



One Year Later

**The Freshman 15:
15 Ways to Save Over \$60 Million Annually**

Councilman Bill Green

Councilman Curtis Jones, Jr.

Councilwoman Maria D. Quiñones-Sánchez



The Freshman 15: One Year Later

- In September 2008, the Freshmen Councilmembers proposed that the City cut wasteful spending and institute common sense cost-saving measures before cutting services or freezing planned tax reductions.
- The Councilmembers came up with a list of 15 measures that could save the City \$60 million annually and be acted upon relatively quickly, either by executive order or legislative action.
- One year later, a majority of the measures the Councilmembers proposed have been implemented or are in the process of being implemented.



Summary

Item	Annual Savings/Revenue	Implemented?
1. Electronic Funds Transfer	\$2 million	Yes
2. Increase Car Sharing	\$2.72 million	Yes
3. Utility Savings	\$250,000	Implementation In Progress
4. Implement Travel Freeze	\$100,000	No Action Taken
5. Update Mail Policies	\$25,000	No Action Taken
6. Ban Swag & Custom Printing	\$100,000	No Action Taken
7. Recoup Outstanding Bail	\$10 million	Implementation In Progress
8. Burglar Alarm Service Fee	\$2.5 million	Yes
9. Strategic Use of Overtime	\$9.4 million	Yes
10. Technology Reorganization	\$10 million	Implementation In Progress
11. Paperless Government	\$8-18 million	Implementation In Progress
12. Switch to VoIP	\$2-3 million	Implementation In Progress
13. Cellular Phone Antennas	\$2 million	Implementation In Progress
14. Hire Additional Audit Staff	\$2.78 million	Yes
15. Close Tax Loopholes	\$5-10 million	Implementation In Progress



1. Electronic Funds Transfer

- Each year, the Commonwealth of Pennsylvania sends the City of Philadelphia more than \$250 million in the form of paper checks, delivered via U.S. mail.
- The funds range from grants for fire and rescue operations to Fairmount Park projects and EMT reimbursements.
- As a result of this traditional method, an estimated **\$1 million dollars** is lost annually due to un-cashed, lost, and unclaimed checks. Further, because it takes up to a month for the City to cash checks from the Commonwealth, the City loses up to **\$1 million dollars** a year in interest that would have accrued if the checks were deposited immediately after disbursement.



1. Electronic Funds Transfer

- The Commonwealth's Department of Treasury has a program called "Invest" that facilitates the electronic movement of funds to municipal government.
- Instead of mailing checks, the Commonwealth could place funds for the City into an interest-bearing Invest account. When the City is ready to receive the funds, it would merely transfer them from the Invest account into its bank account.
- Invest accounts are free to set up and there are no fees for maintaining them.
- Moving to an Invest account also would eliminate the possibility of checks being lost in the mail.
- Most importantly, use of an Invest account would ensure that the City would earn interest on these funds continually until the money is spent.

Implemented



1. Electronic Funds Transfer

- An example of lost revenue from potential accrued interest:
 - On 7/16/07, the Commonwealth issued the City \$16.4 million in checks for the Police Department.
 - Twenty-three (23) days passed between when the checks were issued and when they were deposited by the City.
 - At that time, the interest rate on an Invest account was 1.7%.
 - Had those checks been in an Invest account during the three-week period, the City could have generated \$54,171 in interest—enough to pay a police officer's salary.
- **Estimated Savings: \$2 million annually**
- **Estimated Costs to Achieve Savings: \$0**

Fall 2009 Update: The City Treasurer is working with the Commonwealth of Pennsylvania to increase use of EFT.



2. Increase Car Sharing

- In 2003, the City eliminated 330 vehicles from its fleet, approximately half of which were passenger vehicles, through the introduction of automated vehicle-sharing program (AVSP) with PhillyCarShare. The five-year cost savings were \$9 million.*
- If the City eliminated an additional 500 cars from its nearly 6,000 vehicle fleet using car sharing, the savings would be **\$2.72 million annually.**

Fall 2009 Update: The City has reduced the size of its fleet and signed a new car share contract with ZipCar.

*Case study in *Government Finance Review*, December 2006.



3. Reduce Utility Bills

- Because playing fields have high electricity demand vs. usage ratios, the City is charged high utility rates to light them.
- The lights on playing fields are occasionally left on during daylight hours, when they are not needed, resulting in unnecessary utility costs.
- To address this problem, the City should install daylight sensing, automatic light controls on playing field lights.
- Use of these devices should be expanded to City office buildings, as appropriate, and City employees should be incentivized to reduce energy consumption at work.
- Estimated savings: **\$250,000 annually**

Fall 2009 Update: The City is in the process of assessing its energy use and plans to implement department-specific energy budgets in FY11 to reduce usage and achieve cost savings.



4. Implement Travel Freeze

- Philadelphia should follow Governor Rendell's example and ban all non-essential, out-of-town travel by City employees.
- Given airfare and hotel costs, it can cost over \$1,000 to send a single employee on a several-day trip.
- Estimated savings: **\$100,000 annually.**

No Action Taken

Fall 2009 Update: There is no formal citywide travel freeze.



5. Update Mail Policies



- It is common practice for City departments to use the U.S. Postal Service to send interoffice mail.
- The envelope pictured above was sent from an office in City Hall to Councilman Green, whose office is also in City Hall.



5. Update Mail Policies

Proposed changes:

- All letters, reports, and other publications sent by one City department to another should be sent via email.
- There should be an immediate ban on sending mail by the U.S. Postal Service between City Hall, the Municipal Services Building, and 1515 Arch Street.
- The Managing Director's Office should organize an inter-office city mail service using current employees to deliver documents that, for legal reasons, must be sent in hard-copy form.
- To the greatest extent possible, the City should send mail using the U.S. Postal Service's reduced bulk mail rate.

Potential savings:

- If 50,000 pieces of mail sent at the full \$.42 rate were either emailed or sent using the bulk rate, the savings would be at least **\$25,000 per year**.

Fall 2009 Update: No policy to address these issues has been set; the Councilmembers continue to receive stamped mail from within City Hall.



6. Ban Swag & Custom Printing

- **Swag:** Taxpayers should not pay for City departments to print their names on pens, pencils, and notepads, or on tchotchkes (like the star-shaped windup toy pictured) that have no practical use.



Sometimes swag is more substantial than pens and pencils...



6. Ban Swag & Custom Printing



- **Custom Printing** It is common for City departments to have their names printed on folders, irregular sized envelopes, report cover pages, etc., an unnecessary expense not necessary to forward Departmental missions.
- Potential savings: **\$100,000 per year**

Fall 2009 Update: Swag and custom printing have not been stopped.



7. Recoup Outstanding Bail

- According to the District Attorney, the City is owed **\$1 billion** in bail forfeitures as a result of defendants failing to appear at required court hearings.
- Under state law, these funds are payable to the City.
- If the City successfully pursues 1% of these funds per year, it would net **\$10 million** annually or \$50 million over the next five years.

In Progress



7. Recoup Outstanding Bail

- Investing recouped bail money in crime prevention activities, such as **Town Watch** and **Seed & Weed**, could further save money for the City.
- The money could be used to place more people under house arrest, thereby saving the City even more money.
 - While housing an inmate in prison costs the City \$57/day, house arrest costs only \$18/month. Using a wireless system for house arrest, rather than the current GPS system, would reduce the cost to only \$2/month.
 - Many people eligible for house arrest are unable to be placed in it because they cannot afford to have a phone line installed in their home, which is required for house arrest.
 - Recouped bail money could be earmarked to pay to install phone lines so more people can be placed under house arrest.*

[Fall 2009 Update: The District Attorney and Clerk of Quarter Sessions are working together to recoup outstanding bail.](#)

*The Freshmen Councilmembers thank Deputy Mayor Everett Gillison for this suggestion.



8. Burglar Alarm Service Fee

- In 2007, Philadelphia had 105,856 registered burglar alarm users and 91,918 alarm activations. Of those activations, **98%** were false alarms.
- The Philadelphia Police Department estimates that its officers spend over **52,690 hours** per year responding to false alarms.
- In FY07, the City ran a **\$987,641** deficit related to burglar alarms: it spent \$4,135,310 responding to alarm activations, but collected only \$3,148,669 in alarm user registrations fees and fines.

Implemented



8. Burglar Alarm Service Fee

- The registration fees and fines for burglar alarms have not been changed since 1992. The annual registration fee is only \$35 and the fine for setting off a false alarm – which does not kick in until the fourth false alarm – is only \$25.
- A 1994 study determined that it costs the City \$29.89 to respond to each burglar alarm activation, an inflation-adjusted cost of over \$43 per alarm.
- The City should make reasonable adjustments to the registration fee and fine, increasing them to \$50 and \$75, respectively, and also reduce the number of “free” false alarms from three to one.
- Estimated additional revenue : **\$2.5 million annually.**

Fall 2009 Update: The fees and fines were increased in November 2008.



9. Strategic Use of Overtime

- The City is projected to spend \$187.9 million on overtime pay in FY09.
- Approximately 10-13% of City payroll costs are for overtime.
 - In other municipalities, only 5% of payroll costs are for overtime, while in the private sector, only 1% of payroll costs are for overtime.
- To use overtime more strategically, the City should:
 - Analyze days of the week and months having the highest use of overtime and adjust staffing accordingly.
 - Examine the relationship between absenteeism and overtime use.
 - Inform employees about the actual return on overtime hours. List overtime separately from regular pay on paystubs so employees can see that the extra pay is relatively small after deductions for taxes, health care, etc.
 - Determine when use of overtime actually is a cost-saver for the City.
- A modest 5% reduction in overtime expenditures would **save \$9.4 million annually**.
 - Bringing overtime down to the national municipal average would save over \$90 million annually.

Fall 2009 Update: The November 2008 “rebalancing plan” including numerous cuts to overtime. The Department of Human Resources is continuing to work to reduce citywide overtime use.



10. Technology Reorganization

- Currently, every City department has its own budget for Information Technology (IT). As a result, departments are negotiating different contracts with the same hardware and software vendors for identical products and services.
- The City could realize significant savings if the Division of Technology (DOT) negotiated additional master licenses on behalf of all City departments.
- To achieve these savings, DOT needs to perform a **strategic sourcing** audit of the City's existing IT infrastructure to identify duplication and overlap that can be consolidated.
- DOT would then renegotiate many contracts into single master ones.
- All future **IT procurement** should be **centralized** and managed by DOT, allowing the City to save as much as possible from buying software and hardware in large quantities.
- To further minimize duplication and overlap, a **budget class** should be created for IT.

In Progress



10. Technology Reorganization

- Once the City moves to centralized IT procurement, DOT should transition from traditional desktop computers to **thin client devices**.
- Cost savings of thin client devices:
 - Lower IT administration costs.
 - Lower hardware costs.
 - Less energy consumption.
- Once the City has been strategically sourced and begun to move to thin client devices, it can begin to switch over to **floating licenses** for software.
 - Currently the City buys a license for a program like Microsoft Word for every single City-owned computer.
 - Because there is never an occasion where every Microsoft Word license is being used, this is a wasteful practice.
 - A floating license would enable the City to purchase only the maximum number of licenses that would be used at any given time.
- Centralized IT Procurement and Strategic Sourcing could result in a minimum of **\$10 million** of savings annually.

In Progress

Fall 2009 Update: The Division of Technology is in the process of a total overhaul of the City's IT infrastructure, including by addressing many of the above-discussed issues.



11. Paperless Government

- Philadelphia can save millions of dollars in administrative costs through a greater emphasis on technology and a concurrent reduction in paper consumption.
- Enhanced use of technology could eventually save Philadelphia **\$138 to \$264 million annually** by reducing paper consumption and streamlining work-flow processes to increase the productivity and efficiency of government.
- In addition to saving money, technological efficiency will transform employees who push papers and process forms into ones who interact with citizens, working to serve their needs. Technology will enable City workers to be innovative and use their talents to find creative solutions to problems.

In Progress



11. Paperless Government

- Automated processes can be used to approve routine applications for permits and self-service information kiosks similar to bank ATMs can shrink customer lines, thereby speeding the processing of requests.
- Use of electronic forms that store information will dramatically reduce the need for repeatedly entering identical data. Electronic forms will also **In Progress** limit the number of City employees devoted to performing data entry, thereby allowing the City to reassign these employees to tasks where they directly interact with citizens.



11. Paperless Government

- Providing City employees who work in the field with hand-held PDAs, rather than paper forms, to collect data can increase their productivity by up to 30%. Not only can the information be entered faster, it can be instantly transmitted, electronically, back to the home office, eliminating the need for another person to type it in. The efficiency savings could be used to put more people in the field, such as L&I inspectors and police officers.
- The forthcoming CRM system can improve the accountability of City agencies and allow citizens and managers to monitor the progress of service requests. It will also allow the City to have a data-centric management approach to city government – something can only be managed if it is measured.

In Progress



11. Paperless Government

Action items that can be implemented immediately:

a. Eliminating paper: **\$7-16 million in annual savings**

- All computers connected to printers capable of double-sided printing should be set to do so automatically, a change that takes less than 30 seconds. Double-sided printing could reduce paper use by nearly 50%.
- Every dollar spent on paper results in approximately \$13-31 in secondary costs (e.g., paper storage and transportation, printing machinery, ink, postage, labor).*
- If double-sided printing and distributing reports as PDFs via email saved the City a mere \$500,000 in direct paper costs, the secondary savings would be \$6.5 to \$15.5 million annually.

*Source: Solid Waste Management Coordinating Board, "Office Paper Reduction Demonstration Project," available at: <http://www.swmcb.org/files/OfficePaperReport.pdf>.



11. Paperless Government

b. Electronic Procurement Initiatives: **\$100,000 in annual savings**

- The Procurement Department mails approximately 5,000 bid announcements per year to vendors. Emailing bid announcements or posting them on the web would save **\$2,500-5,000 annually**.
- Charter change allowing for electronic submission/review of competitive, sealed bids, resulting in numerous efficiency gains.
- Electronic submission of departmental reports on vendor performance, yielding efficiency gains and easier and better review of past performance data when considering new bids.

c. Paperless Paychecks: **over \$500,000 in annual savings**

- The primary costs of paper checks include the cost of paper, printing, postage, labor, and transaction fees. For example, the transaction fee for a paper check is \$1.10, compared to only \$0.35 for direct deposit.
- Approximately 80% of employed City employees and pensioners receive their paychecks and pensions via direct deposit, while 20% receive paper checks.
- If all City employees enrolled in direct deposit and received their deposit statements electronically, the City could save \$500,000 per year.

Fall 2009 Update: The Division of Technology is in the process of a total overhaul of the City's IT infrastructure, including by addressing many of the above-discussed issues.



12. Switch to VoIP Now

- The City has approximately 33,000 phone lines and pays \$7 per month per line, resulting in an annual cost of \$2,772,000.
- Converting to VoIP with IP PBX (or IP Centrex) capability would likely reduce the City's per line cost to \$4 per month, thereby saving approximately **\$1 million per year**.
- To accomplish this, the City would have to migrate all City offices onto a common Ethernet Network, which would save another **\$500,000 per year** (as a result of avoiding the cost of multiple T-1 lines and added Centrex and other services to remote locations the T-1s require).
- VoIP technology could also enable the City to eliminate current charges for services like conference calling, voicemail, auto attendant, etc., thereby saving an additional **\$1 million per year**.



12. Switch to VoIP Now

- Estimated Annual Savings: **\$2 to \$3 million**
- Estimated Costs to Achieve Savings: \$0*
- These savings estimates do not include efficiency gains and reduced support costs that would result from moving to a common network, which could yield tens of million of dollars in savings every year for both current uses and planned projects.

In Progress

Fall 2009 Update: The City is in the process of switching to VoIP.

*A service company would build the VoIP system for the City against a contract to provide the service, enabling the City to realize all of the potential savings.



13. Lease City Rooftops and Land for Cellular Phone Antennas*

- City-owned properties and land are among some of the most desired locations for cellular phone antennas.
- Current market lease revenues for antenna sites pay \$1,800 to \$5,000 per month/per site/per carrier.
- Estimated additional revenue: **\$2 million annually****

In Progress

Fall 2009 Update: The City is working on an RFP to lease city-owned land to be used as antenna sites.

*The Freshmen Councilmembers thank Councilman Goode for this suggestion.

**Source: Savings estimate from Axis Partners, LLC.



14. Hire Additional Audit Staff

- It would cost \$379,611 to hire five additional Revenue Examiners and one additional Revenue Examiner Supervisor in the Revenue Department.
- For FY09, these new positions would generate approximately \$3,168,714 in additional tax revenue.
- Estimated additional revenue : **\$2,789,103 annually**

Fall 2009 Update: The City has hired additional audit staff in the Revenue Department.



15. Close Tax Loopholes

Limit allowable Real Estate Investment Trust deductions

- Real Estate Investment Trusts (REITs), like other trusts and investment funds, are allowed to deduct profits paid out as dividends to their shareholders, effectively exempting REITs from the City's net income tax.
- In 1999, the REIT deduction was expanded to include any business that partners with a REIT on a real estate project, no matter how small the REIT's share in the project. It is estimated that this expansion would cost the City \$10 million in tax revenue for FY07 alone.
- In 2005, the Law Department determined that this expansion of the REIT deduction was improper.
- The City should remove the REIT deduction from entities that only have REIT shareholders and are not true investment funds/trusts.
- Estimated additional revenue: **\$5-10 million annually**

In Progress



15. Close Tax Loopholes

Collect taxes on the for-profit business activities of not-for-profit entities

- Many large non-profits own and manage real estate or conduct other business activity not specifically related to its non-profit mission.
- Revenues from these activities are subject to taxation. Currently, taxes are not collected on the taxable business activities of various non-profit organizations.
- The City should pursue all revenue owed for taxable activities, including the business activities of non-profits.

Tighten regulations regarding payments between related companies

- When a business makes a payment to a wholly-owned subsidiary or partner company, the payments are tax deductible, just like any other business expense. If the same business receives a payment from its subsidiary or partner company, those funds also are not taxable.
- As a result, when funds are circulated between two related companies, both based in Philadelphia, the money is not taxed by the City.
- The law was intended to prevent double-taxation, an appropriate goal, but the current regulations effectively remove from the tax rolls millions of dollars a year that should be subject to taxation.
- The Revenue Department should clarify its regulations on this point and collect all taxes owed.

Fall 2009 Update: The City is working on closing these loopholes.