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CITY OF CAMBRIDGE

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EXECUTIVE DEPARTMENT
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June 26, 1995

To the Honorable, the City Council:

This memorandum is written in response to two recent City Council orders regarding the FY1997 budget. A review of budget messages prepared by me since I became City Manager will find that a continuing goal in the fiscal management of this City has been stability: stability of services for our citizens; stability in tax policy for our property owners and businesses; and stability in the workplace for our employees. Beginning in the early 1980's and working with successive City Councils this stability has been achieved through sound economic development, with the resultant growth of tax revenues, and through controlled budget growth on the expenditure side. It is my very strong belief that this policy has resulted in a vibrant City with a broad array of services for its citizens, and a sound infrastructure and healthy environment for our businesses. By controlling budget growth in salaries and benefits, the FY1996 budget approved by the City Council last month avoided $15,000,000 in expenditure growth and results in the lowest tax levy increase since FY1983. In fact the tax levy increase of less than 1% will be fully offset by taxes levied on property new to the tax rolls. This was accomplished without a reduction in services or the layoff of employees.

Now as I review recent Council actions, it appears that the Council may want to go further and cut the budget and possibly reduce services. Cutting budgets is nothing new to this City administration. During the early 1980's the City was forced to cut the tax levy by 15% in one year to respond to the passage of Proposition 2½. While not a pleasant task, it was achieved. The process however did take its toll as employees concerned about their livelihood wondered who would be laid off and citizens wondered whether they would have to pay extra for services such as trash collection or if other services such as their neighborhood fire station, branch library or elementary school would be closed.

If this City Council is truly intent upon taking actions that result in a net cut in the budget I will state upfront that in my opinion the only way to achieve significant cuts is through the elimination or reduction in services, the privatization of services, or the regionalization of services. Remember, the $15,000,000 in cost increases avoided through the collective bargaining process equals approximately 375 employee positions at an annual employee cost of $40,000 in salaries and benefits. This savings also only came after three employee cost of $40,000 in salaries and benefits. This savings also only came after three years of discussions and negotiations with employees. It remains my very strong belief that the curtailment of budget growth rather than the elimination of services (and employees) is a more realistically achievable action. However if this City Council wants to cut the budget I would offer the following comments.

Regarding the late order introduced by Councillors Sullivan, Toomey, Galluccio and Vice Mayor Russell on June 19, 1995 that calls for the retention of an outside consultant to review and analyze the City budget. I would recommend against this for the following reasons. First, such a process would have expensive upfront costs. Using the Fire Department report of three years ago as a benchmark ($95,000 for one department) as well as contacts in the field, I would estimate that approximately $125,000 would be needed for each large department to be reviewed.

While there are times when outside management consulting advice should be sought, it should be done when a specific management issue has been identified and the objectives of the study can be defined. A management consulting report lacking definition tends to be very expensive and not particularly useful. This City's broad array of services is not a management issue but rather a result of policy choices. Because of this, a consultant's review would likely identify high cost services that we already know about but historically have chosen to maintain. For example, Cambridge has above average teacher/pupil ratios, a high number of branch libraries per square mile, an expensive public health system and a broad array of human service programs. We do not need an expensive outside consultant to educate us about what we already know.

Regarding Council order #39 of June 12, 1995 introduced by Councillor Triantafillou, I would recommend a different process. The June 1st order is unclear. Should the 2% cover all City Departments including enterprise funds and state charges such as the MWRA and the Cherry Sheet? Should the School budget be reduced by 2%? If the answer to these question is yes then approximately $6,300,000 in cuts would need to be identified. However taking into account contract settlements, capital projects already approved by the City Council, projected increases in state charges, projected increases in the Hospital budget supported by non-tax revenues, and projected increases in health insurance and pension costs, the FY1997 budget will likely increase in the vicinity of 4% or $12,720,000 over FY1996. Thus should we identify over $18,000,000 in cuts for FY1997? I should point out that not included in the estimated increased expenditure costs for FY1997 is a state aid loss of up to one million dollars. These funds will be deducted from the City's state aid and diverted to the recently approved charter school. Furthermore, the 2% cut does not address expenses supported by the tax levy. Theoretically I could submit a budget that eliminates $18,000,000 in non tax supported (enterprise) programs that have revenue sources other than property taxes, and not impact the tax levy one cent.

In order to best prepare the City Council for the FY1997 budget process, I propose that the City Council be given revised financial projections early in September that focus on tax levy growth rather than gross budget growth. These projections would include three scenarios. In the first scenario the expenditures would be projected to assume that the current level of services would be maintained and known increases such as salaries and benefits would be factored in. On the revenue side non-tax revenues would be projected based upon recent experience, and property taxes would be increased to balance the budget. In the two other scenarios the same expenditure and revenue assumption would be made except for property taxes would be used. In scenario 2 property taxes would be held constant at FY1996 levels, while in scenario 3 taxes would be increased only by an amount equal to the amount of taxes paid by new construction (including decontrolled apartments). Each of these two final scenarios could end up producing revenue gaps of several million dollars. The City Council would then chose one of the three scenarios for the establishment of budget guidelines. If the chosen scenario had a revenue gap caused by lower property taxes, I would request that the City Council prioritize areas where they would like to see service reductions: Schools, public safety, general government, public works, human services, etc. If this exercise is to be successful it is imperative that the City Council first prioritize its opinion(s) of various City services and identify areas where cuts in services will be acceptable to the City Council. Once the City Council has listed its priorities, I would issue FY1997 budget guidelines to City departments and prepare a budget accordingly.

It has became fashionable and popular to attack government services and spending as excessive. If we are to join the chorus for less government led by national legislative leaders we must remember that unlike the federal government today and the state government of a few years ago, Cambridge is in sound financial condition. This City provides a wide range of direct services, there are no deficits, the government is not burdened with excessive debt and we enjoy one of the highest credit ratings of any City in the nation. This is not by accident. As I said in my opening comments it has long been the goal of this City to maintain stability through careful attention to our finances. During the past five years cost increases have been avoided in a number of areas that allowed several City Council initiatives to become operative. New programs for elderly services (Senior Center), youth services (Area IV and East Cambridge Youth Centers, Positive Edge), employment and training (Workforce Development) and the environment (Environmental Program), and public safety, have all been established since FY1991. My recommendation for the future is to continue to follow our successful practice of developing strategies that control expenditure growth. However if the Council wants to set a policy of net cuts to the City budget I shall prepare a budget for FY1997 the cuts the budget and follows priorities set by the City Council.

Very truly yours,

Robert W. Healy
City Manager

Consent Agenda # 18 S-227

Response to Awaiting Report Item Numbers Forty-Two, Fifty-Seven and Sixty regarding budget issues.

Rep. #42 - for original order
see Order #48 of 5/22/95

Rep.#57 - for original order
see Order # 39 - (Cal #2)
of 6/19/95.

Rep. #60 - for original order -
see Order #39 of 6/26/95

Rep #21 - removed due to this
response - See 1995 City
Manager Requests # 100C.

In City Council,

June 26, 1995

Placed on file