

# Options to Reduce Expenditures



## **The Most Important Economic and Fiscal Decisions Facing the Next Mayor**

A Citizens Budget Commission Conference  
December 6, 2013

# Bad vs. Good Cuts

AVOID	SEEK
Cutting services	Productivity enhancements that allow for service provision at a lower cost
“Across the board” cuts	Target activities that can be made more efficient
Treating the workforce unfairly, decreasing morale and the city’s attractiveness as an employer	Offer a competitive package of compensation to attract a well-qualified workforce

# CBC's Top 8 Savings Options

	<b>FY2015</b>	<b>FY2018</b>
1. Health insurance premium-sharing	\$2,000	\$2,500
2. Consolidate union welfare funds	\$150	\$150
3. 40-hour work week for civilians	up to \$580	\$580
4. Curtail overtime	\$125	\$125
5. Eliminate the Absent Teacher Reserve	up to \$190	up to \$190
6. Use regional waste-to-energy plants	\$35	up to \$120
7. Procurement efficiencies	\$170	\$170
8. Construction contracting reform	\$135	\$135
<b>TOTAL SAVINGS (in millions)</b>	<b>\$3,385</b>	<b>\$3,970</b>

# 1 NYC Policies for Health Insurance

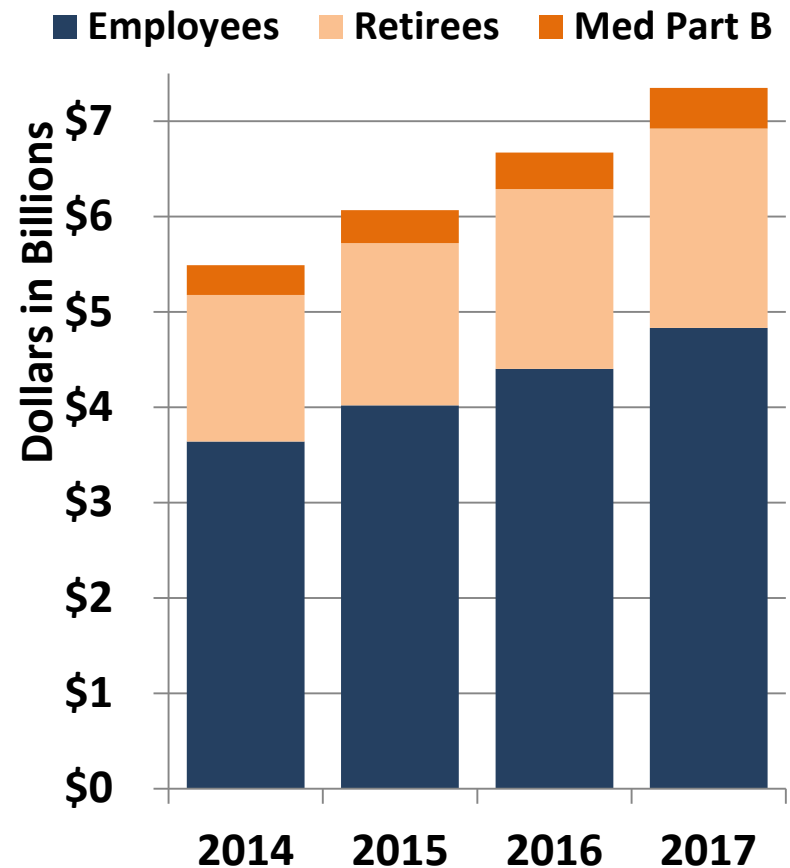
## Employees

- City pays 100% of the premium cost for GHI & HIP for employees, spouses and families
- Single coverage: \$6,600/year; Family coverage: \$16,185/year in FY2013

## Retirees

- City pays 100% of the premium cost for retirees, spouses and dependents
- City reimburses full cost of Medicare Part B for retirees over age 65

## NYC Health Insurance Premium Costs



# 1

# NYC Policies Are Generous by Public and Private Sector Standards

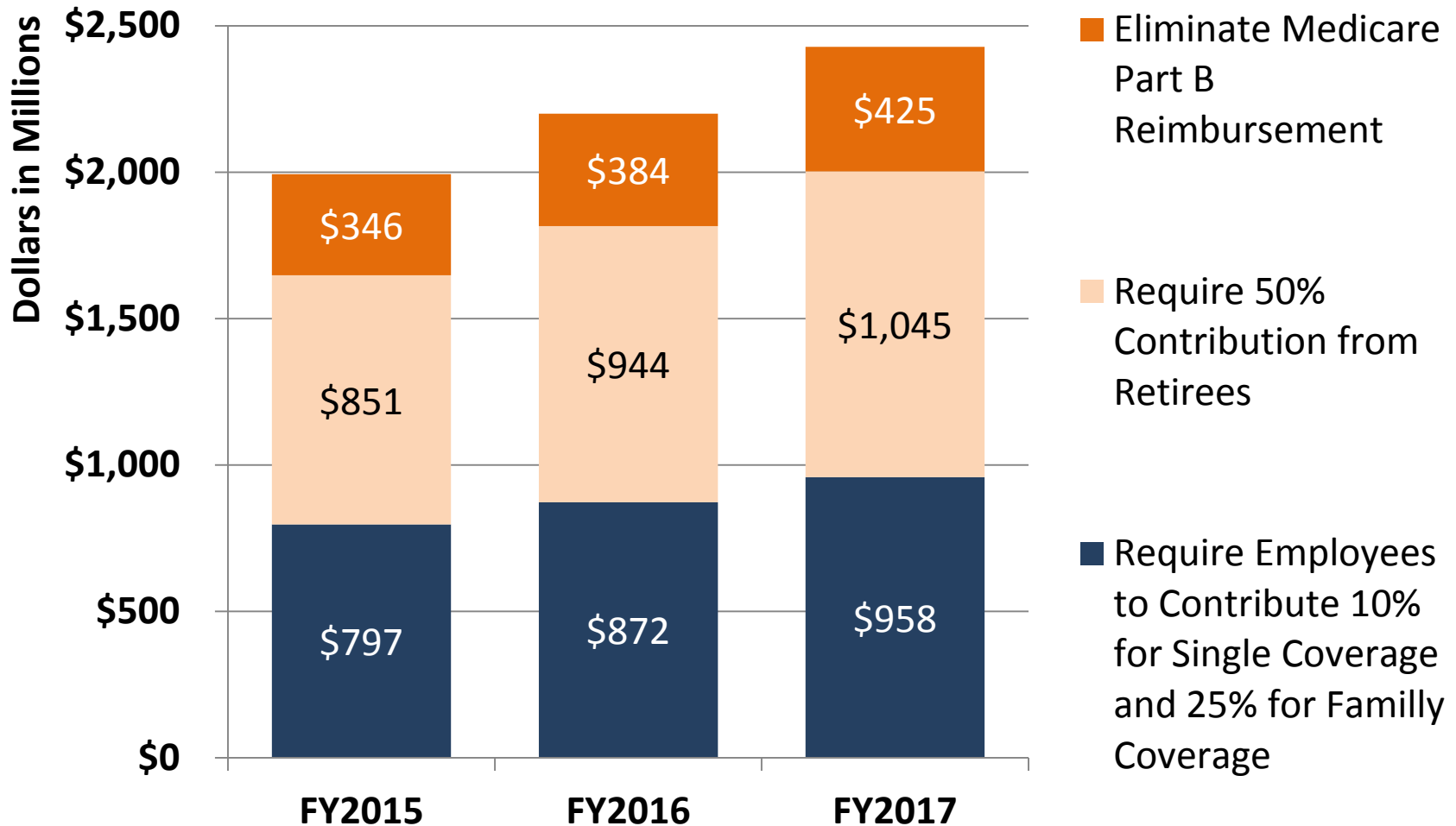
CBC survey of 6 large US cities, New York State, the federal government, and large firms in New York State and nationwide

FINDING	PREVAILING NORM
Only one other public employer (LA) pays the full premium cost for single and family coverage	Nationwide, employee contributions average between 20-25 percent
No other public employer pays the full premium cost for all retirees and their dependents; benefit virtually eliminated in private sector	Public employers typically require greater premium sharing than by employees, or limit subsidy
No other public employer reimburses the full cost of Med Part B premiums for retirees and spouses	Not a prevailing practice in either public or private sector

Source: CBC, "Everybody's Doing It: Health Insurance Premium-Sharing by Employees and Retirees in the Public and Private Sectors," January 2013, [http://www.cbcny.org/sites/default/files/REPORT\\_HIS\\_01282013.pdf](http://www.cbcny.org/sites/default/files/REPORT_HIS_01282013.pdf).

# 1

## Require Premium-Sharing to Save at Least \$2 Billion Annually



Source: CBC, "Everybody's Doing It: Health Insurance Premium-Sharing by Employees and Retirees in the Public and Private Sectors," January 2013, [http://www.cbcny.org/sites/default/files/REPORT\\_HIS\\_01282013.pdf](http://www.cbcny.org/sites/default/files/REPORT_HIS_01282013.pdf).

## 2 City Spends Additional \$1 Billion on Health Benefits Through Union Welfare Funds

- In collective bargaining, the City and each union negotiate a per-employee and/or per-retiree contribution to each union welfare fund; about \$2,000 per person for large unions
- Each union has discretion over which benefits are provided, typically prescription drugs, optical services and dental services
- 81 welfare funds at a total cost to City of \$1 billion
- Welfare funds suffer from limited accountability, poor financial management and inefficient benefit provision

# 2

## Consolidate Welfare Funds to Save \$150 Million

- Realize savings from economies of scale in benefit spending
  - 20% reduction in pharmaceutical spending through the use of formularies: \$100 million
  - 10% reduction in all other benefit spending: \$50 million
  - Additional savings from reduced administrative costs
- Long-term strategy: Redesign employee health insurance plan



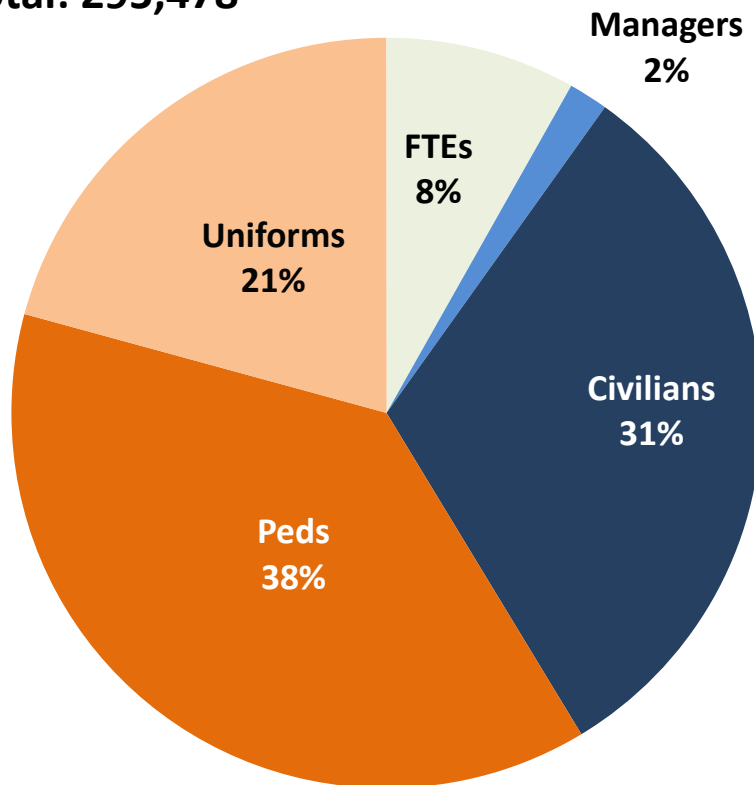
# 3

## Full-Time, Non-Managerial Civilian Employees Work 35 or 37.5 Hours a Week

### NYC Workforce

Forecast for June 30, 2015

Total: 295,478



Note: Does not include employees at covered orgs.

### Forty-Hour Work Week is the Norm

- 90% of full-time civilian workers nationwide work at least 40 hours
- Public sector: Most common work schedule, including for federal employees and those in other large cities, including LA, San Fran, Wash DC

Source: U.S. Bureau of Labor Statistics, "Employment and Earnings Online," Table 603, January 2011.

# 3

## Adopt a 40-Hour Work Week to Save \$580 Million

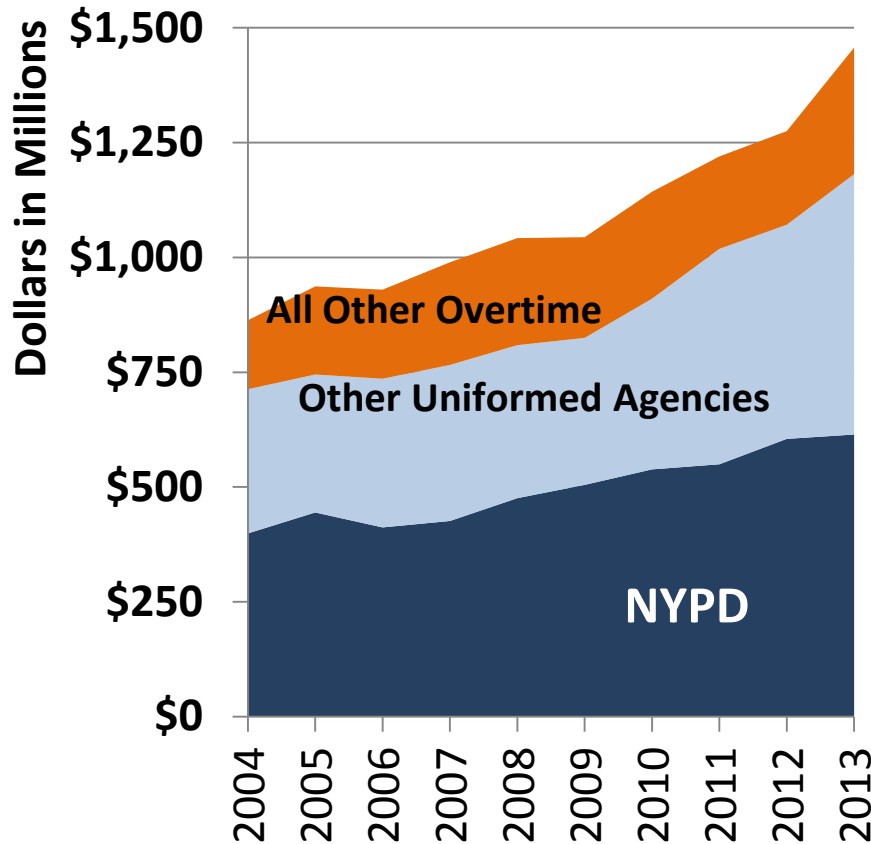
- Increasing the time worked would increase output per employee, requiring fewer employees to provide the same services
  - Example: 400 employees working 35 hours a week yield 14,000 hours of output; working 40 hours a week, 350 employees would be required to produce the same output – 12.5% reduction in headcount
  - Increasing 37.5 to 40 hours – 6.3% headcount reduction
- Civil service titles, occupational specialization and geographically-based staffing needs limit positions that can be right-sized to about 65,000 (of 93,000 civilians)
- Rough estimate: City can realize a 6,500 (10%) reduction in its civilian workforce; at \$85,000 per head, savings is \$580m

Note: Per employee compensation costs are FY2008 estimates from CBC January 2009 report.

Sources: CBC, "The 40-Hour Week: A Proposal To Increase The Productivity of Non-Managerial Civilian Municipal Workers," December 2002; New York City Independent Budget Office, "Budget Options for New York City," May 2013.

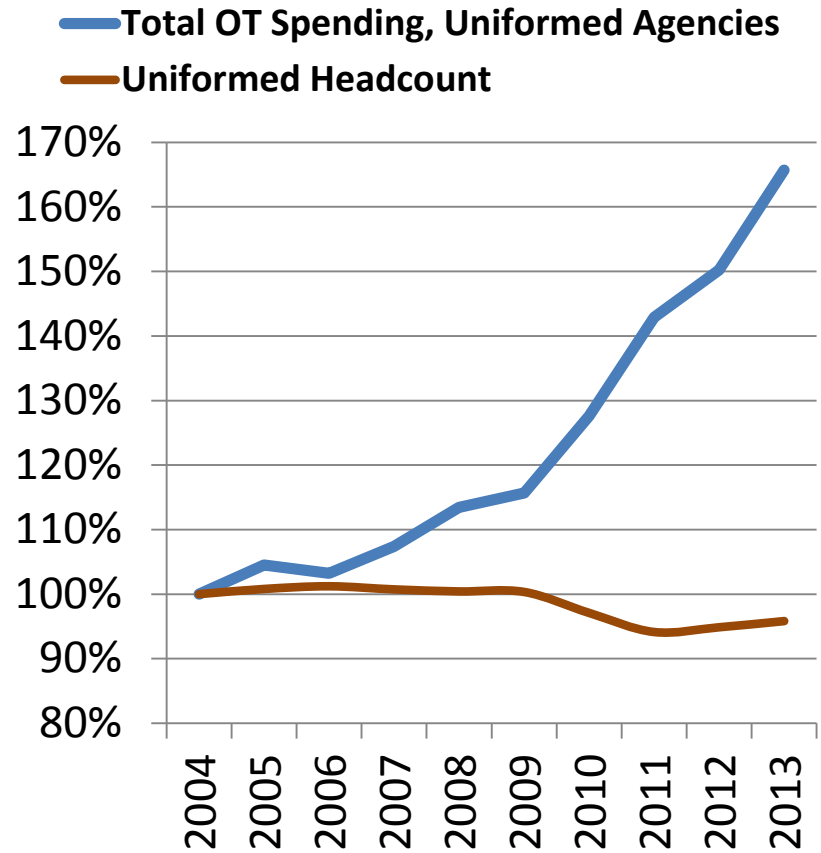
# 4 Overtime Costs Top \$1.4 Billion

## Overtime Spending



Note: FY2013 includes spending related to Hurricane Sandy.  
 Source: NYC Office of the Comptroller, *Comprehensive Annual Financial Report*, Fiscal Years 2004-2013.

## Overtime vs. FT Headcount Growth



Sources: NYC Mayor's Office of Operations, *Mayor's Management Report*, Fiscal Years 2004-2013;  
 NYC Office of Management and Budget.

# 4

## Curtail Overtime to Save \$125 Million

- Overtime Management Strategies:
  - Replace overtime with straight time: for example, use regular scheduling to staff predictable events, like parades
  - Prevent or limit need for overtime: for example, reduce absenteeism that creates overtime for fixed posts
- Better managing overtime spending to reduce it to FY2010 levels would save \$125 million, bringing overtime spending from \$1.1 billion to \$975 million

# 5

## Eliminate Absent Teacher Reserve to Save up to \$190M

- “Excessed” teachers who cannot find a position remain in the Absent Teacher Reserve (ATR) while they look for another job, and receive full salaries and benefits
- ATR teachers perform substitute classroom coverage or other administrative duties
- Ending compensation to ATR teachers would save up to \$190 million – some offset for substitute teachers may be necessary

# 6 Save \$35 Million by Sending Two Million Tons to Waste-to-Energy Plants

- 75% of 4 million tons of City-managed waste is landfilled in out-of-state locations
- Disposal using waste-to-energy plants is underutilized in NYC (9%); common in other states and countries
- Waste-to-energy plants are more cost-effective:
  - Landfills: \$95 per ton
  - WTE plants: \$66-\$77 per ton
- Sending 2 million tons to WTE plants would save at least \$35 million; more regional capacity needed
- As landfilling costs are growing rapidly, savings would increase over time

# 7

## Procurement Procedures Do Not Follow Best Practices

- Procurement is highly decentralized
  - Dept. of Citywide Admin. Services (DCAS) controls \$1.6 billion of \$6.2 billion in goods and standard and professional services
- Lengthy procurement cycles raise bidder prices and increase administrative costs
  - 162 days from contract solicitation to award; complicated contracts take up to two years
  - Linear approval process requires sign-off from multiple agencies: MOCS, SBS, DOF, Law, OMB, DOI, etc.
  - Approval process not risk-adjusted; all contracts over \$25,000 must be reviewed
- E-Procurement practices are out-of-date

# 7

## Modernize Procurement Practices to Save \$170 Million

- Increase DCAS' share of goods and services purchases to \$3.5 billion to save 5% - \$95 million
  - Increased purchasing power and economies of scale
  - Examples: boiler repair, roof repair, furniture purchase, advertising services
- Reduce transaction costs and administrative delays to save 1% - \$75 million
  - Use risk-based reviews based on contract size and type
  - Allow concurrent review by oversight agencies
  - Create a single portal for City-vendor interactions, like Health and Human Services Accelerator



# 8

## Eliminate Construction Management Inefficiencies to Save \$135 Million

- Advocate repeal of Wicks Law to save \$95m/ year in debt service
  - State law mandates separate subcontractors on building projects greater than \$3 million (School Construction Authority exempted)
  - Uncoordinated subcontractors drive up costs
- Improve project scoping and risk management to reduce change orders 20% in DEP and 10% at other agencies – savings of \$10 million in debt service
- Renew Project Labor Agreements to reduce labor costs and save \$30 million in debt service
  - \$3 billion of projects under PLAs saved \$300 million in capital costs; should be renewed for additional projects after June 30, 2014 expiration

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