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THINKING BEYOND MUNICIPAL BOUNDARIES – COST REDUCTION OPPORTUNITIES

Prepared for:
The 43 X 79 Group

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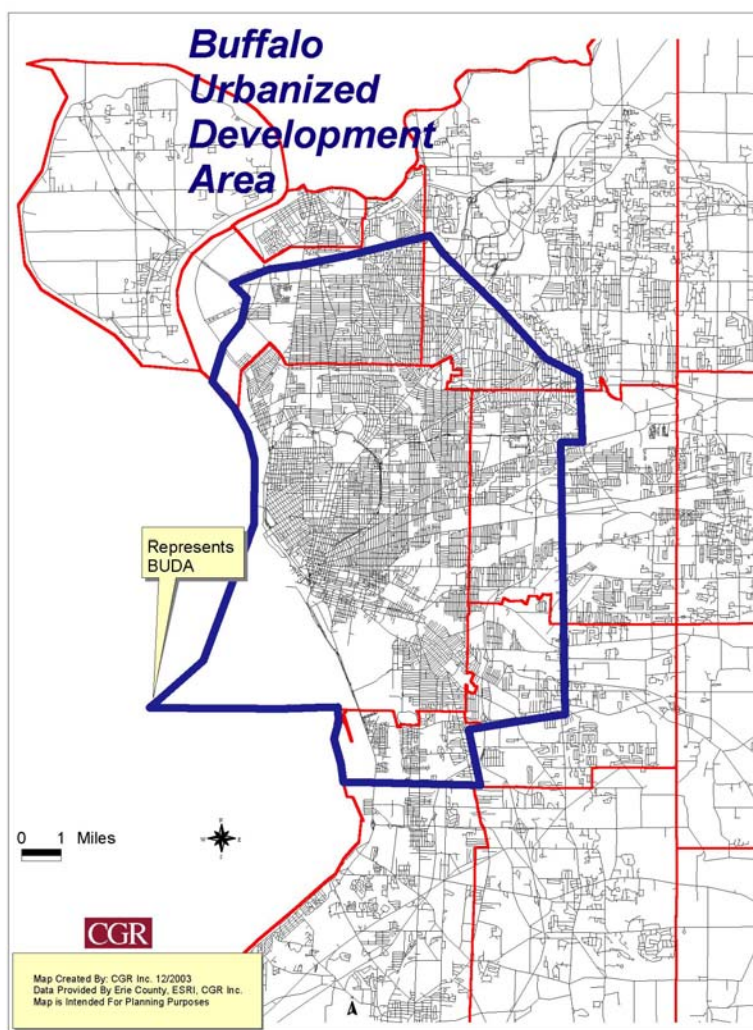
SUMMARY

In late summer 2003, CGR (Center for Governmental Research Inc.) was engaged by the 43 X 79 Group, a group of business leaders from the Buffalo area, to identify opportunities for the City of Buffalo to reduce its cost structure. At the same time, the State of New York imposed a Control Board (formally known as the Buffalo Fiscal Stability Authority) on the City of Buffalo and other government entities related to the City. The fiscal discipline imposed by the Control Board requires the City to identify cost saving measures so that it can match expenses with available revenues. Thus, 43 X 79 asked CGR to evaluate cost reduction strategies that the Control Board would find useful in its ongoing effort to help the City live within its means.

This report provides examples of how to use economies of scale to reduce costs by recognizing the fact that the need for a wide range of municipal services clearly extends past the artificial boundaries set by the borders of the City of Buffalo. A key observation is that a map clearly shows a well defined high density urban core in Erie County. The characteristics of this urban core are certainly different from the mid-density suburbs and low density rural areas. City operations have most in common with other communities that fall within the high density urban core. Thus, to maximize opportunities to reduce the costs of government services, community leaders should seek to leverage economies of scale in ways that the City, acting alone, might not be able to achieve.

For purposes of this study, CGR conceptualized the high density urban core as including the City of Buffalo, the four towns (including their villages) and the one city which share a common border with the City. This high density urban core, or what CGR will refer to as the Buffalo Urbanized Development Area (BUDA), is shown below.

FIGURE 1
The Buffalo Urbanized Development Area (BUDA)
Conceptualized by CGR for This Project



Given the scope of the study, CGR elected to focus on three functional areas of expense that are common to all communities

within the BUDA, and which represent a cross section of services where savings might be achieved. The three functional areas were:

- ❖ Refuse Collection/Recycling
- ❖ Street Lighting
- ❖ Information Services/Information Technology

The most consistent way to compare expenditures across municipalities is to use information from the New York State Comptroller. TABLE 1, which is based on FY 2001 data (the most recent available) shows that the City of Buffalo's expenditures in these three functional areas only represent 46% of the total spent by all the local governments included in the BUDA. Thus, the greater community could achieve twice the cost savings if strategies that are developed for the City can be extended throughout the urbanized area.

TABLE 1
Expenditures By Governments Within the BUDA for FY 2001
For Selected Functions

	Refuse Collection/ Recycling	Street Lighting	I.T./Data Processing	TOTAL
City of Buffalo	\$ 16,465,068	\$ 8,961,000	\$ 2,694,663	\$ 28,120,731
Other Governments in the BUDA	\$ 20,440,852	\$ 9,352,127	\$ 3,419,510	\$ 33,212,489
Total Expenditures FY 2001	\$ 36,905,920	\$ 18,313,127	\$ 6,114,173	\$ 61,333,220
City as Percent of Total	44.6%	48.9%	44.1%	45.8%

This report identifies opportunities to reduce annual costs by \$8.2 million to \$9.9 million, (13% to 16% of the total) for these three functional areas. The report also outlines the key implementation challenges that need to be addressed in order to achieve these savings. By working cooperatively together, Buffalo area governments would become a national model for showing how municipalities can reduce costs by acting as an integrated entity to provide functions that go beyond their individual boundaries.

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SECTION 1 – BACKGROUND

CGR identified cost savings for both the City and other governments in the urban core

In order to assist the Buffalo Fiscal Stability Authority, the 43 X 79 Group asked CGR to identify ways the City of Buffalo could reduce its costs by using strategies to leverage opportunities that extend beyond city boundaries. Of course, the City and its related entities can reduce costs through strategies that take into account only city operations (i.e. operations under the control of their own government organizations). However, CGR focused on opportunities that would not only reduce costs for the City of Buffalo, but other governments as well. These opportunities would result in “win-win” outcomes for the entire greater Buffalo area.

To meet this objective, CGR focused on potential opportunities that met four criteria:

- ❖ The proposed savings are achievable,
- ❖ The City could clearly achieve cost reductions,
- ❖ Other participating governments would achieve cost reductions,
- ❖ Savings would come from real cost reductions, not simply cost shifting.

The standard methodology to identify cost saving opportunities among a number of governments is to start by finding common functions and areas of expense. Then, total expenses for these functions are analyzed to identify opportunities to eliminate redundancies, leverage economies of scale, or share expertise. In applying this methodology to Buffalo, CGR noted that cross-government savings opportunities are most likely to occur by considering functions in other governments that are similar in scope and scale to functions provided by the City. Logically, this led CGR to focus on governments that are part of the urban core of Erie County.

Population, housing and commercial activity densities, along with the higher intensity of services required to meet these needs, are different within the urban core than in the suburbs or rural areas of the county. A map of the street network in the county

***Governments included
in the study fall within
the Buffalo Urbanized
Development Area
(BUDA)***

suggested to CGR an outline of what might be included in the urbanized area - what CGR refers to as the Buffalo Urbanized Development Area (BUDA). A map of the BUDA is shown in FIGURE 1 in the Summary section.

For purposes of this study, CGR included local governments within the BUDA that share common borders with the City. The governments included in this study were:

- ❖ City of Buffalo
- ❖ Buffalo City School District
- ❖ Towns of (clockwise from the north):
 - Tonawanda (and Village of Kenmore)
 - Amherst
 - Cheektowaga (and Village of Sloan)
 - West Seneca
- ❖ City of Lackawanna

***The three functions
studied were: 1) Refuse
Collection/Recycling;
2) Street Lighting;
3) Information
Services/Information
Technology***

Given the limited scope of this study, CGR selected three functions that were common to most or all of these local governments, and studied the functions in enough detail to describe how and why savings could be achieved, reasonably estimate savings, and offer suggestions for proceeding. The functions were selected because they incorporate an interesting cross section of issues that need to be addressed in order to reduce costs, and because total expenditures in these areas are large enough to warrant attention. CGR also selected these functions so that this report complements other work being done by the City, the Control Board and others in the community to help the City. The advent of the Control Board has generated a high degree of interest in developing solutions for the City, and CGR has attempted to avoid replicating the work of others.

Local governments spent \$61.3 million in FY 2001 on the three functions studied in this report

As summarized in TABLE 1 in the Summary section, total expenditures in FY 2001 for these functions by all the governments included in this study amounted to \$61.3 million. This equals 4.8% of the total expenditures by all these governments in FY 2001.

CGR based this report primarily on information that was publicly available, including municipal budgets, and telephone and personal interviews with a cross section of key staff who were willing to provide information for this project. Where information was not provided or available, CGR developed its own estimates, since the objective of this project was to identify opportunities while recognizing that further detailed study will be needed to develop precise savings and to estimate the cost of investments that will be needed to achieve these savings.

SECTION 2 – REFUSE COLLECTION AND RECYCLING

Overview

Local governments spent \$36.9 million on refuse collection and recycling in FY 2001.

Local governments within the BUDA spent \$36.9 million on refuse collection and recycling in FY 2001, as shown in TABLE 2. There are actually four major operational components to refuse collection: residential refuse collection, bulk and yard waste collection, commercial refuse collection and recycling. The total expenditures shown are based on costs classified and reported by governments to the New York State Comptroller as Refuse and Garbage expenditures (Account Code 8160). This primarily includes residential collection and recycling costs. Municipalities differ as to how they report commercial, bulk and yard waste expenditures, so the \$36.9 million figure actually understates the total spent on this function.

TABLE 2
Expenditures on Refuse Collection and Recycling – FY 2001

<u>Government</u>	<u>Expenditure</u>
City of Buffalo	\$ 16,465,068
Town of Tonawanda	\$ 4,485,920
Village of Kenmore	\$ 1,229,780
Town of Amherst	\$ 6,464,131
Town of Cheektowaga	\$ 5,190,175
Village of Sloan	\$ 207,344
Town of West Seneca	\$ 1,958,080
City of Lackawanna	\$ 905,422
Total	\$ 36,905,920

Source: N.Y. State Comptroller

There are three cost components to refuse: collection, transfer and disposal

There are three principal cost components to refuse collection. The first component is collection, i.e. the cost of personnel and equipment required to pick up the refuse at the site and transport it to the site where it is disposed. The second component is the disposition cost, i.e. the cost of land filling (usually called a dumping fee), or the cost of burning, or the net cost of separating and re-using recyclable material. Many times, there is a third cost, usually called a tipping fee or transport fee, which is the cost of hauling refuse from a central collection point to a landfill or recycling center. Recycling is a cost reduction strategy because recycling allows a municipality to avoid the cost of land filling and related transfer costs.

Refuse Collection Opportunities

For this report, CGR focused primarily on residential refuse collection activities, which represent 80% to 90% of the total cost of refuse collection among the governments included in the study. Commercial refuse collection is provided by a combination of municipal services and private companies. Governments also provide bulk pick-up and yard-waste collection services which need to be studied separately.

TABLE 3 shows how the City and surrounding municipalities compare on four key indicators. The first column shows that the number of households/stops for the City is 46% of the total

within the BUDA. As shown in the second column, the only municipality which has privatized its residential refuse operations is Amherst.

TABLE 3
Comparison of Current Refuse Collection Operations

<u>Government</u>	<u>Number of Collection Stops</u>	<u>Provided by Municipal (M) or Private (P)</u>	<u>Number of Workers per Truck</u>	<u>Number of Routes per Day</u>
City of Buffalo	90,000	M	3	40-45
Town of Tonawanda	20,000	M	3	9
Town of Amherst	34,000	P	2	
Town of Cheektowaga	27,000	M	3	9
Town of West Seneca	15,000	M	3	6
City of Lackawanna	9,000	M	3	3

Source: Survey responses and interviews

Changing to 2 person trucks would save the City \$1.5 million and other municipalities \$1 million per year

TABLE 3 highlights an obvious cost reduction opportunity for the City of Buffalo as well as the surrounding municipalities except Amherst. Many municipalities across the country use one or two person crews per truck. For example, the City of Rochester uses one person trucks for standard residential and commercial stop pick-ups. Reducing the crew size may require investing in new equipment (it would certainly do so in moving to a one-person operation). Further analysis will be required to calculate a payback on investing in new equipment. However, straight personnel cost reductions by shifting to two person crews would save approximately \$1.5 million annually in the City (40 routes x 1 person x \$38,000 avg. total cost for a street worker position), and an additional \$1.0 million in the surrounding towns.

Further cost reductions might be possible by identifying different route structures that are not restricted by current geographic boundaries. The City recently changed its route structure from 8 sectors to 5, after an analysis that optimized routes. However, the variables used in that analysis were still constrained by city boundaries and the City's commitment to using the Eastside

transfer station for residential refuse. If refuse routes were designed to optimize personnel and equipment within the BUDA by making more efficient use of personnel and equipment and minimizing transport time to transfer stations, it is very likely that it would be possible to reduce the number of trucks and personnel needed. For example, routes that are currently constrained by the borders of the city and surrounding towns might be re-designed so that trucks would cross over between municipalities.

Optimizing routes across boundaries may result in reducing 10-15 routes

A route optimization study incorporating the entire area within the BUDA would determine the actual number of routes that could be reduced, along with both equipment and personnel savings. However, for this project, CGR sought the opinion of a reputable, experienced company in the field regarding the potential for reducing routes. This company believes that the number of routes per day within the City could be reduced by 10 to 15 routes if the private sector were to provide refuse collection services using a route structure based upon private sector management standards.

Reducing 10-15 routes could save the City \$1.3 million and other municipalities \$.6 million

If 10 routes were eliminated (assuming the City had already converted to two person crews) that would result in personnel savings of an additional \$800,000 (assumes an average employee cost of \$40,000 to account for a combination of street workers and truck drivers). Although this has not been tested, if 5 additional routes were eliminated in the surrounding municipalities, this would save an additional \$400,000. Eliminating routes would also reduce the need for trucks. At a conservative cost of \$150,000 each, a ten year life (cost = \$15,000/yr) and operating costs of \$20/hour for a 6.5 hour day for 52 weeks/year (cost = \$33,800/yr), each truck eliminated would save almost \$49,000/year. This would add to savings in the City of \$490,000 and in the surrounding municipalities, \$245,000.

Recycling Opportunities

Recycling programs represent an expense for municipalities, primarily due to the cost of collecting the recycled materials. However, recycling has a clear payback. For each ton of recycled material that is diverted from the standard municipal waste stream, the municipality saves the per ton disposal cost, and potentially transfer station costs. The City of Buffalo currently pays a disposal (dumping) fee of \$27.50 per ton. The transfer fee for the City is currently \$12.05 per ton at the county operated Eastside

Transfer Station. Given the current agreement between the City and Erie County, the conservative assumption is to figure that the City realizes a true cash savings of \$27.50 for each ton that is diverted from the landfill through the recycling program. Dumping and transfer costs for municipalities around the City vary, but are typically in the \$37 - \$38 per ton range (which is consistent with the City's \$39.55/ton cost). Thus, municipalities throughout the BUDA can reduce costs by recycling.

However, the amount of waste diverted from the total waste generated varies significantly among communities in the BUDA, as shown in TABLE 4. The most recent complete data is from 2001, however, survey responses with municipalities suggest that this information is consistent with current practices.

TABLE 4
Total Waste Collected And Recycled In FY 2001

<u>Government</u>	<u>Total Tons Collected</u>	<u>Total Tons Recycled</u>	<u>Recycle rate</u>
City of Buffalo	170,280	17,795	10%
Town of Tonawanda	63,700	27,027	42%
Town of Amherst	189,724	86,928	46%
Town of Cheektowaga	66,785	17,755	27%
Town of West Seneca	38,140	11,942	31%
City of Lackawanna	16,692	4,423	26%

Source: 2001 N.Y. State DEC Annual Recycling Report

TABLE 4 highlights an obvious cost reduction opportunity for the City of Buffalo. The City currently pays a fixed rate contract to BFI to collect recyclables and run its recycling program. The BFI contract costs approximately \$1.5 million per year. At its current recycling rate, the City is saving approximately \$490,000 per year (17,795 tons x \$27.50/ton), which means the City's recycling program is costing a net \$1 million per year. The City could save a minimum of \$1 million/year if it terminates its contract with BFI and eliminates its recycling program (the current contract terminates 6/30/05 but is renewable). Or, the City could reduce

the net cost of the BFI contract by increasing its recycle rate. A breakeven rate would be 30%.

The City could save at least \$1 million by aggressively recycling

TABLE 4 shows that municipalities outside the City are within that range or higher. In fact, as a combined group, these municipalities have a 39% recycling rate. A 2001 benchmark study for the International City/County Management Association (ICMA) found that for a sample of 35 cities across the country, the mean recycling rate was 24%, with a high of 56% and a low of 6%. Thus, it is reasonable to believe that Buffalo should be able to significantly increase its recycling rate and increase revenues by at least \$1 million, which would effectively reduce the cost of its contract with BFI by that amount. The City is currently receiving a payment of \$75,000/year from BFI to promote recycling. The City should determine what, if any, additional resources should be devoted to increasing its recycle rate, as there is clearly the opportunity to receive a significant return on such an investment.

Municipalities could save from \$350,000 to \$1.1 million by aggressively recycling

TABLE 4 also highlights the potential cost savings that could be achieved by increasing recycling within the BUDA through a coordinated strategy. If the three municipalities who are recycling less than the 39% average could increase their rates to 39%, they could save at least \$350,000/year (using the City's landfill cost figure). The municipalities outside the City are currently split into two different regional waste management areas. However, if the municipalities in the BUDA could pool resources to invest in recycling strategies that increased recycling rates for municipalities within the BUDA, each 1% increase in recycling above the 39% group average would reduce landfill costs by \$103,000/year. Achieving a 50% recycling rate, which is the stated goal in the NorthEast-Southtowns Regional Solid Waste Management Plan for 2000-2012, would reduce landfill costs by \$1.1 million/year.

Implementation Challenges

There are clear challenges which will have to be overcome in order to achieve these savings. The primary hurdle for achieving savings in existing refuse operations is existing labor agreements. For example, the City signed an agreement with AFSCME Local 264 in December, 2002 as part of the move to contracting with BFI for the recycling program. That agreement specifies minimum manning levels for various titles of workers within the Solid Waste Enterprise Fund, and provides rights for the Union if the City

attempts to spin-off or subcontract its Solid Waste operations to other entities. This would appear to preclude the City from being able to achieve a net reduction in staff by moving to a two-person per truck refuse operation. However, perhaps the City could utilize the Street Worker positions in other divisions within the City to achieve a net reduction in its work force through re-engineering its refuse operations. Contractual agreements with employees in the other municipalities would also be a factor in their ability to achieve the savings identified.

Savings through recycling appear to be more achievable in the short run. The municipalities in the BUDA could devote more management attention to develop an integrated, coordinated approach to recycling that has a direct and significant payback. The existing contracts in each municipality would need to be aligned and coordinated. A recent attempt to develop a single cooperative contract for recycling did not work out because prices bid did not lower costs for all participants and the contract was opposed by a union in one town. However, the strategy is correct, and should continue to be promoted. The 2000-2012 NorthEast-Southtowns Regional Solid Waste Management Plan identifies several specific strategies to increase recycling rates. Some of these may require investment in additional staff, public relations, incentives to participate, etc. However, a cost-benefit analysis will be able to demonstrate the payback in direct cost reduction from such investments.

Savings Summary

The savings identified in this section are:

City of Buffalo:

- | | |
|---------------------------------|----------------|
| 1. Move to 2 person crews: | \$ 1.5 million |
| 2. Reduce the number of routes: | \$ 1.3 million |
| 3. Increase recycling: | \$ 1.0 million |

Other Municipalities:

- | | |
|---------------------------------|-----------------------|
| 1. Move to 2 person crews: | \$ 1.0 million |
| 2. Reduce the number of routes: | \$.6 million |
| 3. Increase recycling: | \$.35 to 1.1 million |

Combined Savings: \$5.75 million to \$6.5 million

SECTION 3 – STREET LIGHTING

Overview

Local governments spent \$18.6 million on street lighting in FY 2001

Local governments within the BUDA spent \$18.6 million on street lighting in FY 2001, as shown in TABLE 5. There are actually three major cost components to street lighting: the cost of the energy (electricity), the cost of transmitting the energy, and the cost of the facilities (poles, fixtures, bulbs, etc.). The amounts included in TABLE 5 are based on what municipalities reported to the New York State Comptroller under the Street Lighting Account Code 5182. Some municipalities do not include energy costs within that code; therefore, the \$18.6 million figure probably understates the total spent on street lighting by the municipalities.

TABLE 5
Expenditures on Street Lighting – FY 2001

<u>Government</u>	<u>Expenditure</u>
City of Buffalo	\$ 9,230,056
Town of Tonawanda	\$ 1,811,030
Village of Kenmore	\$ 345,360
Town of Amherst	\$ 3,572,191
Town of Cheektowaga	\$ 2,324,903
Village of Sloan	\$ 45,767
Town of West Seneca	\$ 688,564
City of Lackawanna	\$ 564,312
Total	\$ 18,582,183

Source: N.Y. State Comptroller

CGR analyzed bills provided by several municipalities within the BUDA to identify the amount spent on each of the three cost components for street lighting: energy, delivery (transmission) and facilities. Management of these cost centers is not consistent

among the various municipalities. The larger governments (e.g. Buffalo and Amherst) have a few full-time staff assigned to street lighting. Others rely entirely on the utilities (primarily Niagara Mohawk) to maintain the street light system within their municipality.

Based upon a sample of bills from various municipalities, CGR estimated what percentage of total street light costs fall into each of the three cost categories, as shown in TABLE 6.

TABLE 6
Percentage of Total Street Lighting Costs In Each Cost Category

<u>Government</u>	<u>% for Energy</u>	<u>% for Delivery</u>	<u>% for Facilities</u>
City of Buffalo	18%	19%	63%
Surrounding Municipalities	12%	13%	75%

Source: CGR estimates from sample bill analysis

The cost of the poles, fixtures, etc. represents two-thirds to three-quarters of the total cost for street lighting

TABLE 6 highlights two important facts. First, the cost of hardware in the system – the poles, conduit, fixtures and bulbs, and the costs to maintain the hardware and replace bulbs, represents from two-thirds to three-quarters of the total cost to provide street lighting. Historically, the street lighting system has been provided by utilities. In the BUDA, Niagara Mohawk is the primary provider of street lights. Thus, the cost to municipalities for street light facilities is the cost charged by Niagara Mohawk at rates set through their approved rate structure.

The City has reduced its costs by owning some of its poles and fixtures

However, municipalities have the option of owning their own facilities. This can significantly reduce street lighting costs. Amherst and Cheektowaga own some of the poles in the system. The City has been much more aggressive about taking over ownership of the street light system. Although the City still pays approximately \$5.8 million/year to Niagara Mohawk for its street light facilities, CGR estimates that the City saves in the range of \$1 million per year by owning some of its system. This explains why TABLE 6 shows that, on a percentage basis, the City's cost for facilities is significantly lower than the surrounding municipalities.

Facilities Opportunities

Based on the ratios noted in TABLE 6, CGR estimates that the facilities currently cost the City approximately \$5.8 million/year, and the municipalities surrounding the City approximately \$7 million/year. As the City has demonstrated, municipal ownership of facilities can clearly reduce costs, even after factoring in the cost of staff to manage the system, the cost of hiring private contractors to maintain the system and capital equipment replacement costs. Many municipalities across the country have taken ownership of some or all of the street light system. The City of Rochester has had a ten year program to take over ownership of its system. As of 2003, Rochester currently owns approximately 48% of the system (12,000 out of a total of 25,000 poles and related fixtures). Rochester estimates that if all 25,000 poles were still owned by the utility, the cost to the city at current tariff rates would have been \$7.1 million/year. However, Rochester's actual costs have been \$3.7 million – a saving of \$3.4 million/year.

An aggressive street light ownership program would save the City \$1 million and surrounding municipalities up to \$2.1 million

The municipalities outside the City could undertake an active program to reduce street lighting costs by taking ownership of the system. If they reduced their facility cost ratio to the same ratio as the City (i.e. go from 75% to 63%, which represents a 16% savings, on average), the municipalities would save \$1.1 million/year. If the City undertook an aggressive program to reach the same ownership and saving ratio as Rochester (i.e. reduce facility costs to 52%), City costs could be reduced by 17% (i.e. the percentage difference going from 63% to 52%), which would equate to an annual savings of \$1 million. If the surrounding municipalities also to reduce the ratio from 63% to 52%, this would equate to additional annual savings of \$1 million. These savings projections do not take into account capital costs to purchase the existing system components or make additional capital improvements, which may be substantial, and a detailed analysis would be needed to determine the capital requirements and payback periods. However, the experience of municipalities across the country as well as locally clearly demonstrates that net costs can be reduced through such investments.

Energy Opportunities

There was an 18% difference in the price paid for electricity in July by municipalities in the BUDA

Energy represents another cost reduction opportunity since deregulation has created competitive markets. Transportation costs are the only major cost category where competition is still limited. Analysis of bills indicates that Buffalo, Amherst and Lackawanna currently purchase electricity through cooperative contracts (although they participate in different co-ops), in order to purchase energy in the competitive market. The co-op for Amherst, for example, indicated that in July 2003, its electricity costs were 9% lower than if Amherst had paid standard rates. Still, a comparison of electricity rates paid for street lighting bills for the month of July 2003 showed that municipalities paid rates ranging from 4.06 cents per kilowatt hour to 4.94 cents per kilowatt hour – an 18% variance in the price paid for electricity by municipalities directly adjacent to one another.

Levelizing prices for electricity could save \$100,000/year

CGR estimates that across all governments in the BUDA, if energy prices were levelized to the lowest price, the total saved would be in the range of \$100,000. This is not a substantial amount, because the larger municipalities are already at the low end of the rates (because of their co-ops). However, the fact that there are any variances plainly illustrates how cost reduction opportunities are missed when municipalities act alone to provide services that could be provided through an integrated approach.

Implementation Challenges

The primary challenge to achieving these savings is that both the City and the surrounding municipalities have not developed a comprehensive street lighting management plan that demonstrates the types of savings that could be achieved, and how to achieve them. To date, both capital investment and energy buying decisions have been carried out on a piecemeal basis within the BUDA. Both the City and Amherst indicated that they are currently negotiating with a company out of Kansas City that will develop a program to save 5% of the costs of their street lighting functions. However, as described above, it is reasonable to project that the City could save at least \$1 million (10%), and the surrounding municipalities \$2.1 million (over 20%) by developing a program to take over ownership of their street light systems.

Clearly, municipalities will have to make capital investments to purchase and/or replace the existing facilities that are currently owned by the utilities. The municipalities will also need to develop

management plans, whether through use of their own staff, the private sector, or some combination. However, a comprehensive plan will set forth the costs and benefits of various options. Although investment capital is scarce in the Buffalo area at this time, the capital investment plan will demonstrate the value of investing capital dollars to significantly reduce operating costs.

Street lighting appears to be an excellent opportunity for the municipalities within the BUDA to work cooperatively together. They could develop a unified strategy to take over some or all of the street lights from the utilities over time, and negotiate for the purchase of electricity as a single block.

Savings Summary

The savings identified in this section are:

City of Buffalo:

1. Purchase and own more of the system \$ 1.0 million

Other Municipalities:

1. Purchase and own more of the system \$ 1.1 to \$2.1 million
2. Purchase energy at a common low price \$.1 million

Combined Savings: \$2.2 million to \$3.2 million

SECTION 4 – INFORMATION TECHNOLOGY/DATA PROCESSING

Overview

Every governmental agency in the BUDA uses computers in their operations. Larger governments have larger, complex systems of equipment and software, while smaller governments may use primarily personal computers and off-the-shelf business software. Systems connections and telecommunications systems are often managed by the same employees and/or vendors. The two largest government organizations in the City – the City government and

the Buffalo City School District, each have large Information Technology (I.T.) departments (the City has 24 budgeted positions, the School District has 25 budgeted positions). Amherst and Cheektowaga also identified separate personnel costs to the Comptroller. However, the other municipalities did not identify and report separate information technology expenditures in the New York State Comptroller's account code (1680). This indicates that computer and information technology costs are distributed in individual department budgets. A telephone survey confirmed this. The survey also found that large information management systems run in the public safety sector are not managed by central information technology staffs, and are budgeted separately in the public safety budgets.

Therefore, the amount spent by local governments on I.T. as shown in TABLE 7 only includes costs to provide I.T. services for general central management support, and, for reasons noted above, under-reports even that amount. For example, Cheektowaga projects a 2004 budget for Central Data Processing of \$485,200. Still, TABLE 7 shows that local governments spent \$6.1 million on I.T. in FY 2001.

TABLE 7
Expenditures on Information Technology/Data Processing –
FY 2001

<u>Government</u>	<u>Expenditure</u>
City of Buffalo	\$ 2,694,663
Buffalo City School District	\$ 3,044,791
Town of Tonawanda	\$ 93,986
Village of Kenmore	none reported
Town of Amherst	\$ 248,223
Town of Cheektowaga	\$ 32,510
Village of Sloan	none reported
Town of West Seneca	none reported
City of Lackawanna	none reported
Total	\$ 6,114,173

Source: N.Y. State Comptroller

Opportunities

Although every municipality requires I.T. expertise and services, cost reduction opportunities that focus on the City and the City School District will address approximately 90% of the I.T. expenditures by local governments in the BUDA.

A study conducted by Gartner Measurement for Erie County that was reported in October, 2002, included an analysis of the City of Buffalo I.T. function. This study concluded that the City is spending substantially less than a peer group of cities in each of the six performance components measured by Gartner. Further, anecdotal evidence from public comments by the Control Board suggest that both the City and the City School Districts are experiencing problems with using their main financial information system software to provide effective management information. Both the City and the City School District purchased MUNIS software within the last few years, but it has been reported that the City and the School District are exploring whether or not to replace that software.

Meanwhile, within the last two years, Erie County has made a multi-million dollar investment in SAP software which could provide the management information needed by the City and the School District. The County intentionally committed to purchasing software that could ultimately serve the needs of most if not all of the governments in the greater Buffalo area.

The City and City School District could save \$200,000 by migrating to the County SAP software.

Since the County has invested in a management information system that is designed to meet the needs of all levels of government, and the system can be offered at little incremental cost to additional governmental users, logic suggests that the community should avoid the cost of purchasing and maintaining duplicative and redundant I.T. systems. Therefore, the City and the School District should be required to migrate to the County system rather than investing in their own new software unless they can clearly demonstrate that the County system cannot sufficiently meet their needs. Assuming the County charges the City and the City School District a fee to reimburse the County for the incremental costs of those two new users, the City and the School District would net the difference between the County's fee and the system maintenance costs currently paid to MUNIS. CGR

estimates that the net savings to the City and the City School District would be in the range of \$100,000 each, based upon yearly licensing fees paid to MUNIS by the City and the City School District.

There is not enough other information available to project other types of cost savings. For example, the City and School District might realize personnel savings if moving to the County's SAP system creates personnel efficiencies, but that cannot be predicted at this time. Other municipalities may benefit from migrating to the County system, but because their current costs are comparatively low, six figure savings are not likely from such changes. It is more likely that municipalities may be able to avoid additional costs in the future for upgrading or purchasing new software by utilizing the County's software instead.

Implementation Challenges

There are two primary challenges to having the City and City School District move to the County's management information software system. First, the County is still in the process of making the software fully operational and working out implementation bugs. However, planning to migrate the City and the School District to the County system could begin immediately. Second, the City and the City School District would need to assure themselves that the County system will meet their management information needs. Once that is confirmed, the City and the School District would need to develop a plan to migrate from MUNIS to the County system.

Savings Summary

The savings identified in this section are:

City of Buffalo:

1. Migrate to the County SAP system: \$ 100,000

Buffalo City School District:

1. Migrate to the County SAP system: \$ 100,000

Combined Savings: \$200,000

SECTION 5 – STRUCTURAL OPTIONS FOR MOVING FORWARD

This report has identified ways that local governments in the Buffalo area can save millions of dollars without affecting the services they deliver to the public. These savings should be achievable by governments in greater Buffalo, because they have been achieved by governments in other parts of the state and the country. However, in order to do so, local governments will have to change the way they are currently doing business.

Certainly, individual governments will have to make a commitment to change their internal operations. In some cases, this will require careful and intentional management of employee contracts in order to achieve mutually acceptable goals. In other cases, upper level management will need to devote more time and resources to focusing on the types of costs described in this report.

Perhaps just as important, however, local governments will find it advantageous to commit to a higher level of inter-municipal cooperation than has been the case to date, in order to achieve these higher level cost savings. This report identified a number of cases where the municipalities could achieve cost reductions by addressing costs through an integrated approach. There are two important components to an integrated approach.

First, the municipalities will benefit by jointly participating in developing one management approach and solution. For example, all of the municipalities would benefit by having one integrated plan developed for strategies to take ownership of the street light system. Similarly, a single integrated study of refuse collection routes within the BUDA would identify opportunities that would go beyond studying each municipality as an individual entity. It is illogical and inefficient to have several of the municipalities in the BUDA each conduct their own studies for what are effectively the same problems for every municipality.

Second, municipalities in the BUDA should combine their purchasing power to obtain pricing leverage. As shown in

TABLE 1, the combination of all members of the group is twice the size of any of its individual members. Referring to street lighting again, the group as a whole should be seeking to negotiate with a consultant to develop ways to reduce street lighting costs, rather than have one or two municipalities do that on their own. Similarly, the example of variances in electricity prices illustrates why everyone would benefit from acting together.

Assuming there is general agreement about the advantages of working together to reduce costs, there is a practical challenge that needs to be addressed, which is – what structure should be used to support an integrated approach? There are three possible models.

Model 1 - Commit to Serious Intergovernmental Cooperation

There are many examples throughout Greater Buffalo of governments working cooperatively together. One example cited in this report is the energy purchasing cooperatives. That example also illustrates the challenge for municipalities in the BUDA, however, because at least two energy purchasing cooperatives exist in the area. Obviously, these were created to meet the needs of different members. The challenge for municipalities within the BUDA is to create a single unified cooperative for each function that is common to everyone. Ideally, different lead governments would volunteer or be selected to manage the cooperative effort on a function-by-function basis. Local governments could use the Board of Cooperative Educational Services (BOCES) model as an example of a cooperative model that works to include all members of the group with a single, coordinated approach.

This model works well for developing coordinated strategies to develop solutions and leverage pricing. It also gives individual municipalities the ability to retain complete local autonomy. However, the model has three weaknesses. First, unless everyone in the cooperative participates simultaneously, the group may not achieve maximum economies of scale. Second, the model is administratively inefficient because each municipality has to devote the staff resources necessary to retain some management control. Third, and potentially most serious, each member of the group has to implement the cooperative strategy on its own. Typically, cooperatives break apart and fail because, for whatever reason, individual participants choose to follow a plan of action that is different than what was agreed at the time the cooperative

Model 2 – Push Responsibility to a Higher Level of Government

strategy was developed. Once the members of the cooperative follow their own paths, the benefits of the cooperative disappear.

There are many examples in greater Buffalo where either the County or a State agency or structure provides a central coordinating service on behalf of groups of municipalities. For example, the Erie County Sheriff provides police services and manages these services in zones that supercede municipal boundaries. Many state services are managed more effectively within areas that cut across municipal boundaries. To refer to an example already cited, the state Department of Environmental Conservation has created Solid Waste Management Boards for large groupings of municipalities within the county.

This model is likely to be more efficient for managing delivery of services over an area that is larger than any one municipal boundary, and for obtaining scale efficiencies for purchasing goods and services. For example, having the County purchase and maintain common financial management software is a more efficient use of resources than having many municipalities purchase and maintain their own systems with the same functionality.

However, the model has two weaknesses. The first is loss of local municipal control. The extent to which this is real or perceived varies with the circumstance, but it is a legitimate concern. Second, the higher level of government, by necessity, has to balance the needs of the larger set of constituents within its boundaries. For example, since Erie County has to balance the needs of urban, suburban and rural interests, this balancing act may not result in decisions that maximize efficiencies within the BUDA.

Model 3 – Create an Urban Services District That Encompasses the BUDA

In early November, the County Executive announced a proposal to consolidate the City of Buffalo Department of Public Works with the Erie County Department of Public Works, based on the concept of creating an Urban Services District (USD). As demonstrated in this report, however, the City of Buffalo only represents half of the total expenditures on urban services within the urban core of the county. Therefore, in order to achieve maximum efficiencies, CGR believes that if an Urban Services District is created, it should include all municipalities within the

BUDA. At a minimum, as the City and County initiate a joint effort to achieve efficiencies, the planning should take into consideration functions that could be scaled up to achieve efficiencies within the larger urban area.

Intentionally designing an all encompassing Urban Services District structure, rather than meeting only the needs of the City, should be seriously considered from the outset. This could help to achieve the larger cost reductions identified as soon as possible. There are several different administrative models in the Buffalo area where an agency has been created to provide services to many municipalities. Initially, participation in the USD should be voluntary, but once a municipality agrees to participate, it must commit to the process and outcome. The board of directors should include a voting representative from each participating municipality. The guiding principle for the USD would be to provide selected common services to its member governments at lower cost than they could achieve by themselves.

An Urban Services District that encompassed the BUDA would provide a solid structure around the framework of inter-municipal cooperation. However, the model has two apparent weaknesses. First, the USD might be viewed as simply creating another governmental entity, which is inconsistent with the concept of trying to reduce the layers of government. In response, however, the USD would presumably pay for itself many times over by reducing costs throughout the greater community. Second, it is not clear whether the municipalities around the City would want to participate in the USD. Since the City needs to take immediate actions to reduce costs, it may not be possible to take the time necessary to build the consensus to create a successful USD for all municipalities within the urban core.

SECTION 6 - CONCLUSION

The City of Buffalo could reduce operating costs by \$5 million/year by making the changes in the three functions reviewed in this report. However, an additional operating savings of from \$3.2 million to \$4.9 million/year could be achieved in municipalities immediately surrounding the City if they made the same types of changes. This would require the municipalities to work together on a cooperative basis, to share information, resources and brainpower. In some cases, it would also require municipalities to invest capital dollars in order to reduce operating costs. However, by working together with a unified approach to providing services at lower costs, all the municipalities within the urban core would benefit.

APPENDIX – ADDITIONAL COMMON FUNCTIONS TO CONSIDER

In order to suggest further areas to apply the concepts described in this report, CGR compared expenditures in several other common functions provided by governments within the Buffalo urban area. These are shown in TABLE 8.

TABLE 8
Expenditures By Governments Within the BUDA for FY 2001
For Selected Functions

	<u>Snow Removal</u> (Comptroller Acct # 5142)	<u>Garage</u> (Comptroller Accts # 1640 and #5132)	<u>Buildings</u> (Comptroller Acct# 1620)
City of Buffalo	\$ 5,875,191	\$4,598,256	\$ 9,924,148
Other Governments in the BUDA	\$ 3,861,148	\$2,138,586	\$ 3,816,322
Total Expenditures FY 2001	\$ 9,736,339	\$6,736,842	\$ 13,740,470
City as Percent of Total	60.3%	68.3%	72.2%

Source: N.Y. State Comptroller