.

- Maturity and profile: What is the average maturity on the debt? What percentage will mature within 10 years? What is the overall profile of debt maturity? Is there a preference for level debt maturities or level debt service? If so, why?
- Underwriting costs/total issue amount: For the most recent series of debt transactions, what percentage of the proceeds went to underwriters? How does that compare to other communities with similar bond rating who issued around that time? Are debt issuances done on a managed or competitive basis?

Other Considerations

- What affects the municipality's bond rating? Bond rating agencies evaluate municipalities in a number of areas, including financial position, management practices, overall wealth and employment, level of indebtedness, and other factors. Available reserves are a major component of a municipality's bond rating review. Each new bond rating or alteration to a bond rating is accompanied by a statement from the rating agency. These statements should be made available to interested citizens.
- How to determine if a municipality should borrow? While debt service may seem like a burden that is unrelated to a municipality's direct services, debt service may in fact be a key part of the municipality's ability to provide core services. Often, municipalities borrow to finance purchases of important pieces of equipment (e.g., a new fire engine) or improvements to municipally-owned buildings (e.g., repairs to public school buildings). Municipalities often rely on capital investments to make ongoing upgrades to streets and sidewalks as well as water and sewer infrastructure. Other communities engage in short-term borrowing to even out cash flow during the fiscal year. These are key components of the municipality's ability to provide fundamental services. However, when listed as a fixed-cost line item in budget presentations, divorced from its actual use, debt service can appear as simply a burden that eats away at a municipality's ability to fund salaries for service departments. It is important to recognize the purposes for which borrowing is used in order to determine the value of that cost center to the municipality.
- How are capital budgets developed and reported? The key to controlling debt service costs is to limit borrowing to those purposes which merit an investment. Similar to the definition of priorities for the operating budget as a whole, a municipality should develop a multi-year plan for capital investments. Each department should have an inventory of needed equipment, its condition, and its ideal replacement schedule. Police cruisers and fire engines have a consistent anticipated life span depending on their level of use. Replacement of equipment should follow a predictable schedule.
- Are there informal or formal limits on borrowing? Publicly stated capital borrowing limits can both help to focus decision-making and increase predictability of future debt service.
- Can some capital investments be made from operating funds? Communities are not required to borrow for capital projects. If operating funds can be used for regular capital investments,

the municipality's indebtedness will be reduced. This can also improve the connection of major investments to their related operating department, as the capital outlays out of the operating budget will be reflected in the departmental budget.

- Are sources of one-time funds considered for capital projects? Each year the Commonwealth of Massachusetts Department of Revenue certifies an amount of “free cash” for a municipality if its revenue and expenditures leave it in a positive financial position in the prior fiscal year. This amount is available for appropriation by the municipality and can be used for specific purpose or to reduce the tax rate. Free cash is a one-time revenue source; it cannot be assumed in the following year's budget. Free cash can be used to make capital investments without borrowing. This use of free cash is looked upon favorably by bond rating agencies as it demonstrates an application of one-time funds for a one-time purpose, as opposed to creating an operating program that may result in an annual need for revenue.
- Are ongoing and appropriate maintenance costs considered in capital planning? Most capital planning focuses on project selection and cost rather than on the impact of proper maintenance on the operating budget. As a result, many public assets suffer from neglect and deferred maintenance, shortening the lifespan of the investment, increasing long-term debt costs, and degrading service. Capital investments should be paired with an adequate maintenance plan (purchased or a plan for operational departments to support the piece of equipment/building, upgrade, etc.).
- Can re-funding lower debt costs? What is re-funding's impact on the overall debt profile? Depending on the relevant interest rates, municipalities can sometimes improve their debt service cost structure through refinancing of existing debt. This is similar to refinancing in the private sector (e.g., for a home mortgage) except that the bond market may yield premiums for municipalities, allowing reductions of principal as well as interest.
- Can grants be used to fund equipment purchases outside of the capital budget? The state and federal governments have a variety of grant programs, including several for municipal equipment and facility needs. Care should be taken that the impact of any matching, monitoring, and reporting requirements is understood and accounted for.
- Does the municipality have a capital planning process, including a five-year capital program and a one-year capital budget? If so, who is responsible for developing it, and is it supported by key policymakers?

The key to controlling debt service costs is to limit borrowing to those purposes that merit an investment.

Public Works

A municipality's department of public works (DPW) lends itself to budgetary and operational analysis because its work is generally physical – it can be measured, weighed and counted. DPW is also an important candidate for analysis because of the higher likelihood that the department will be targeted for budget reductions. The department is often the largest outside of the school department and public safety, making it a likely place for budget-makers to seek spending reductions when a municipality experiences financial difficulty (in part because so much of its work is unseen and delays rarely have

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short-term consequences). Without a clear quantification of the work performed – amount as well as value of that work – the department will likely be reduced. Because smaller departments can only be cut so much before they become non-functional, the department may also receive a disproportionately large share of reductions to make up for under-cutting in other agencies.

An analysis of DPW should focus on two dimensions, one internal, the other external. The easiest place to focus is on employee-related metrics. Next, outcome measures should be analyzed. Ideally, each municipality should establish expected service levels in order to set expectations and have a benchmark against which to measure. In one municipality, it may be expected that the DPW begins snowplowing when one inch of snow is on the streets; in another, the expected standard may be three inches. The performance of each public works department should be viewed against these expected service levels, and these service levels should be published as service level agreements. This allows the public to know the level of service it should expect from the municipality so citizens can either support or seek to change it.

Lacking comprehensive expected service levels, DPW should be asked to provide targets related to key service levels as a starting point for analyzing its performance.

Efficiency

Leave Time Usage

Employers grant a variety of leave benefits to employees as part of the terms and conditions of their employment. Typical leave categories in the public sector include vacation leave, sick leave, injury leave, bereavement leave (for death of a family member, however family member is defined), and others.

While some leave categories, such as vacation leave, are entitlements, others, like sick leave, are insurance leaves. These insurance leaves are granted to ensure an employee does not lose pay in the event he or she is legitimately sick and cannot work. Analyzing the use of these insurance leave categories can provide insight into a department's workforce and its management climate. If leave usage is high, employees may be abusing sick leave, using sick days as if they are entitled days off. At the same time, this may reflect weak management that is unable to establish and enforce a proper environment where employees do not abuse the benefits provided to them. It is important to analyze these statistics, not simply report on them, as high leave usage can be legitimate, as often occurs with employee injuries or chronic illnesses.

Sick Leave

- Number of sick days used, by division of the department, per month. In addition, usage patterns, such as higher levels of usage around weekends and holidays
- Number of sick days used, per division, compared to the municipality's sick leave usage goal. An appropriate sick leave goal may be six or fewer days of sick leave usage per employee
- Projection of the full-year sick leave usage given the then-current usage pattern
- Number of full-time equivalent positions lost to sick leave. In large departments, this can demonstrate the value of improving the management of sick leave, since appropriately managed

sick leave usage can actually allow the department to get greater productivity from its existing resources. The impact of various intervention efforts – counseling sessions regarding sick leave usage, warnings, discipline and other strategies – to ensure sick leave is not being abused.

Overtime Costs

Municipal employers typically incur overtime costs when employees work in excess of their stated hours of work each week. While federal laws define when overtime compensation is required, municipal employers can, and at times do, provide more generous overtime rules that allow employees to earn overtime sooner than required under federal law.

Some of the earliest gains related to performance management systems come from the improved oversight and management of overtime. In large departments, overtime assignment may be delegated to lower ranks in the department. In these instances, overtime may be approved based on the convenience of the work being performance, not on the relative cost and benefit/value of performing that work on an overtime basis. It should also be noted that some departments assign overtime decisions to employees who are members of the same union as the employees who would receive the overtime. This can create pressures on the employee making these assignment decisions. Performance management related to overtime can create a more strategic focus on this area of expenditure.

Examination of overtime costs can drive a number of important discussions. It can, for instance, result in an examination of existing pay practices to determine if overtime is being provided in an appropriate manner. Are employees being provided overtime sooner than required by law, for instance, if they exceed 7.5 hours of service per day, when legal standards are higher? Are employees being guaranteed a minimum allotment of overtime each week in order to undertake other activities such as inspecting the motor vehicles they operate? Can a second shift be added to conduct the work at lower cost or to conduct more work for the same cost? Would outsourcing reduce the costs of providing the service?

Some of the earliest gains related to performance management come from improved oversight and management of overtime.

Overtime

- Total amount and cost of overtime used by division, compared across years
- The percentage of overtime hours worked in each division each week or month
- The cost/benefit analysis of using overtime rather than hiring additional employees to conduct work
- The amount of work performed for each overtime hour, compared to the amount of work performed for each straight time hour worked. Are employees burned out and therefore not able to work efficiently on overtime hours? Are they being properly managed when working overtime? Do they have minimum-hour provisions – e.g., any overtime event pays at least four hours of overtime – and is the municipality ensuring that overtime is only assigned when all of those hours can be utilized?
- The type of work that is being performed on overtime, by time of day. Is it effective to perform

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the overtime work in this manner? For example, is it effective to perform pothole paving at 5:00 p.m., during rush hour, or would other times of day be better?

Injury Incidents

Employee injuries have a number of negative consequences for a municipality. They harm employees and can have permanent effects on their health; injuries can result in lost time and/or financial or medical liability for the municipality; and injuries increase the likelihood of re-injury, as many injuries, such as those involving backs and shoulders, result in future vulnerabilities. While many injuries can be prevented, it should be noted that the work of the DPW is inherently physical and often strenuous, increasing the likelihood of injury. As a result, injury comparisons across a municipal government will tend to show the DPW having one of the highest rates; analysts should seek to benchmark a municipality's DPW injury rate against that of other public works departments which perform similar work.

Injuries can provide important information about employee assignment as well as management in general. Injuries that occur with some frequency, e.g., lifting injuries, can indicate a training need for the department. The costs and benefits of training should be weighed against the costs of workers compensation and lost productivity. An employee with repetitive shoulder injuries may be best re-assigned to other duties to ensure that he or she does not continue to get re-injured, creating long-term problems for the employee and future liability for the department.

Employee injuries have a number of negative consequences for a municipality.

High rates of injury can indicate a work environment which does not emphasize safety, the absence of technology and equipment to perform duties with lower risk, a lack of proper training, poor employee assignment, poor hiring practices, or potential abuse of injury benefits.

Injury Leave

- Number and type of injuries, by division, including further discussion about the types of jobs in which the injuries are occurring
- Number and type of injuries by season. This metric will provide information on whether the department needs to provide better equipment, e.g., footwear in the winter that reduces slip-and-fall injuries
- Number of employees on injury leave each week, by division
- The time required for each injury to be reported to the department by the employee; the time required for the department to report the injury to insurance companies or other parties with potential financial or other responsibilities related to injuries
- Time for injured employees to return to work, by injury type
- Cost for each type of injury, in total and per injury, to help focus efforts to prevent and better manage injuries

Education and Training

Public works employees are often required to retain specialized licenses to conduct their job duties. These licenses often include commercial drivers' licenses, hoisters' licenses, licenses to apply chemicals such as pesticides, and others. A municipality benefits from conducting a skills assessment of its workforce, detailing desired skills for each position in the municipality, and engaging in a development program to ensure it is developing or recruiting new employees to meet existing and future employment needs. This should include computer skills – word processing, financial analysis, database and others – as well as management skills, basic literacy, and others.

Education and Training

- Number of employees with desired licenses, especially those such as pesticide licenses that are difficult to achieve
- Number of employees who have completed desired training courses by division and by due date for completion. These courses can include annually mandated training, e.g., sexual harassment or ethics, as well as those related to professional development, e.g., computer use and personnel management
- The percentage of employees who meet established skill standards for their current positions, and the progression of the workforce in achieving improved compliance with these standards
- The percentage of employees hired and promoted who meet the minimum skill requirements for their new positions

Property Damage

Public works services utilize a relatively large number of employees who operate a large amount of heavy equipment. This equipment is used in a variety of environments – late at night, in foul weather – where other people or motor vehicles increase the risks for operators. This increases the likelihood that the work being performed can damage public or private property. For example, a snow plow can damage a mailbox that is difficult to see or a motor vehicle accident can occur.

A municipality can limit property damage with a strong culture of safety as well as use of proper equipment and training. It can also reduce property damage through appropriate public expenditures in road paving, pothole maintenance, tree trimming, etc. These expenditures reduce the likelihood of property damage to those using public property.

Property Damage

- Type and number of property damage claims, by category
- Type and number of property damage claims, by employee. This metric is designed to identify training and potential employee reassignment issues, not necessarily employee discipline
- Value of claims, total and average, for each category of damage

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Workload and Effectiveness

Solid Waste

Many municipal governments provide residents with solid waste removal services. These services typically involve disposal of residential solid waste and often involve curbside collection. Municipalities that provide only disposal services often provide solid waste through drop-off or convenience center facilities; municipalities that provide collection services are typically referred to as providing curbside trash services.

Solid Waste

- Pounds of solid waste disposed of, per capita
- Tons of solid waste collected per route, per day, and the percentage of weight capacity this equaled for each truck
- Cost of solid waste disposal per ton
- Cost of recycling per ton
- In communities where solid waste haulers are permitted to leave work once their designated routes are completed, drivers' time of departure each day. This information and the previous metric can help inform decisions to expand the size of trash routes, thereby reducing the number of routes needed
- Number of incidents of illegal dumping, as well as a categorization of the material illegally dumped, such as bulky items, commercial waste, or residential waste
- Number of missed collections, by route
- Recycling tonnage, by material category where available
- Number of waste pick-ups per week dedicated to bulky items, white goods, and/or televisions, as well as tonnages collected per week
- Number of hours per day that relate to hauling and waiting to dump waste
- Number of missed waste pick-ups per route per day

Street Sweeping

Public works departments provide street sweeping services to reduce litter, improve the appearance of streets, and reduce storm water contamination with sand, dirt, debris, and other materials. As a result, street sweeping – like storm water management – is a potential indicator of strong management and the commitment of sufficient resources to public works services. Street sweeping can reduce long-term costs for a municipality by reducing storm water problems like water contamination, clogged drainpipes, and street flooding.

Street Sweeping

- Identification of contracting model – in-house or outsourced? Cost comparison on current model and alternate approaches
- Total lane-miles of street swept per week

- Frequency of street sweeping, by residential and commercial areas
- Lane-miles swept per week as a percentage of all lane-miles, and as a percentage of total lane-miles expected to be swept that year. This latter metric should consider the total number of times the municipality's streets should be swept in a given year. If a municipality's storm water permit requires that streets be swept twice each year, this figure should be at least twice the number of lane-miles that physically exist in the municipality
- Tons of material swept from the streets. This figure can be examined relative to the amount of sand and salt used for any winter roadway operations, and can also be compared to the department's performance on storm water metrics to determine if street sweeping is improving catch basin cleanliness, as expected. A cost-benefit analysis can be conducted to examine the relationship between these two work items to determine if additional street sweeping would be cost beneficial
- The amount of unproductive time per sweeper per day, especially the time associated with driving to and from areas designated for sweeping and time related to disposing of swept material
- Evaluation of street cleanliness, by grade established by the department
- Complaints received by geographic area and route

Storm Water

Many public works departments are responsible for maintaining catch basins, outfall pipes, and other infrastructure related to street drainage. As this work is often unseen – it occurs below ground, and the impact of poor performance is often not seen for years into the future – examining these metrics can provide information about the department's management and whether sufficient funds are being provided to execute the needs of the department.

Storm Water

- Number of street flooding complaints compared to the size of the storm that preceded the complaint
- Number of repeat street flooding complaints by geographic area
- Number of catch basins, and the number and percentage inspected and cleaned each month
- Number of outfalls, and the number and percentage inspected and cleared each month
- Number of obstructed catch basins, the average time required to service these catch basins, and the average amount of employee time used to remove obstructions. As catch basins in some municipalities have been neglected for so long, it may be advisable to disaggregate these metrics into simple obstructions and those requiring reconstruction of the catch basins and related piping

Pavement Management

Roads and sidewalks provide the primary means of transportation, and proper maintenance and investment are required to ensure that surfaces are safe and to facilitate the efficient flow of vehicles and pedestrians. Poorly maintained roads and sidewalks can result in increased damage to private property, increased numbers of personal injury, reduced commerce, and higher risk (if emergency vehicles are slowed due to the poor condition of paved or unpaved roads).

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Pavement Management

- Pothole and other road defect complaints and whether the complaint is related to street cuts (any cuts in the pavement related to utility work). If the complaint involves a street cut, was the street cut performed by the DPW or an external entity? Average time and the estimated cost for the DPW to resolve the pothole or roadway defect?
- Lane miles of street paved, compared to the municipality's road paving plan
- The number and percentage of lane-miles of roadway for which the department assessed condition in the last year
- The number and percentage of roadway lane-miles that received each condition grade, by geographic area
- The number and location of roadway failures, as well as the cost and time require to repair them
- The number and percentage of sidewalks for which the department assessed condition in the last year
- The number and percentage of sidewalks that received each condition grade, by geographic area
- The number of crosswalks that were re-painted during the past year
- The number and percentage of crosswalks that need ADA-compliant ramps that have them, and the progress made in the past several years to achieve full compliance

Motor Vehicles

Public works departments typically use large numbers of heavy equipment to move earth; install water, sewer and drainage lines; pave streets; salt and sand roads; plow and possibly remove snow; and conduct other duties. Many public works departments maintain their own vehicles and sometimes the vehicles used by other departments. Maintenance of a municipality's vehicles typically entails a significant investment of financial resources which, like storm drain maintenance, can be inadequate, to taxpayers' detriment.

Motor Vehicles (breakdown by department for each measure, if DPW maintains vehicles for other departments)

- Vehicle age and miles driven
- Vehicle age, condition, and/or maintenance expenditures compared to the municipality's vehicle replacement standards
- Fuel usage, by vehicle
- Average miles driven, by vehicle, prior to refueling. This metric will help ensure that fuel is not being misappropriated
- Identification of vehicles that are fueled less than once a month. This can help identify vehicles that are unneeded or equipment that is rarely used; these are candidates for sharing across departments or municipalities
- Number of take-home vehicles, by employee job function

- Number of preventive maintenance checks conducted
- Employee hours utilized per vehicle work order
- Cost to conduct repairs, by vehicle type and repair type
- Number of days required to service vehicles
- Vehicle downtime, by type of repair required
- Percentage of vehicles, that are serviced according to the service schedule
- Average useful life of each type of municipal vehicle, compared to its estimated useful life

Snow Plowing

Municipalities utilize significant personnel and capital resources to prepare for and respond to snow storms. This can include salting and sanding operations, road pre-treatment, snow plowing, and snow removal. The effectiveness of these operations can be seen in the road conditions and the number of motor vehicle accidents after plowing. The DPW's effectiveness can also be seen in the condition of on-street parking spaces after a storm; an effective department, working well with its police department, will pre-plan off-street parking alternatives for these vehicles and will enforce parking bans in order to effectively clear streets curb to curb.

Snow Plowing

- Assign condition grades to each street after each storm and track the number and percentage of streets by each condition grade
- The condition grade of streets, by plowing route as well as by private contractor
- The number of motor vehicle accidents after storms compared to non-storm days. Accidents are expected to increase regardless of road condition, as poor visibility or a failure to use caution will increase their occurrence. This metric seeks to capture the effectiveness of road pre-treatment and treatment to prevent icing conditions
- Number and type of complaints received per pre-treatment and plowing route
- Quantity of work performed by municipal employees and contract drivers, by roadway type – residential street, thoroughfare, etc. – and the cost per lane-mile for this work
- Progress of spending against available snow and ice budgets to help ensure the department has sufficient funding available for the remainder of the snow season or is making plans to fund additional weather events

Enforcement

Depending on the municipality, the DPW may enforce a variety of ordinances and laws related to issues like mandatory recycling, illegal dumping, sidewalk snow removal, or storm water run-off from private properties. It is important to examine these enforcement efforts to ensure that the standards established in the municipality's ordinances are being met, to ensure that warnings are being followed-up on, and to ensure that DPW's enforcement work is receiving sufficient support from the police, legal department, and the court system.

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DPW Enforcement

- Number of warnings and citations issued, by type
- Number of warnings and citations issued, by type and by employee issuing complaint
- Number and percentage of warning notices investigated to ensure compliance with ordinances, as well as the result of these follow-ups
- Collection rate of fines issued by type of violation
- The number of successful appeals of fines, by employee who issued the fine

Water

Many municipalities, especially those in urban areas, provide water services to residents. This may include water treatment as well as distribution, or possibly only distribution if another entity does water treatment. Some municipalities have outsourced the treatment and distribution of drinking water; in these instances, it may be appropriate to evaluate the performance of the vendor using metrics similar to the ones provided below.

Water

- Number and location of water main breaks, including the time required to restore service
- Percent of water pumped but unbilled (i.e., lost through leakage)
- Number of water leaks and the time required to fix them. Amount of water treated for distribution compared to the total amount of water billed
- Age of infrastructure, including treatment and distribution assets, relative to estimated useful life of these assets and the municipality's experience with the useful life of these assets
- Number of water quality tests that exceed acceptable levels for chemicals, minerals, and biologics, by type of violation
- Sufficiency of the municipality's water supply and the treatment capacity for that water, relative to daily demand
- The number and percentage of fire hydrants evaluated each year, frequency of routine hydrant maintenance, and the time required to repair and replace damaged or non-functional hydrants
- Number and location of complaints regarding poor water color, odor, and related problems; also examined relative to public and private construction projects
- Any cost allocation policies involving general overhead, including actual costs and methodology

Wastewater

Many municipalities provide sewerage service to residents and businesses. This typically involves pipes to collect and transport sewage; it also includes assets like lift stations to help move sewage uphill or over long distances. A municipality's wastewater service may also include wastewater treatment, though this service may be regionalized or handled by another entity given the cost and difficulty of locating and building a treatment facility.

Wastewater

- Number and location of sewer line breaks, including the time required to restore service
- Age of infrastructure, including collection and treatment assets, examined relative to estimated useful life of these assets, and the municipality's experience with the useful life of these assets
- The assessed condition of sewer line assets and the percentage of lines that have been re-lined, by condition assessment
- Number of post-treatment tests that exceed acceptable levels for chemicals, biologics, and others, by type of violation
- Sewer back-ups reported by residents and businesses, including the cause (municipal or private), the cost to remediate them, and the number of prior back-ups at that location
- Any cost allocation policies involving general overhead, including actual costs and methodology

Other Services

The DPW provides a variety of services in addition to those cited above. In some communities, these departments may provide or contract for tree maintenance services, remove graffiti, or maintain traffic and pedestrian signals. Each of these services can be analyzed using performance management measures to improve efficiency and ensure appropriate public reporting of costs and outcomes.

Other Services

- The number of trees planted relative to the number of outstanding requests
- The frequency of grass cutting in public space
- The frequency of trash collection in public space and commercial areas
- The estimated time, from request to planting, for the planting of public trees
- The percentage of tree removal requests approved by the department, and the average time to remove these trees
- The condition of public trees and incidences of breakage, downings, and property liability claims, by category of condition
- The number of graffiti complaints received and addressed, the time required to remove the graffiti, and the cost to remove graffiti
- The amount of time required to address traffic signal complaints, by type of complaint
- The number and percentage of traffic signals determined to be appropriately timed for traffic purposes
- The number and percentage of traffic signals that need police and fire preemption that have preemption
- The number and percentage of safety traffic signs (stop signs, caution signs, etc.) that are replaced according to a replacement schedule

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- The number of days required to replace a street sign, by category of sign
- The number of streetlight outages reported, and the average number of days to restore the light to service

General Government

General government functions other than finance include other core, legally mandated functions of the municipal government, including the clerk, legislative body, legal department, human resources, and elections. These offices are necessary to properly maintain the government itself, from the management of public meetings and public records to the administration of elections. Municipalities must provide these key services in order to maintain a government.

Clerk and Elections

The clerk is the official record keeper for the municipality, maintaining birth, death, and marriage records, as well as all documents pertaining to the business of the municipality's legislative body. Typically, clerks issue public licenses such as marriage, hunting and fishing, dog, and business licenses. Some municipalities combine this function with the elections office. Elections offices maintain the census and street listing for voter registration updates. The elections office also oversees and conducts municipal, state, and federal elections. Since the clerk's office keeps official records, the security and accessibility of records are key indicators of its success. Ease of access to birth, death, and marriage records in person, through mail order, or online access are key elements of the customer service function of the department. Orderly and accurate conduct of voter registration and elections are other key functions of the election office.

Efficiency

- Are public records maintained electronically?
- Time required from receipt of request for a birth certificate at the customer service window to the time of delivery of the birth certificate at the window
- Time required to establish a new birth or death record

Workload and Effectiveness

- Number of public record requests per year
- Number of licenses issued per year
- Are records available in person, via regular mail and online? Can license renewals be sought via the mail or online?
- Number of voters/eligible voters
- Number of absentee ballots processed for each election
- Number of polling locations
- Number of poll workers required for each election

Law Department

The municipality must have access to sound legal advice, representation, and documentation. Municipalities require professional legal services as a matter of course for the preparation and execution of contracts, the negotiation of labor agreements, and the settlement or litigation of legal claims. Law departments may have a significant number of staff attorneys, or the municipality may rely largely on an outside firm for representation. Due to the unpredictability of the need for legal services, many municipalities hire an outside law firm for representation. General legal services may be less expensive if provided by an in-house attorney, but special expertise is required in other areas. Each municipality must determine its level of need for a given situation. For instance, many municipalities rely on an in-house attorney for labor relations issues while others hire a law firm that specializes in those functions.

There is not a clear most-efficient practice with regards to legal representation as a municipality's needs in a given situation and the available in-house expertise vary so greatly among municipalities.

Key Metrics

- Number of claims against the city that are processed each year
- Number of contracts drafted or reviewed

Evaluating the effectiveness of a municipal legal department is difficult; rarely do cases resolve in a simple “win or lose” result. Much of the legal department's work is in settling claims, negotiating contracts, and other work that does not have a clear measurable result.

Human Resources

Municipal human resources departments often work closely with their law departments due to the number of legal issues related to personnel matters that a municipality faces. Much of the work of a municipal human resources department is legal in nature: the negotiation of collective bargaining agreements with labor unions, the administration of grievances and arbitrations, the management of civil service requirements, along with follow up associated with workers compensation and injured-on-duty claims. These areas of human resources functions can dominate municipal environments but there are other core functions of these departments, including the administration of benefits and the recruitment and retention of employees. These are distinct areas of expertise and excellence for a department; successfully managing labor relations and negotiating contracts may require a different skill set and operational priorities than recruiting and retaining talented employees.

Workload and Effectiveness

- Number of positions filled in a year
- Rate of turnover in administrative positions
- Average time from vacancy to positions filled
- Number of grievances processed
- Number of training events held
- Number of employees enrolled in benefit programs

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- Number of customer service calls fielded from employees
- Number of labor negotiating sessions
- Number of contracts settled in the current year
- How personnel data is managed: Are personnel files maintained electronically? Can applicants find jobs online? Can they apply online? Are application materials received online so that they do not have to be data entered multiple times? Sophisticated personnel databases can be expensive but online software services can provide much of this functionality.
- By what measures are employees evaluated? Are the systems in place to evaluate performance of employees? If so, how are those evaluations carried out? What are the results?
- Number of HR FTE's
- Rate of workers comp claims
- Average length of workers compensation absence
- Method for tracking, investigating and monitoring workers compensation claims. Some municipalities employ an outside service to monitor workers comp claims, while other use in house staff. The method is not as important as the existing of the function to curtail possible abuse of workers compensation time and insure timely processing of valid claims.

Municipal Executive Management Function

All municipalities have executive functions to be performed, whether they employ an executive mayor, manager, or administrator. The municipality's executive is responsible for enforcing the municipality's laws and ordinances, appointing commission members, developing and submitting the annual budget document, and the hiring of key administrative staff. The executive also reports to the municipality's legislative body, attends relevant public meetings, develops operational goals and strategies for operational departments, and provides evaluation and oversight to many municipal departments. The responsibilities of the municipal executive vary widely across municipalities, and many executives have only limited oversight of certain municipal functions. They are expected to respond to requests for service from citizens, conduct and attend municipality meetings, and disseminate important information to the public at large.

Since the executive is held accountable for all goals of the municipality, all departmental metrics are a reflection on the chief executive's leadership and oversight.

Municipality Accountant/Comptroller

The municipality accountant provides the final check on the municipality's expenditures and is required to certify that all transactions are recorded and that vendor payments and payroll checks are legally appropriated and properly funded by the municipality. The accountant is required to close the books for fiscal year end and work with external auditors to prepare an annual external audit of the municipality's financial records. The accountant prepares reports for the state department of revenue including Schedule A (a balance sheet) from which the Department of Revenue certifies available free cash for the municipality. The accountant also prepares monthly reports of budgeted versus actual expenditures for each appropriation in the municipality budget.

Workload and Effectiveness

- At what point are transactions reviewed and audit report generated? How are months and years closed out?
- Length of time to complete annual audits
- Development of operational or technological systems to assure that no expenditures are made without an appropriation or without proper legal authority (e.g., a valid purchase order)
- Number of payrolls reviewed; number of vendor checks approved; number of accounting adjustments entered
- Number of days to close books at year end; number of days to prepare for the year-end audit
- Are monthly expenditure reports prepared? Who reviews them?
- Did the municipality's audit receive a clean audit opinion from the outside auditor?
- Has the municipality received any recognition from the Government Finance Officers Association for its audits?
- Procedures for internal controls, the role of the audit committee (if existing), and conflict of interest disclosure should be recorded in writing and regularly reviewed.

Finance: Treasurer, Collector, and Assessor

Financial operations for a municipality typically include the Treasurer, Collector, and Assessor functions, which are responsible for cash management, debt issuance, tax bill collection, a board of assessors charged with proper valuation of properties and tax bill commitments, and administrative oversight from a municipality manager, department heads, and a finance committee to prepare, review, and/or monitor annual budgets. Management of the municipality's cash flow, assuring that funds are available for disbursement through payroll or to pay vendors that render services to a municipality is the responsibility of the municipality treasurer. An additional key role for the financial oversight of a municipality is budget development and oversight, identifying the amounts that will be needed for the coming year to fund current and planned operations.

Reviewing the financial functions of municipality should include the following:

How strong are the municipality's financial management practices? Financial management more broadly includes a review of all components of financial management, including medium and long term planning, debt and reserve policies, and the accuracy of budgetary estimates and its available level of reserves. Municipal bond ratings and reports of bond rating agencies can provide a good window into these areas.

Efficiency

For financial functions, efficiency is achieving excellence in financial security and providing for strong financial management practices at the lowest cost possible. Personnel costs are significant for these function areas as well as technology and possibly the use of outside auditors and consultants.

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Key Questions

How are the financial divisions structured? Municipality finance departments can take a number of different forms. The Treasurer and Collector functions can be separated into two positions or unified in one. These positions may be elected or appointed. Tax collection can be performed largely with in-house staff or can be outsourced to collection firms. Municipalities may outsource some collection services while performing others in house. Reviewing the existing structure and comparing the cost of the current model with alternatives can illustrate how efficient the current operation is structured.

How are current revenue collections? Percent of delinquent tax collections can be an indication of operational difficulties. If collections fall too far behind, tax revenues, interest, and penalties may be lost.

Key Metrics

- Percent of current year real estate tax levy collected
- Percent of current year motor vehicle excise tax collected (not valid until the fourth quarter of the fiscal year)
- Percent of utility bill collected
- Number of properties in tax title

How is debt managed? What is the municipality's existing debt burden? What drives municipality debt? Does the municipality issue revenue anticipation notes each year to finance the budget? What capital items are financed with borrowing each year? How are long-term borrowing plans developed, for instance, for major school projects or other major facility needs? Who has the final decision on debt-related matters?

See *Debt Service* section for additional relevant metrics.

How is technology used to manage finances? Financial management software can provide great flexibility and analytical power for the municipality's financial management, but it also requires resources to acquire and maintain it. Such investments range from modestly priced off-the-shelf accounting and business software to multi-million-dollar financial management systems. A key component of a municipality's financial management can be found in the efficiency and stability of the software employed and the training made available to the software's users. From proper training in office productivity software like Microsoft Office to the deployment of system-wide integrated financial management systems, technology can play a significant role in a municipality's financial management and efficiency.

How strong are overall financial management and decision-making? The municipality's financial divisions are responsible for proper control of cash as well as prudent planning for future cash needs through accurate budgeting and projections. Conservative revenue and expenditure estimates and consistent budgetary controls should generate positive year-end financial results and result in the generation of increased reserves and free cash (see below for full explanation).

 *Key Metrics for financial management:*

- **Bond ratings:** Among the quickest and most readily available indicators of a municipality's financial health is the bond rating issued by the bond rating agencies when debt is issued. Rating agencies assign a level of risk to a municipality's bond offering to enable the market to assess the risk of investing in the municipality's bonds. The rating agency reports typically indicate why a municipality receives a particular rating and can therefore provide some direction for improvement. Financial management more broadly includes a review of all components of a municipality's financial management, including its medium- and long-term planning, debt and reserve policies, the accuracy of budget estimates, and the available level of reserves.
- **Year-end audits:** The Commonwealth of Massachusetts requires municipalities to conduct annual outside audits. While these documents contain financial information, they typically include a management letter which identifies practices that need improvement for the basic security of finances and consistency of financial reporting. Reviewing the municipality's audit and management letter can provide helpful information to identify the level of security of the municipality's finances and financial reporting.
- **Free cash:** At the end of each fiscal year, the Commonwealth certifies free cash for cities and municipalities in Massachusetts. This indicates the net revenues above or below original budget estimates and expenditures that had positive or negative variances with budgeted amounts. While the amount is neither free nor cash, once certified it is available for appropriation the following fiscal year. If a municipality routinely generates free cash at year end, then it is consistently constructing well-reasoned and effective budgets, which can be a sign of fiscal health. Year-end results, particularly the availability of free cash, are heavily influenced by how tightly the municipality projects annual revenues and expenditures along with other less-predictable factors, e.g., the amount of snowfall in a year.
- **Stabilization Funds:** Communities may establish stabilization funds with the approval of two-thirds of its legislative body. There should be a clear policy around how funds are to be used and the circumstances of deposits and withdrawals. The presence of a well-funded Stabilization Fund suggests strong budgetary planning and control of expenditures.
- **Spending per capita (against comparable communities):** Provides a useful metric to determine level of spending relative to other communities for these functions. This metric may not capture the cost of capital outlay for computer hardware and software investments, as those are funded through the municipality's debt service line items.
- **Spending as percent of the budget:** Reflects municipality's changes in emphasis over time, based on expenditure priority
- **Spending above or below original budgetary estimates:** If budgetary areas are consistently out-of-line with original budget estimates, this could indicate weakness in financial planning

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Finance: Property Assessment

All municipalities rely on property taxes which are generated based on local property assessments. This process is regulated and overseen by the Commonwealth's Department of Revenue, which requires revaluation of properties every three years and physical inspections of properties at least every six years. This is a core function of a municipal government and one that is tightly regulated by the Department of Revenue Bureau of Local Assessments. The level of staff time required varies greatly from municipality to municipality depending on the number and variety of residential, commercial, and personal property accounts.

Key Questions

- Schedule for property re-inspection for property assessments: frequency with which properties are re-inspected; number of properties inspected annually. What is the municipality's next revaluation year through the Department of Revenue?
- How many FTEs provide assessments? Number of assessments done during a given year; assessments per FTE compared with other communities
- Number of inspections driven by building permits each year per capita
- How are changes in value for the municipality tracked and maintained? Number of deeds processed each year; number of sales verified; number of commercial properties tracked. How is income and expense information gathered for these properties? Number of new accounts added or removed each year
- How many exemption and abatement applications are filed? Communities must process according to statutory requirements all abatement and exemption applications for property and motor vehicle excise taxes. This workload can vary greatly among municipalities, but each municipality must be able to address the submitted exemption and abatement requests
- How many abatements are granted? Percent of yearly assessments that request abatements? Percent granted?

Procurement/Purchasing

All municipalities are bound by the provisions of Chapter 30B of the Massachusetts General Laws which establish the rules for public procurement. Purchasing departments ensure a municipality's compliance with state statutes and seek to acquire the best goods and services at the lowest prices. A purchasing department's effectiveness is often evaluated internally based on speed: how fast can we acquire our merchandise? Though a purchasing department needs to process requests in a timely manner, its most important role is the proper execution of statutory obligations and compliance with state laws and local ordinance. Municipalities look to vendors that offer ease of access to bid materials and clarity of bid results.

Key Questions

- Are procurements centralized? Are procurements for municipal and school functions combined? Are procurement efforts combined with neighboring municipalities?

- Is the procurement process automated or paper-based?
- Are opportunities to bid on municipality services disseminated widely, and are they available on the municipality website? Are bid results published online?
- Are the municipality's department-based purchasing requests evaluated against available state contract vendors?
- How are construction contracts managed? Does the purchasing office also oversee procurement of construction services?
- Number of emergency procurements each year

Zoning and Related Boards

Planning and zoning activities are largely concerned with zoning development and enforcement as defined by state statute (Chapter 40A) and local zoning ordinances.

Key Metrics

- Number of zoning/planning board meetings per year
- Number of zoning/planning requests per year
- Number of special permit requests, and number granted
- Number of amendments to ordinances proposed, and number passed

Key Questions

- How are boards supported and meetings staffed?
- What is the size of the staff that provides administrative support for the planning and zoning board? Do employees attend multiple meetings to support the board's activities? Does the municipality pay overtime to support meetings?
- What other planning services are provided by the municipality? Does the planning division provide other services? For instance, has the municipality developed a master plan for development guidance?
- How frequently are planning services sought? What do they cost? How are the plans integrated into the municipality's decision-making processes?

Culture and Recreation

While accounting for only 2% of annual municipal expenditure in Massachusetts, cultural and recreational institutions are a major part of the public face of municipal government.⁶ For this reason, leaders of these programs consistently feel pressured to create new ways to provide better services with invariably strained budgets and limited resources. This section covers the fiscal management of public recreational programs (i.e., parks and community centers), libraries, and other cultural commissions or institutions (e.g., historical commissions, museums, or special events programs).

6. Municipal Data Bank/Local Aid Section – State totals 2001-2009 - <http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/municipal-actual-revenues-and-expenditures.html>

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Parks, Recreation and Community Centers

The departmental structure of parks and recreation and community center programs varies by municipality. In some municipalities, the responsibility for managing parks is separated from recreational and community center programs, while in other cities and municipalities, all recreational programming is overseen by a single department. Whatever the organizational structure, the budget for recreational departments has five major components: personnel, programming, contracted services, facilities operation/maintenance, and capital needs.

Key *Key Questions for the analysis of parks, recreation and community center programs should start with the following:*

- What level of service does the public expect from the municipality's recreational department(s)?
- What are the specific costs/savings of any proposed service level increases/decreases? Should the provision of recreational services via nonprofit or contracted for-profit vendors be explored?
- Where does the money to fund public recreation services come from? What percentage is funded by tax dollars and by external funds and user fees? Is the municipality maximizing external resources like government and foundation grants, friends groups, and community support? How much of the budget is supported via usage fees, permits, fines, and facility rentals?
- What are the municipality's capital needs for recreational services? Is the municipality preparing to acquire new parkland? Is construction, purchase, or major repair of facilities or equipment a priority for the municipality?
- Should these services be accounted for in a revolving or enterprise fund?

Financial Efficiency

Ensuring financial efficiency in public recreational services requires attention to the major categories of expenditure. However, as recreational services often rely on revenue-generating programs and external funding, significant attention should also be devoted to understanding the recreational programs' funding sources.

Key *Key Expenditure Questions*

- What are the personnel costs for recreational programs? As with most other municipal functions, personnel costs are likely to account for the largest percentage of recreational program expenditures. Since staffing fluctuates seasonally, reviewers should identify the number of full-time equivalent employees (FTEs) that are permanent and the number of FTE temporary employees. What are base salaries for employees at each level? What are the costs per employee for overtime, healthcare, retirement, and workers' compensation? How do these vary between seasonal and permanent employees?
- What are the programming costs? What programs are provided? What is the attendance rate of these programs? What costs beyond personnel and facilities are associated with providing these services?

- What services are contracted for versus provided in-house? Do recreational programs provide services that are redundant to services provided by other municipal departments or by private entities? For example, does the parks department maintain a trash collection program that is separate from public works?
- What are the costs for operating and maintaining open spaces and facilities? What are the utility costs associated with each facility? What do program supplies cost? What are the costs for operating and maintaining vehicles and equipment? What inventory do the programs need to maintain, and what are the associated maintenance costs?
- What are the long-term capital needs for open spaces and facilities? Is there a multi-year capital improvement plan in place? How much of the municipality's annual debt service payments are tied to past recreational programs? Do facilities have a deferred maintenance problem?

Key Revenue Questions

- What share of expenses is paid for by user fees and charges? What services and programs charge a user fee? What, if any, programs are self-sustaining? How much revenue is generated through permits, fines, rental fees, and advertising sales? If the municipality is considering a policy to start collecting fees for specific programs, would the revenue cover the costs of implementing the programs?
- What are external funding sources? How much does the department receive in government and foundation grants? Are any programs supported by gifts or trusts?
- Who are the supporting partners? Are concessions contracts awarded, and if so, what revenue do they produce? Are any programs provided by outside partners? How do friends groups, volunteers, or local business groups contribute to recreational programs? What are the costs associated with maintaining these partnerships?

Key Metrics

- Unit cost of programming per user: While difficult to calculate, the best measure of financial efficiency is the cost expended per user accessing recreational programs, e.g., the cost per park visitor, or the cost of aquatics operations per pool user.
- Total operating revenue: How much did fee-for-service programs produce in the past year? How does this compare to previous years?
- Spending per employee: This estimate of personnel costs should be compared over time to determine if the trend is positive or negative. Total spending includes salary and all other forms of compensation including overtime, workers compensation, health care, and other benefits.
- Spending per capita (compared against similar communities): This metric provides a useful benchmark that can be compared against other communities to determine if the level of spending is unusual.
- Spending as a percentage of budget: This metric reflects the priority of recreational programs compared to other services provided by the municipality.

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Workload and Effectiveness

Workload and effectiveness measures seek to identify how well the park, recreation, and community center programs perform with the resources provided.

Key Questions

- How many and what kinds of programs does the municipality offer? Parks and community centers often provide a variety of programming options. A thorough evaluation should include an inventory of these programs. When are these programs offered and how often?
- Who uses recreational resources? Recreational programs exist to serve constituents, so it is critical to determine if they are being well utilized. What are the demographics of those visiting or attending programs and how does this compare to the municipality at large? Are most visitors one-time users or regular customers? How are attendance and visitor figures calculated?

Key Metrics

- Visits and program attendance: This is the key measure for understanding the utilization of services.
- Active membership: For programs that are membership-based (e.g., gyms or pools) this provides a measure of the number of individuals touched by programming.
- Number of constituent maintenance/service requests: This measure provides an estimate of demand for service or maintenance. This is particularly relevant in parks departments that are responsible for street trees and other citywide services.
- Percent of total hours absent: This measure provides an estimate of workforce productivity by capturing lost productive time. Take the total number of hours for which employees were absent from work during the year and divide by the total possible employee work hours.

Libraries

There are 370 public libraries in Massachusetts, with all but two municipalities in the Commonwealth offering some type of public library service.⁷ Some municipalities operate a library system supported by several branches; in others, independent, private, or non-profit corporations or associations contract with the municipality to provide public library services. Several communities have more than one independent public library system. (*Note: this section focuses on Massachusetts public libraries and not school district, university, or private libraries*).

In FY2010, of the \$17.68 billion general fund dollars spent by the Commonwealth's municipalities, \$219.5 million was spent on public libraries by Massachusetts municipalities, 1.24% of total municipal expenditures.⁸ Across communities, the percentage of total municipal expenditures for libraries ranged from less than .1% to 4.94%.

7. http://mbic.state.ma.us/advisory/statistics/network/net10_complete_report.pdf

8. http://mbic.state.ma.us/advisory/statistics/public/repmunicipie/repmp10_report.pdf

An analysis of a municipality's library system should start with several key questions:

- What level of service does the public expect from the public library services? What are the operating hours for the library system? What are the circulation figures for library materials? What programs does the library system offer and what are the attendance rates for these programs?
- How is the library system funded? The vast majority of public library funding comes from local communities, although libraries do receive specific state funding for regional services, library aid, and services for the blind. Libraries are also supported by grants, trusts, donations, friends groups, and partnerships. Knowing the specific funding picture for the library system is critical to understanding its operations and efficiency.

Financial Efficiency

Major categories of library operations include personnel, facilities, materials/collection, programming, and technology. Key financial questions include:

Key Questions

- What are the library personnel costs? Unless the library is entirely staffed by volunteers, personnel costs are likely to account for the largest percentage of library spending. Any consideration of personnel costs should start with salaries, but should also take into account overtime spending, workers compensation, health care costs, and other benefits.
- What do the facilities cost? How many buildings does the library operate? What are the utility expenditures? What are the repair and maintenance costs?
- What are the library's capital costs? How much of the municipality's debt service payments are related to libraries? What's the breakdown between facilities and technology capital spending? Are there library capital projects planned for the near future?
- What is the total operating income for the library? How much of this is municipality-appropriated? How much comes from state aid? What does the library system receive in library incentive grants, municipal equalization grants, and nonresident circulation offsets?

Key Metrics

The Massachusetts Board of Library Commissioners maintains a useful set public library statistics on the advisory services section at <http://mblc.state.ma.us>. Comparison data for all public libraries in the Commonwealth can be found on the following key measures:

- Appropriated municipal income as a percentage of total operating income: This measure provides a comparative estimate of the funding sources of funding library. A lower percentage suggests the library has a more diverse pool of non-municipal income.
- Total operating expenditure per capita: This measure provides a proxy for how the municipality prioritizes library spending.
- Salaries as a percent of total operating expenditure: This measure shows the impact of personnel costs on the library's budget.

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- Total materials expenditures as a percent of total operating expenditures: This measure shows the resources the library devotes to materials that circulate to library patrons or are used by patrons within the library.

Workload and Effectiveness

Beyond circulation of materials, libraries also provide reference services, interlibrary loans, and educational programming targeting all generations and many interests. An analysis of operational efficiency should aim to determine how well these services are being delivered based on the funding provided.

Key Questions

- What programs are offered by the library? How often are programs offered, what populations do they target, and how well are they attended? In the last year, how many visits, reference questions, and programs did the library have?
- What are the library's circulation statistics? What are the library's total holdings? What are the circulation figures for non-resident versus resident borrowers?
- Who uses library services? How many registered borrowers are active with the library? How many new library cards were issued? What is the mix of children's, young adult, and adult programming? How well-utilized are public computer terminals?
- How is the library staff aligned in relation to programs? What is the mix of direct service versus support staff?

Key Metrics

As mentioned above, the Massachusetts Board of Library Commissioners advisory services website (<http://mblc.state.ma.us>) provides a useful set of metrics for public libraries across the Commonwealth, including:

- Average weekly library visits: This provides a useful benchmark for library utilization and is particularly useful when evaluated per capita. Historical trends provide useful insights into the utilization of the library's physical space.
- Total circulation activity: This measure can provide insights into the utilization of the library's circulation materials. This offers understanding of how strongly the municipality values the library as source for borrowing books and other media.
- Average weekly reference transactions: This provides a comparative estimate of the utilization of reference librarian services.
- Total number of programs and total attendance at programs: Quantifies the programmatic services offered by the library in a way that can be compared over time and against other communities.

Other Cultural Commissions

Many communities offer several other cultural programs and institutions beyond recreational services and libraries. These may include historical commissions, veterans' memorials, museums, or special

events programs. A financial analysis of these programs will largely mirror the issues discussed above for parks, libraries and community centers. A primary concern for any cultural institution is the sources of external funds and, if applicable, a well-managed collection of revenues/user fees. If the department/commission is responsible for operating physical assets, then maintenance, utility and capital costs should be a concern. Attendance rates and program offerings are key performance measures, and as with any municipal service, labor costs and staff productivity should be closely managed.

Health and Welfare

In fiscal year 2010, health and human services accounted for 1.65% of annual municipal expenditures in Massachusetts.⁹ These services often include public health, community social work, fair housing, council on aging/elderly affairs, veterans' services, youth services, civil rights, disabilities commission, and other services for promotion of health and well-being. In some communities this division of government may include a board of health responsible for inspections and certifications, while in other communities these functions may be consolidated under inspectional services. (For more on health inspections see the inspectional services section).

Financial Efficiency

Health and human service organizations have three core financial components: personnel costs, programming costs, and revenue from external sources.

Key Questions

- What services are provided by the health department? Does the department perform health inspections (air, water, food) or are these inspections performed by a different department?
- What are the personnel costs for the program or department? In human services departments, it is likely that most of the municipality-appropriated dollars are spent on personnel. This is especially true when the program or department receives most of its programmatic funding from external resources. Therefore, it is important to closely manage each component of personnel costs, including salaries, overtime, workers compensation, healthcare, and other benefits.
- What are the sources and uses of external funding? In many cases, human services departments are responsible for administering state, federal, or foundation funding for services such as community development block grants, housing vouchers, or elder lunch program dollars.
- Has the option to regionalize services been explored?

Key Metrics

- Cost per unit of service: While difficult to calculate, the best measure of financial efficiency is the cost expended per unit of service delivered by the human service program. For example, this might be the total cost per home health visit by a public health nurse or the total cost per senior taxi voucher redeemed. When calculating total costs, it is important to include the personnel and administrative costs associated with each unit of service in the estimate.

9. Municipal Data Bank/Local Aid Section – State totals 2010 -

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- Dollars spent on program administration versus service delivery: All human services programs have overhead costs, and it should not be the mission of the organization to drive overhead costs to zero. However, the ratio of overhead to direct service costs will help evaluators ask meaningful questions about whether overhead costs are being meaningfully controlled.
- Personnel expenditure per employee: This provides an estimate that can be compared against other departments and over time to identify variations in personnel spending.
- Revenues by source: What share of funding comes from local funds? State funds? Federal funds? Other grants? Third party payers? User fees?

Workload and Effectiveness

It is difficult to evaluate the long-term impacts of municipal human service programs because there are so many factors which influence the health and well-being of a municipality. Therefore, most studies of operational efficiency focus on the day-to-day operations of these programs. While this type of analysis is useful, it is important to keep in mind the overall mission of the organization by striving to find ways to measure the outcomes the organization achieves.

Key Questions

- How does the program reach, inform and/or advocate for the municipality? Whom does the program seek to serve, and is this population being reached?
- How does the program measure success against its mission? What programs are the most utilized? How is each service tied to the overall mission? While it might be easy to determine how many people the organization touches, how do we know these services are having an impact?
- If the program administers benefits or services, how are decisions on who to serve made?

Key Metrics

- Persons served: At a baseline, the organization should track the number of people touched by each of its services. However, if available, outcome level measures will provide more insights on the effectiveness of the organization. For example, instead of measuring the number of veterans counseled about housing vouchers, measure the number of veterans successfully placed in housing. In some cases, constituent surveys will provide meaningful qualitative data on how recipients value the services delivered.
- Referrals by channel: Municipal human service delivery organizations often rely on referrals and requests from constituents to identify those in need of services. Therefore, it is useful to analyze who is asking for help and through what channels citizens are reaching government.
- Number of communicable disease investigations per year
- Number of tuberculosis cases per year (TB monitoring is identified in the statute as a required function)
- Number of vaccination clinics operated each year; number of vaccines distributed
- Senior center usage statistics: visits, programs, program attendance, and meals served

Animal Control

Animal control services include enforcement of local animal ordinances, investigations of animal complaints, intervention in emergency situations with animals, investigation and prevention of animal abuse, and the pick-up and return of stray dogs. Animal control operations often work closely with police departments as well as public health departments. The range of services provided will be the biggest determinant of costs associated with the service.

Key Questions

- Are services shared with surrounding municipalities? Has regionalization been explored?
- Does the municipality provide its own sheltering/housing of animals awaiting pickup?

Key Metrics

- What is the staffing level of animal control?
- Number of dogs licensed in the municipality.
- Number of animal complaints per years
- Number of days of sheltering required for municipality animals (both in-house and outside shelter)

Planning, Economic Development, and Building Inspections

Planning and economic development organizations control the built environment of the municipality, and therefore, through their decisions, influence some of its most visible and long-lasting elements. The power of these organizations can also result in sizeable bureaucracies with rigidly prescribed permitting, inspection, community review, appeal, and penalty-based processes.

Inspectional Services

Municipalities in Massachusetts have regulatory responsibilities to issue permits, conduct inspections, and enforce code compliance under local and state laws. These functions include administering building, housing, health, sanitation, and safety regulations. In some communities these functions are separated into different boards and departments, while in others they fall under the jurisdiction of a single inspectional services department. However they are managed, these divisions of government must balance the twin concerns of fairly enforcing laws while not overly burdening development, and do both while maintaining financial efficiency.

Financial Efficiency

Inspectional services have sizeable revenue-generating components: application fees and code enforcement fines. This revenue-generating capacity is matched by operational expenses that are mainly driven by personnel expenditures. Therefore, the key avenues for financial analysis are as follows:

Key Questions

- What are the sources of revenue for the department? How is this revenue collected? What is the fee structure for applications and permits? What percentage of the cost of issuing a permit is

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covered by the fee? What is fee structure for fines? How does this compare to other communities? Are transactions available online and if so what is the online versus in person mix?

- What are the major drivers of personnel costs for the department? What are the salary costs? What are the overtime costs? What are the healthcare and other benefit costs? How do all of these costs compare to previous years? How is employee productivity monitored and controlled?
- How integrated are permitting activities? Can they be accessed in the same facility? At the same time? Is there an integrated review of plans to identify obstacles for business early in the planning process? Are there multiple customer service points for the various permits and licenses?

Key Metrics

- Total application fees collected by application type: This measure will show which application types bring in the most revenue. This should be compared against volume to determine if high revenue applications are the most common, the most expensive, or both. This analysis may inform changes to application fees based on the relationship of revenues to cost.
- Inspectional services expenditure per capita: This provides a measure that can be compared against other communities to determine if the municipality's spending is unusual. Care should be taken to account for differing levels of building activity.
- Personnel cost per inspection: This measure will provide insights into how personnel costs relate to the demand for service. Fluctuations in this measure over time should be investigated to determine the drivers.
- Personnel cost per permit issued: Similar to the above, this measure compares personnel costs with demand for service.

Workload and Effectiveness

With expenditures that are largely personnel-driven and a workforce with generally wide latitude to exercise independent judgment during the inspection process, it is particularly important to manage workload and productivity in inspectional service organizations.

Key Questions

- How do staff members spend their time? Are staff members aligned to perform only particular inspectional tasks or do they have cross-functional expertise? How are they assigned cases? How are cases prioritized? Is there downtime? If so, what is done during downtime?
- How much work does the department do? How many permits, inspections, cases, and other work does the department complete on monthly basis? How does this change over time?
- Does the department do its work well? Are business and residents satisfied with the service they receive?
- Has the option to regionalize certain inspectional services been explored?
- How much overtime is used at the department? Is it related to a particular area of service?

 *Key Metrics*

- Total permits issued, inspections performed and/or code enforcement violations issued: These basic measures should reveal the workload of the department. For the most informative analysis, these measures should be compared against history and broken down by permit type.
- Permits issued per FTE: This is a key measure of workforce productivity as more permits issued per employee means greater productivity (as long as lengthy or difficult cases are not being ignored). It may be useful to break this down to the employee level by comparing the number of permits issued per hour worked by employee.
- Percentage of permits issued same day: While there will always be many permits for which it is not possible or prudent to provide same-day service, increasing the percentage of permits issued the same day generally correlates with improved customer satisfaction.
- Average length from inspection request/assignment to actual inspection: 90th percentile length from inspection request/assignment to actual inspection
- Average number of days for first complaint to inspection: This measure will show how quickly the department is responding to complaints.
- Average number of days from case creation to compliance: This measure demonstrates how quickly the department is driving cases to resolution.
- Rates of voluntary versus forced compliance: In general, the mission of a code enforcement division should not be to issue violations but rather to increase compliance. Looking at the percentage of cases that quickly took voluntary compliance action versus those which required forced intervention provides a measure of how well code enforcement efforts are achieving the educational component of their mission.

Part III. Cross-Departmental Analysis

Salary and Contractual Benefits

Local government is, by its very nature, a service industry. Undertaking the myriad of necessary tasks for which municipal government is responsible requires personnel. Police, fire, public works, libraries, and schools are all labor-intensive operations, and in many communities, personnel and benefit costs comprise more than 75% of operating expenses. Thus, great scrutiny should be paid when deliberating about personnel matters. In most cases, this involves the collective bargaining process. Decisions made, or not made, under collective bargaining can have significant and, most times, permanent consequences on a municipal budget, far more than, say, a decision whether a municipality should spend less on training or whether the purchase of a vehicle should be delayed until the economy improves.

When reviewing proposed employee contracts, finance committees should make sure to review each of the following items:

Wage adjustments

Wages for employees come in many forms, including base salary, step increases, and specialty pay (e.g., Quinn, shift differential, longevity pay, and hazardous duty pay). In many cases, these are interrelated. For example, an increase in base wages affect the step structure, impacting specialty pays (many are tied to base wages), overtime, and, ultimately, pensions.

When collective bargaining agreements go before the relevant body for appropriation (e.g., municipality meeting, city council), that body should take great care to determine the true cost of the entire package. Often, just the base wage increase garners attention: “The contract calls for a 1% increase in year one and a 2% increase in year two.” However, when viewed in its entirety, that figure can increase significantly. Each change should be costed out, as sometimes a relatively small change has a large impact, thereby increasing the overall wage package.

For example, a proposed contract might call for putting a specialty pay item into the base. This may appear to be cost-free since the specialty pay is not increasing; it is just being added to the base rate. Moving items into the base is not cost-free, as once they are in the base, they impact numerous other specialty pays that are tied to base pay, overtime, and pensions. As a result, such a proposal can increase the overall wage package significantly. Similarly, stipends are often introduced rather than a percentage increase in base pay.

Language changes

Another important part of the collective bargaining review process is analyzing the impact language changes can have on the budget. Often, seemingly innocuous changes to work rules can have a significant impact on a municipality’s finances.

For example, because of a change in rules surrounding working on weekends, overtime costs and/or staffing levels may have to be increased. As another example, increases in minimum staffing

requirements mean increases not only in salary expenses, but also in benefit costs. Any and all language changes should be analyzed to determine whether or not they will have a hidden impact on operating costs.

Benefit changes

Personnel benefits have been the recent focus of much discussion at all levels of government. Tough financial times mean belt tightening and, in a service industry, this requires the scrutiny of all labor costs. Even with the Commonwealth responsible for teacher pensions, benefit budgets can exceed 25% of all operating expenses. As large as that figure may be, the current underfunding of Other Post-Employment Benefits (OPEB), which is primarily health insurance for retirees, deflates that ratio. If municipalities were funding OPEB at levels similar to pensions, that ratio would be significantly higher.

The two most significant benefit items to consider in personnel discussions are health insurance and pensions. These items are noted briefly here as part of the cost of personnel but are discussed in greater detail below. Both of these are, for the most part, prescribed by Commonwealth law, and municipalities are limited in the changes they can make to these cost centers (more so pensions than health insurance).

Health Insurance: As employers, municipalities must offer health insurance to all benefit-eligible¹⁰ employees and pay at least 50% of the premium. Once the employee retires after ten years of creditable service, the municipality must continue to pay at least 50% of the premium for the employee and his/her spouse.

Pensions: There is one statewide pension program, with Commonwealth statutes dictating how the defined benefit plan works. Current employees¹¹ become vested in the system after ten years of creditable service. Their pension is based upon the highest consecutive three-year earnings period and their years of service. The formula for pension calculation varies depending on job type (e.g., public safety).

While both of these cost centers are, as previously noted, prescribed by Commonwealth law, municipalities do have the ability to manage and control costs. For example, for health insurance, communities can work to reduce their premium contribution rate, increase co-pays/deductibles, or move to the GIC. On the pension side, a local retirement board can promulgate regulations that require an employee to work more than the statutory minimum of 20 hours per week to become a member of the retirement system, an action that also reduces OPEB liability.

Other ways to manage these costs include the following:

Prudent management of staffing levels: Increases in staffing levels increase both health insurance and pension costs. Also, part-time employment should be monitored to avoid situations such as having two benefit-eligible part-time employees working to fill one full-time job slot.

10. Under state law, employees who work 20 hours per week are benefit-eligible. However, for those municipalities in the Group Insurance Commission (“GIC”), eligibility is defined as 50% of the time of a full-time employee. Therefore, a full-time position with a 37.5 hour per week schedule translates into a part-time employee being eligible for health insurance at 18.75 hours per week

11. In November, 2011, the Commonwealth enacted changes that affect employees hired after April 1, 2012.

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Salary increases: Since pensions are based on an employee's earnings, increases in base wages increase pensions. A local retirement board works with an actuary every two years to develop a funding schedule. A number of assumptions, including wage increases, go into the actuarial analysis. If actual wage increases exceed the assumption, then that increases liabilities and, ultimately, funding requirements. Citizens and local officials should familiarize themselves with the assumptions used by the retirement board and the actuary.

Similar to the analysis required for any proposed changes in pay and language, any proposed changes to benefits structures require careful review. For example, a proposal that involves no wage increases yet increases contribution rates for health insurance could very well end up costing the city or municipality more over time than a 1% or 2% increase in wages because the costs of health insurance have increased more rapidly over the past decade and because of the impact of other post-employment benefit ("OPEB") unfunded liabilities.

Clearly, the cost of employing an individual to perform a service offered by local government far exceeds that individual's salary. When contemplating hiring an employee and/or changes to benefit structures, an assessment of the true cost of an employee should be undertaken that includes, at a minimum, the following:

- Base wage
- Specialty pays
- Medicare tax
- Health insurance (both as an active employee and as a retiree)
- Pensions
- Leave (vacations, sick days, etc.)

Once that individual is employed, those costs increase when changes to pay/benefit structures occur through the collective bargaining process. Therefore, great care and careful analysis must go into any and all proposed changes to wage and benefit packages. As previously noted, once changes are made, they are, for the most part, permanent and will continue to impact budgets for decades. Local finance committees are well positioned to question proposed changes to employee contracts and should take the time to determine the total impact on a local budget.

Health Care

Health insurance has been a particularly challenging cost center for municipalities in the last decade. Growth rates well above the rate of revenue growth have pushed a greater percentage of municipality resources out of services and into benefits costs. At the same time, government accounting rules now require the calculation and disclosure of the unfunded liability associated with retiree health benefits (OPEB), a staggering figure for most municipalities to face. Few municipalities have a funding mechanism established to address this growing liability. The combined pressure on annual cost growth and the weight of unfunded future liabilities make health insurance among the most pressing concerns for any municipality's financial future.

Health insurance is considered a fixed cost due to the difficulty in making changes to this cost center. Until recently, for Massachusetts municipalities, many of the strategies employed in the private sector, including innovative plan designs or increasing cost sharing with employees, could only be achieved through collective bargaining. While this does not make reforms impossible, it makes them difficult and may require other costly concessions.

Municipal Health Reform legislation enacted on July 12, 2011 created a new methodology for municipalities to enact health insurance reforms or to transition to the state Group Insurance Commission (GIC). The following will address both the strategies for reducing health care costs with or without the adoption of the Chapter 32B Section 21. Throughout this section, however, the GIC plans will be used as a reference point, as the state's GIC is being used as a benchmark for savings under the municipal health reform legislation.

The following summarizes key areas to analyze to determine the costs of a municipality's health benefits and the possible strategies for reform:

- What does health insurance cost my municipality? The most important metric is gross premiums. The total premium, including both the employer and employee share, shows the total value of the health insurance benefit and provides an indication of the cost of the plan design of the existing plans. All other things being equal, a plan with low or no copayments will have a higher premium than plans with higher copayments.
- What strategies can reduce health insurance costs? Most municipalities can only achieve significant health insurance savings by changing contribution rates or plan design elements through direct negotiation with employee unions (or through negotiation with a coalition of employees if the municipality has adopted section 19 of Chapter 32, which enables this approach). Nonetheless, the principles of cost reduction for health insurance are the same. Municipal costs can be controlled by reducing gross premiums through plan design modifications or shifting contribution rate percentages.

Contribution rates: A shift in contribution rates can save the municipality money and increase the cost to employees. This shift typically requires collective bargaining, but it should be considered particularly if a municipal contribution rate percentage is much higher than the municipal average.

Plan design elements: Plan design elements include various cost sharing elements (copayments, coinsurance, and deductibles) or provider restrictions (limited networks). Plan design is an area where changes can reduce the gross premium costs, reducing costs for the employer and the employee, but potentially increasing costs for the enrollees who use services the most. It can provide incentives to use less-costly service providers and select generic medications, reducing costs for both parties.

Expand provider competition/regional purchasing groups: Several regional municipal purchasing groups exist to pool health insurance buying-power and to limit risk. Participating in a regional group can reduce costs by participating in a broader risk pool and allowing increased buying-power for better negotiations with providers. Due to increased numbers in the purchasing group, these groups

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can allow smaller municipalities to bargain with health providers from a position of strength. In the absence of a purchasing coalition, a municipality may still expand its provider pool and possibly bring administrative costs down through competition.

Dependent/eligibility audits: A periodic system review of all enrollments can yield savings as ineligible dependents and spouses are removed from the coverage of the municipality's health insurance.

Wellness programs: Health premiums are driven by health care costs. By reducing utilization of health care services and products, premium growth may be limited over time. Wellness programs aim to improve the health of employees and bring down health care costs.

GIC/new legislation option: Chapter 32B, section 21 establishes a new methodology for municipalities to establish healthcare plan designs or migrate to the Commonwealth Group Insurance Commission. Due to the Commonwealth's purchasing power and control over plan designs, the GIC plans are frequently less expensive than plans found at the municipal level. The actual results of these programs will be known at the close of fiscal year 2012, as municipalities are required to report their savings to the Secretary of Administration and Finance.

The following provisions summarize the benefits of adopting Section 21 of Chapter 32B:

- 1) Moves all eligible retirees onto Medicare plans
- 2) Requires that municipalities develop health insurance plans that achieve savings equivalent to a move to the GIC or move to the GIC
- 3) Establishes one bargaining coalition group so that negotiations with respect to setting plan designs or moving to the GIC are done once for all groups. Contribution rates may still be set by individual bargaining units.
- 4) If locally agreed-upon and designed plans do not generate sufficient savings, then the municipality must join the GIC

Early reports indicate that this process is working and saving municipalities millions in health care costs. Unless a municipality has extremely low contribution rates or a very cost-effective plan design, adoption of Section 21 should be given serious consideration.

Due to the relatively new legislation, some risks of this new process are still unknown. For instance, if the municipality and the employee group cannot reach an agreement, the matter will be referred to a state panel for final resolution. This state review process is new and untested.

Pensions

Pension costs are a significant component of employee-benefit-related expenditures. It is important to distinguish between the portion of the annual pension appropriation that is the net normal cost (amount paid to fund the future benefits of current employees) and the portion that is the amortization of the unfunded pension liability (amount paid to cover the unfunded liability caused by underfunding previous pension commitments). Both should be understood and analyzed.

Pension benefits for current and future municipal employees are largely a function of statutes developed at the state level. Therefore, individual communities have almost no latitude to adjust benefit structure or costs.

- Who is eligible for pensions? Municipalities have an opportunity to carefully monitor their employment practices and definitions to control who is eligible for creditable service towards their pensions. In many municipalities, there are a number of positions in a gray area between full employees and volunteers (e.g. library trustees, municipality meeting moderators, etc.). Municipalities should carefully structure and compensate these positions so that pension eligibility is transparent, taking into account recent state legislation limiting pension eligibility for municipal employees making less than \$5,000.

In addition, eligibility for enhanced pensions, either through disability or higher group classification, can result in significantly higher costs and longer payouts. Eligibility determinations occur at the local level and should be reviewed periodically to discover unusual findings.

- What are the accounting assumptions related to the unfunded liability? How big is it? How is it being paid off? The unfunded liability and its yearly drain on the operating budget is a concern at almost every level of the public sector. The calculation of the unfunded liability depends on several key assumptions, particularly the expected rate of return, tilt (the rate at which future payments increase), and projected year for full funding. The higher the expected rate of return is estimated to be, the lower the value of the unfunded liability. Analysts should review their municipality's assumptions in comparison to other communities. In addition, there is a school of thought developing that believes public sector return assumptions are far too high and should be reduced. The municipal retirement board should be aware of this discussion and have an appropriate response.
- What is the fund invested in? Who is providing investment advice? Many local pension funds in Massachusetts have, either by choice or by fiat, pooled their funds with the state's pension assets. If the municipality continues to invest independently, the fund's returns over a one-year, five-year, ten-year, and 20-year horizon (net of investment costs) should be compared to the returns of the state fund.

Most local funds utilize an investment advisor to determine asset allocation strategies and select investment vehicles. The local retirement board should be able to demonstrate an open and fair process to select an investment advisor, with evidence that investment vehicles have been selected on the basis of merit. Also, a rationale for the asset allocation strategy should be presented and a comparison with peer communities should be provided.

- Are periodic audits and actuarial analyses clean? Each pension fund has regular oversight from an independent actuary and audits from the state's Public Employee Retirement Administration Commission. It should be able to produce statements showing proper administration of funds.

Conclusion

This *Guide* and the associated Excel-based utility provide the tools to analyze the vast majority of municipal spending. The next steps are yours: take the metrics provided, gather the data, then analyze how your municipality is performing, what choices it has made, and determine how you think it should be managed. Pioneer Institute appreciates your interest in our work and hope that these tools help to improve the quality of life in your municipality.

About Pioneer

Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to change the intellectual climate in the Commonwealth by supporting scholarship that challenges the “conventional wisdom” on Massachusetts public policy issues.

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