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C. C. 106

City of Cambridge

In City Council January 14, 2002

The Finance Committee held a public meeting on December 4, 2001, beginning at 11:45 a.m. in the Ackermann Room. The meeting was called for the following purposes: (1) receiving an update on issues that will affect the FY 03 budget, (2) discussing the quality of electric service in Cambridge and the City's role in the Department of Telecommunications and Energy (DET) investigation and LED traffic signals, and (3) receiving information about the adequacy of resources for emergency response.

The following members of the City Council and Council staff were present at the meeting:

Councillor Michael Sullivan, Chair of the Committee,
Councillor Kathleen Born
Councillor Henrietta Davis
City Clerk D. Margaret Drury
James Monagle, City Auditor.

Councillor-elect Brian Murphy also attended the meeting.

City Manager Robert W. Healy and the following members of his staff participated in the meeting:

James Maloney, Assistant City Manager for Fiscal Affairs,
Louis DePasquale, Budget Director
Ronnie Watson, Police Commissioner,
Harold Murphy, Police Superintendent,
Susan Clippinger, Director of the Traffic, Parking and Transportation Department
George Fernandes, City Electrician,
George Fosque, Director of Emergency Communication,
Michael Nicoloro, Inspectional Services Department.

Councillor Sullivan convened the hearing and explained the purpose. He requested that the City Manager begin with the budget preview and a discussion of any recent issues that will affect the budget.

Mr. Healy reported that the office vacancy rate has risen to 15-16%. Concomitantly, rents have declined from a speculative high of $65 per square foot to as low as $40-45, with an average current rental rate of about $55 per square foot. Assessed values and FY 02 taxes were based on January 2001 figures, and will likely be lower in January 2002. The biotech sector is still strong. The biotech commercial space, which accounts for a great deal of Cambridge's commercial space, still has a low vacancy rate. Furthermore, we can be confident that two of Cambridge's biggest taxpayers, Harvard and MIT, will not be moving to China for lower labor costs.

Mr. Healy then reported on the recent bond presentations in New York. He said that the City has already been informed that Fitch has retained the AAA bond rating for Cambridge, although it has stated its concern with the state economy and its effect on state aid for municipalities.*

Mr. Healy stressed that state aid will be real concern. He does not expect huge damage to Cambridge this year; he expects that Cambridge will receive close to what was estimated in the FY02 budget documents. The schools may lose $636,000. Adult education and *English as a Second Language* funds are a source of serious concern. The decrease of state funding in the budget just enacted by the state is $488, 000 for Cambridge, which amounts to 48% of the Cambridge Learning Center budget. This is a very serious problem. Cambridge cannot build into its operating budget everything that is cut from the state budget.

Over time, Mr. Healy continued, Cambridge will see more and more impacts on the not-for-profit sector, which provides many human services in Cambridge. If the economy does not improve by that time, the next sector impacted will be the schools. In 1991-1992, Cambridge lost huge amounts of state aid, and still did not lay off teachers, police or firefighters.

Mr. Maloney stated that Cambridge entered the 1990's with a huge levy excess, and by 1993, the levy excess was almost completely gone. In response to a question from Councillor Sullivan, Mr. Maloney stated that he expects to be inundated with abatement requests from commercial taxpayers as soon as the tax bills go out.

Councillor Born asked whether there is a separate fund for abatements. Mr. Maloney said that there is a fund of $4.2 million. If abatements exceed that amount, the free cash reserve must be used.

Councillor Born stated that she understands that the downturn in the economy may mean that the City will have to adjust the schedule of the capital plan but she believes it is essential for the City to hold on to the vision embodied in its capital plan. Mr. Healy acknowledged that sound fiscal planning may require changes to the schedule of the plan. He stated that his assessment at this time is that the library will go forward. The City is in the middle of a site assessment for a new police station, which is badly

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*After the date of this meeting Standard and Poor and Moody's announced that they have also retained their AAA bond ratings for Cambridge.

needed. If the site remediation for Russell Field involves removal of large amounts of topsoil at the cost currently estimated, those renovations will probably be delayed. Mr. Maloney stated that, as in the early 1990's, we will see the capital plans taking the biggest hits through spreading out the schedule.

Regarding the operating budget, Mr. Healy said that he does not anticipate big reductions in the operating budget this year, but Cambridge cannot build in big increases. The schools are a concern. The teachers' contract ends August 31st. DPW contracts also will be renegotiated. Cambridge has collective bargaining agreements with police and fire unions through 2003 with 3% increases. Mr. Healy stated that he does not know where the cuts in state aid will be next year, but he expects that the cuts will be much bigger. State aid funding goes to municipal operating budgets.

Councillor Davis noted that current state budget cuts threaten CASPAR's First Step van program. This program has been important to public safety, in that it has meant that police officers need not spend their time transporting ill alcoholics from public places to shelters.

Councillor Born stated that as the extent of the budget cuts becomes clearer, there will be many, many more important programs that the City will be asked to rescue. She suggested thinking about developing guidelines about what types of programs are traditionally and historically funded by the state and what programs are usually seen as appropriately funded by the municipalities. Mr. Healy said that one reason that over the years services in Cambridge have been so much better than in other communities is because Cambridge has added additional funds to what the state aid has provided.

Mr. Healy said that at this time, Cambridge is prohibited from making any appropriations for items not included in the FY 02 budget because the state Department of Revenue is in the process of certifying Cambridge's free cash. That certification should be finalized in early January. In response to a question from Councillor Davis, Mr. Maloney stated that he expects the state to certify $26 million as the free cash amount. Mr. Maloney further stated that if the state keeps state aid at its current level and does not increase it next year, Cambridge would have to increase the tax rate ½% to maintain its current budget. For every $2 million cut in state aid, it takes a 1% increase in Cambridge's tax rate to stay level-funded.

Councillor Born asked Mr. Healy if he sees the FY03 budget as a "hold everything even" budget, or worse than that. Mr. Healy stated that it is at least a "hold everything even" situation. He stated that Cambridge must do its best to keep free cash from being built into the budget as operating expenses.

Councillor Born suggested that the staff make a strong effort to educate the newer councillors about free cash.

Councillor Born expressed concern about how the Community Preservation Act surcharge will appear to residents when they get their second FY02 tax bill this spring.

Mr. Healy noted that citizen concern will be increased because the entire increase in taxes (attributable to overall increased in expenses not to the CPA although it may so appear on the bill) will be contained in the second bill. The first tax bill of the year, last fall, was an estimated bill, half of the previous year's tax bill, because of the ongoing recertification of assessed values

Councillor Davis asked what the staff plan is to ensure that the public understands the cause of the increase in their tax bills and understands that the increase is not due to the CPA. Mr. Maloney said that there will have to be a big educational effort.

Mr. Maloney stated that this is a time of great financial uncertainty. Cambridge will experience other financial losses in addition to state aid. There will be losses of interest income, and decreased revenues from the hotel and motel tax.

Councillor Sullivan then moved to a discussion of the electrical and lighting issues.

Mr. Healy stated that Cambridge is considering a change in ownership and service of streetlights. Right now the streetlights are owned and maintained by NSTAR, with the exception of 750 owned by the City. NSTAR is interested in selling the poles. The streetlight repair time used to average three days; now the average is seven days, with some lights out much longer. Brookline changed to ownership by the town and maintenance by and outside contractor. Cambridge is looking at the RFP Brookline used for its maintenance contract. Brookline received three bids in response to its RFP, and North Reading Power Company was awarded the contract. Cambridge intends to go forward with a request for proposals to buy the poles and contract with an entity to maintain the lights. The City Electrician can bid for the maintenance contract, and will manage the contract if it is awarded to an outside bidder.

Mr. Maloney added that preliminary analysis suggests that city ownership will be a financial benefit for Cambridge.

Councillor Davis noted that MDC maintenance of its streetlights is even worse that that of NSTAR. She expressed her hope that the RFP contain energy conservation requirements.

Councillor Born stated that it is important to keep aesthetics in mind, as well.

Councillor Sullivan stated that any agreement with NSTAR about transfer of the poles should keep in mind that if the City does not use those poles, NSTAR would have to remove them.

Councillor Sullivan then moved to the topic of the quality of NSTAR electrical service to Cambridge. He said that at the TKT building at the Osborn triangle there was a year delay in filling the request for underground cable. Councillor Sullivan stated that Mr. Healy and Mr. Fernandes have met with NSTAR regarding the need for a Cambridge plan. DET will require such a plan. Councillor Sullivan suggested developing before and after service statistics for DET.

Mr. Nicoloro said that NSTAR delays are preventing the issuance of certificates of occupancy by Inspectional Services all over the city.

Councillor Born stated the complaints that she has received regarding electrical service fit into two basic categories: continuation of basic services and delays in construction situations. She asked what, if any, leverage Cambridge has to effect improvements. Mr. Healy stated that there is some leverage through the Pole and Conduit Committee and some leverage because poor service generates bad publicity.

Councillor Sullivan asked how NSTAR is doing with regard to its emergency response. Mr. Healy said that there has been some progress, but Cambridge is now dealing with a huge conglomerate in a de-regulated environment. In response to a question from Councillor Born, Mr. Healy stated that NSTAR is a Massachusetts company. Mr. Fernandes added that NSTAR services 110 Massachusetts communities.

Councillor Born asked what communities provide their own electrical service through municipally owned companies. Mr. Healy cited Belmont, Peabody and Hull, and added that he does not recommend municipal ownership for Cambridge, it would take an expensive five-year legal process.

Councillor Sullivan then moved to discussion of replacing incandescent lights with LED (light-emitting diode) lights in traffic signals. Mr. Healy stated that LEDs are brighter and more energy efficient than incandescent lights. This year Cambridge will replace all the red incandescent lights. The red lights are the most important, and their replacement with red LEDs will garner the biggest reimbursement from NSTAR. Green and yellow incandescent traffic lights will be replaced together in the next phase. Ms Clippinger stated that over time the City would recoup the cost in energy savings. The red LEDs are the most cost effective. The cost per unit for installation is $170, with a $70 reimbursement from NSTAR. The longer-term savings are in the cost of electricity.

Councillor Sullivan then moved to discussion of whether additional resources are needed to protect Cambridge in an emergency. Mr. Healy reported that the biggest additional expense since September 11th has been fire department overtime. Police overtime expenses spiked in October, but now are back to normal. The suits worn by the hazardous material teams are worn only once, so the response of the HAZMAT teams to suspicious package calls has resulted in additional costs for the suits. Mr. Healy said that he expects the additional fire department expenses to be absorbed within the current budget.

Councillor Sullivan asked Mr. Fosque about the number of calls to 911. Mr. Fosque stated that the number of calls since September 11th has equaled the number of calls for all of the previous months of this year. However, the September 11th crisis came right at the end of summer, and summer is also a time when there are significantly more calls than at other times of the year.

Mr. Healy stated that the budget impact of the events of September 11th on Cambridge is minimal because Cambridge has been building up its capability for response for a long time.

Councillor Sullivan thanked all those in attendance for their participation. The meeting was adjourned at 12:25 p.m.

For the Committee,

Michael DWD

Councillor Michael A. Sullivan, Chair

F/committee reports /011204 Finance Committee report

S-10

Committee Report #1

Committee Report from Councillor Michael Sullivan, Chair of the Finance Committee, for a meeting held on December 4, 2001 for the following purposes: (1) receiving an update on issues that will affect the FY 03 budget, (2) discussing the quality of electric service in Cambridge and the City's role in the Department of Telecommunications and Energy (DET) investigation and LED traffic signals, and (3) receiving information about the adequacy of resources for emergency response.

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Report accepted.

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