

# ResearchBrief

OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

## Cost-Saving and Cost-Containment Strategies for New York State's Local Governments

Over the past several years, Comptroller DiNapoli has cautioned municipal officials that the economic outlook was weakening, and that continuing reliance on economically sensitive revenues was a growing risk.

Unfortunately, those warnings have now come true. Facing a severe economic crisis, New York State and its local governments are experiencing a period of stagnant growth or, in some cases, declines in certain revenues. Towns, which have come to rely on mortgage taxes, are impacted by the housing slump. As consumer confidence has dropped, sales tax revenues are declining rapidly—first quarter 2009 sales tax collections have decreased considerably statewide as compared to 2008. As New York State revenues have declined, the level of State aid to municipalities and school districts has stagnated at the same time that the cost of delivering services continues to increase.

Comptroller DiNapoli and the Office of the State Comptroller (OSC) are committed to assisting New York's local governments in identifying cost-savings and revenue enhancement opportunities. This report provides a number of ideas and explains efforts undertaken by various municipal officials or identified through audits conducted by OSC that are applicable to most local governments, and that address costs that are under local control. These examples may help mitigate property tax increases and contribute to future fiscal stability. In the current economic environment, every dime counts, and municipal officials should be prepared to leverage savings whenever and wherever possible.

A number of cost-saving strategies are highlighted in the following pages, including:

### Energy:

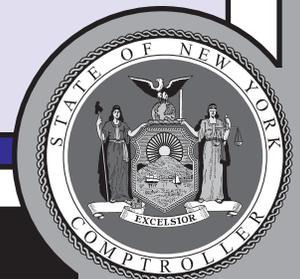
- Computer Power Management
- Energy Audits
- Energy Performance Contracting
- Municipal Vehicles
- Wind and Solar Energy Production
- Wastewater and Sewage Treatment Facilities
- Street Lighting

### Healthcare:

- Payments in Lieu of Health Insurance Benefits
- Mail-order prescription drug options
- Medicaid fraud-detection software
- Co-pay rebate program

### Jails:

- Cook-Chill Food Preparation
- Telemedicine
- Alternative Incarceration



Thomas P. DiNapoli • State Comptroller

Three categories are highlighted in the report: health insurance, energy and jails — areas that have experienced significant cost increases over the past decade. Best practices in other service delivery categories are highlighted at the conclusion of the report. A number of these cost-saving ideas are also highlighted on the OSC website and can serve as reference materials.<sup>1</sup> While these techniques have proven useful to many local governments, none are guaranteed, and municipal officials are encouraged to perform due diligence before committing to any cost-saving or cost-containment program.

The OSC Local Government Management Guide (LGMG), Personal Service Cost Containment, is another resource that addresses some of the issues municipalities face when trying to tame the costs that come with increasing personal service and employee benefit expenditures. Between 60 and 70 percent of local government operational spending is attributable to salaries, wages and benefits. These costs are often the result of a decentralized and diverse set of collective bargaining agreements.

Personal Service Cost Containment breaks this subject area into four categories for potential savings: Health Insurance, Unemployment Insurance, Workers' Compensation and Overtime Planning and Management. Under each heading, a variety of techniques and resources are offered for local government use. Personal Service Cost Containment is available here:

[www.osc.state.ny.us/localgov/pubs/lgmg/costcontainment08.pdf](http://www.osc.state.ny.us/localgov/pubs/lgmg/costcontainment08.pdf).

The following table outlines some key cost-saving techniques from the Guide:

Health Insurance	Unemployment Insurance	Workers' Compensation	Overtime Planning and Management
Creating a self funded plan	Selecting an economical funding method	Seeking competing carrier offers	Exploring alternate work schedules
Offering a pre-tax benefit		Establishing a claims procedure	

While the practices discussed in this report have worked for many local governments, they are not intended to be used in a “one size fits all” approach to municipal fiscal stability. Municipal leaders should understand that every situation is different, and that all techniques may not work for all local governments. Officials are encouraged to study and understand the problems specific to their local governments.

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## Healthcare

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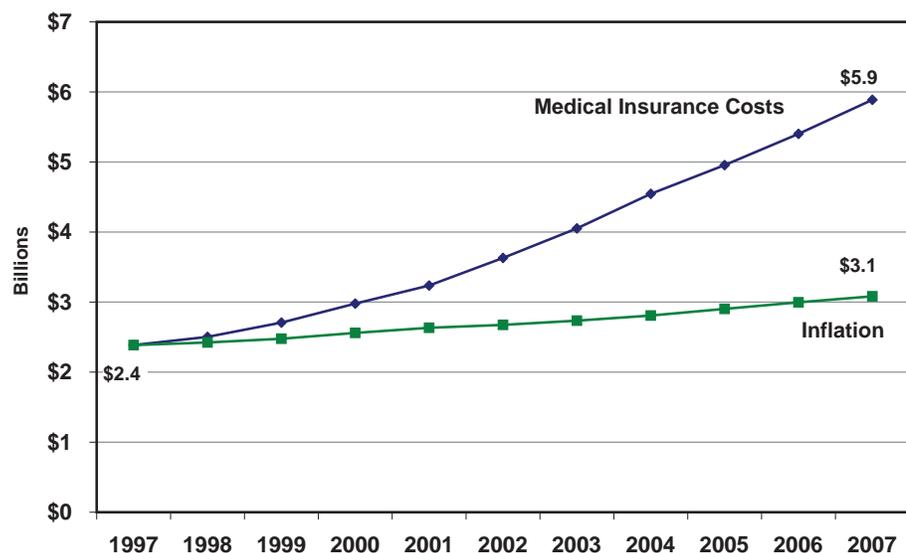
Employee benefits represent a large and growing expense for local governments, accounting for 23 percent of total spending by local governments in 2007. School districts experienced the most growth in this category, with benefit costs increasing by 60 percent, or \$3.8 billion, between 2003 and 2007. Within employee benefits, the largest increases for school districts were costs for teacher retirement and medical insurance which grew by more than 87 percent, or \$3 billion, over the last five years.

The National Coalition on Health Care reported that employer health insurance premiums increased by five percent in 2008, and that the annual premium for an employer-sponsored health plan covering an individual or family of four averaged close to \$4,700 and \$12,700, respectively. The Employee Benefit Research Institute estimates that state and local governments spend nearly double the amount for benefits for their workers compared to private-sector employers, at an average cost of \$13.24 per hour versus \$7.66, respectively.<sup>2</sup>

Statewide, since 1997, medical insurance costs for local governments (excluding New York City) have increased at rates almost four times that of inflation. In fact, medical insurance costs represent one of the fastest-growing major categories of employee benefit expense, increasing more than 62 percent between 2002 and 2007 and 146 percent between 1997 and 2007. Some local governments provide health benefit plans to employees that can cost twice the national average.<sup>3</sup>

Health insurance, prescription drugs and Medicaid are three high-cost expenses for local governments in New York. Three strategies local governments have used successfully to help control these costs are highlighted below.

**Between 1997 and 2007, local government medical insurance costs have increased almost 150 percent.**



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## Payments in Lieu of Health Insurance Benefits

Schenectady County saved more than \$2 million in health insurance costs between 2005 and 2008 by implementing a program offering payments in lieu of health insurance benefits (sometimes referred to as a “buy back” or “health insurance waiver” program). Individuals who could legally be claimed on a partner’s health insurance plan and who opted out of Schenectady’s health plan received \$2,000. If an employee opted out of a family plan, he or she received \$4,000. The County spent \$15,000 for each family insurance plan, saving approximately \$11,000 for every employee that chose to opt out, or approximately \$825,000 in 2008.<sup>4</sup> Saratoga County realized savings of between \$1.3 and \$5.1 million between 2004 and 2006, and averaged approximately 200 employees per year who opted out of the health insurance plan.<sup>5</sup>

The Office of the State Comptroller released an audit report in January 2009 detailing different strategies for containing costs of health insurance for local governments. Using a buyback program, five entities<sup>6</sup> experienced a combined savings of over \$4 million over a three-year period.<sup>7</sup> Municipal officials must be careful in pursuing this promising approach, however, as there is a slight risk that municipalities offering payments in lieu of health insurance benefits could lose money if employee participation is too low or the municipality offers a buy-out payment that is too high. Local governments should also be aware that these arrangements may have certain tax implications.

## Prescription Drugs

Prescription drug programs are another area where local governments can look for savings. Several counties offer employees a lower-cost mail-order option for obtaining prescription drugs as part of their health benefit plans. Schenectady County officials estimate annual savings of over \$1 million through the use of a mail-order prescription drug option offered through Canadian and American suppliers.<sup>8</sup> Rensselaer County reported savings of \$270,000 in 2007 based on 2,676 prescriptions filled through this option. The Albany County Legislature recently passed a resolution approving the mail-order prescription option. Officials estimate that once the providers are selected and the program is implemented, the County will save between \$600,000 and \$3 million annually, depending on the participation of various labor unions.<sup>9</sup> If local governments are interested in using Canadian Suppliers, officials are urged to check with the US Food and Drug Administration about any issues that may arise.

A number of counties participate in programs sponsored by pharmaceutical companies that offer discounts on prescription drugs for those who are underinsured or uninsured. The New York State Association of Counties claims that residents in 13 participating counties have saved \$10 million in just over three years. Residents use a county-issued card to receive an average discount of 10 to 20 percent on name-brand drugs and 20 to 30 percent on generic drugs that are not covered by another form of insurance. While there is no direct fiscal benefit to participating counties, participation in these program allows counties to provide a vital service to residents at no cost. Counties currently participating in the prescription benefit program include Cayuga, Delaware, Franklin, Fulton, Jefferson, Lewis, Madison, Onondaga, Oswego, Schenectady, Seneca, Steuben and St. Lawrence, with other counties currently in an evaluation stage.<sup>10</sup>

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## Medicaid Fraud Detection Systems

Medicaid is one of the most expensive programs administered by New York's counties. In 2007, counties outside New York City spent over \$2 billion on Medicaid, or about 10 percent of their total budget, reduced from 15 percent in 2004 as the result of Medicaid cap legislation enacted in 2005.

According to a 2005 New York Times article, fraudulent Medicaid claims are rampant,<sup>11</sup> and reducing the number of fraudulent claims presents a good opportunity for cost savings. This finding is supported by numerous OSC audits, including two recent audits of reimbursements for diabetic testing supplies and dental services. The first report determined that, even with the Department of Health's (DOH) Medicaid limits for diabetic testing supplies that exceed the limits established in other states, numerous recipients received supplies that exceeded DOH's limits. The report concluded that if New York State set limits comparable to those in other states and enforced those limits, the Medicaid program could have saved nearly \$13.8 million on diabetic testing between 2003 and 2008.<sup>12</sup> The second audit found that Medicaid potentially overpaid 1,788 dentists \$2.9 million for dental services performed on patients with dentures over five years.<sup>13</sup>

To help control these costs, some larger counties have invested in Medicaid fraud detection software, which provides information on specific Medicaid cases and identifies anomalies, to recoup millions of dollars. The software helps identify cases of Medicaid overpayment and often prevents fraudulent payments from being sent out. Onondaga County claims to have saved taxpayers more than \$1.8 million in the first seven months of 2008.<sup>14</sup> Chemung County has also reported saving more than \$1 million in social service expenses (\$360,000 in Medicaid savings, specifically) by using the software to monitor clients, doctors and pharmacists to show how Medicaid is being used and where money is being spent.<sup>15</sup> County officials find that significant savings arise from the identification of inefficient practices, such as duplicate tests ordered by different doctors. The software flags potential issues so they can be investigated appropriately.

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## Medicaid Non-Emergency Medical Transportation (NEMT) Operations

An April 2008<sup>16</sup> audit of county Departments of Social Services responsible for administering Medicaid NEMT operations found that cost savings could be achieved through better management and implementation of noted best practices.<sup>17</sup> The following are examples of management issues identified in the audit report:

- More costly services were utilized when less-costly alternatives were available;
- Payments were made for noncovered services or for claims containing questionable costs;
- Bids were not solicited for transportation contracts; and
- Verbal agreements were relied upon instead of written contracts.

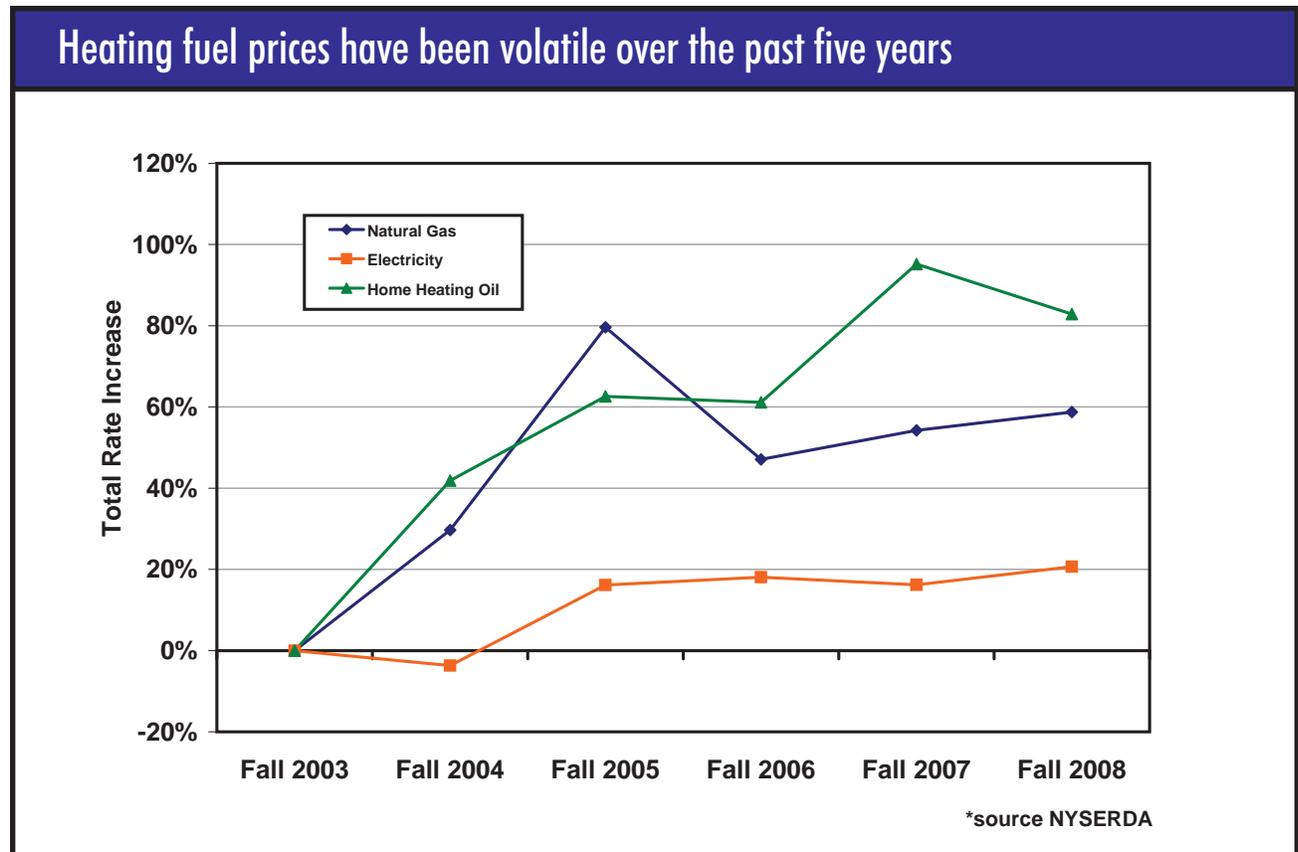
## Co-Pay Rebate Program

Another cost-saving strategy highlighted in an OSC audit on containing the cost of health insurance benefits<sup>18</sup> highlights how Hudson Valley Community College (HVCC) saved as much as \$470,000 on health insurance premiums in 2006. The College reduced premiums by seven percent by increasing co-payments from \$15 to \$25 per visit. However, because the \$15 co-pay was specified in collective bargaining agreements, HVCC reimbursed employees for the \$10 difference at a fraction of the cost of the lower co-pay plan premium. By selecting the plan with a higher co-pay, the college benefited from a reduction in the overall premium. Even after reimbursing employees for the \$10 difference, net savings were still achieved.

## Energy

Energy also represents a significant expense for most local governments. The price of fuel, natural gas and electricity is volatile and can place additional stress on local government budgets. New York State currently has the second highest energy costs in the nation and the third highest average electric rate (15.27 cents per kilowatt hour (kWh) vs. the national average of 8.9 cents).<sup>19</sup> The State's average electric rate has increased 63 percent since 1990, with the largest annual increases occurring in recent years.<sup>20</sup>

The volatile energy market has forced many local governments to explore options to reduce energy consumption. Energy costs have fluctuated dramatically for local governments in the past year – representing a host of challenges for municipal officials. Quickly escalating prices often force local officials to account in midyear for unpredictable expenditures. While there is volatility in the short term, over the long term, local government spending for energy has trended upward. Therefore, curbing energy consumption is a sound strategy to reduce expenses and achieve environmental goals. The following represents a sampling of the options available to local governments.



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## Computer Power Management

Computers are now widely used in all classes of local government. One relatively simple way to achieve energy-related savings is by developing and implementing power management policies. A typical computer left on for a year consumes 874 kWh of electricity, which costs almost \$100, assuming the average U.S. rate.<sup>21</sup> To help curb these expenses, some states have started implementing “green IT” policies. Michigan removed excess fax machines and printers from its systems, and Minnesota has realized savings by enforcing energy-efficient standards and power-usage policies.<sup>22</sup> More recently, local governments have started to realize savings by implementing power management policies.<sup>23</sup>

In October 2008, OSC released an audit of computer power management in five school districts and two counties. The audit found that even when counties and school districts had established energy conservation policies, these policies were often not conservative enough or failed to address measures that could help save even more money, such as utilizing computer power save settings. School districts statewide could save an estimated \$11 million annually by enabling power save settings and/or shutting down computers during periods of inactivity.<sup>24</sup>

The U.S. Environmental Protection Agency (EPA) provides guidance for activating power management features.<sup>25</sup> Power management features, which come standard in Windows and Macintosh operating systems, place monitors and computers into a low-power “sleep mode” after a period of inactivity.

## Energy Audits

Some local governments choose to invest in energy efficient products to increase potential savings. The New York State Energy Research and Development Authority (NYSERDA) works with local energy engineering firms through the New York Energy Smart Program to offer low-cost energy audits to schools and local governments with annual electric costs of \$75,000 or less. These audits help identify economically viable improvements that yield substantial annual energy savings. Energy audits include different types of evaluations, ranging from a walk-through inspection of a facility to a technical analysis of building systems. For local governments with annual electric bills of less than \$25,000, the audits cost \$100. Governments spending between \$25,000 and \$75,000 pay \$400. Application information is available on NYSEERDA’s website.<sup>26</sup>

The Town of Clarkstown in Rockland County used results from a 2007 NYSEERDA energy audit of 12 municipal buildings to gather baseline information, determine how much electricity, fuel and natural gas the Town’s buildings were using, and explore options for improving efficiency. Some suggested fixes to common inefficiencies, like installing motion sensors for lights, were relatively low-cost options, and the Town would be able to recoup the \$16,000 investment in less than two years. Clarkstown officials have implemented most of these lower-cost recommendations. Other audit recommendations, such as retrofitting a building with more efficient windows, doors and walls or upgrading the heating and air

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conditioning system are much more expensive, with cost estimates between \$250,000 and \$300,000, and payback periods of more than 20 years. While such larger projects may pay for themselves over the long-term, the up-front expense may be too large for some municipalities to justify. However, federal stimulus funding for energy efficiency may present a new opportunity for these kinds of up-front investments, and local governments should examine whether these types of local projects could qualify for funding.

### Energy Performance Contracting

An energy performance contract (EPC) provides local governments an alternative to financing energy projects, without requiring the issuance of bonds or notes. An EPC involves an agreement with an energy performance contractor, subject to either competitive bidding or request for proposal procedures. In conjunction with a contractor, the local government may obtain a comprehensive energy audit and identify improvements to save energy at the facility. The contractor would construct the necessary improvements that meet the facility's needs, and would be paid based on a portion of the energy savings or revenues. The contractor may agree to guarantee that the improvements will generate savings sufficient to pay for the project over the term of the EPC, and the contract may specify strict operating protocols for the facility. After the EPC ends, the local government may continue to realize additional cost savings as a result of the improvements. NYSERDA and the U.S. Department of Energy<sup>27</sup> provide additional information regarding the development of EPCs.

### Municipal Vehicles

The City of Rochester has been cutting costs by concentrating on shrinking its fleet of municipal vehicles. The City made it a priority to reduce the size of the fleet of take-home cars used by city employees. The City is concentrating primarily on cars used by the Rochester Police Department and has established a goal of reducing the number of take-home vehicles by over 70 percent, from 153 to 41. Additional one-time revenue will be gained by selling some of these surplus vehicles at auction.<sup>28</sup> At the same time, the City has continued "greening" its fleet of cars by purchasing hybrid vehicles, which use a fraction of the fuel of regular cars, for parking enforcement staff. Monroe County has also focused on "greening" its fleet, and currently has about six dozen alternative energy vehicles, ranging from public works trucks to Sheriff patrol cars, and plans to have all "green" county vehicles by 2012.<sup>29</sup>

Some towns on Long Island have installed Global Positioning System (GPS) units in emergency vehicles, municipal official take-home cars, boats, and other municipal vehicles to establish more efficient routes. The GPS units also track locations, driving speeds and idle times – all of which increase accountability and fuel efficiency. The Town of Islip saved almost 14,000 gallons of gas over a three-month period after GPS devices were installed.<sup>30</sup>

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## Wind and Solar Energy Production

Energy costs can also be reduced by utilizing other methods of production, such as wind, water and sun. Two popular technologies for producing electricity are wind generators and solar (photovoltaic) panels. Areas of New York State with ridgelines, high hilltops, elevated plateaus and locations relatively free of trees and buildings are conducive to the development of wind energy. NYSERDA's "Power Naturally" program<sup>31</sup> offers guidance for local governments interested in exploring the possibility of wind energy production, and includes examples of related New York State laws and zoning provisions for local governments.<sup>32</sup>

In March 2008, the Office of the State Comptroller released an audit of six municipalities – one county, four towns and one village – to assess the effects of installing solar panel systems. The audit found that the municipalities realized immediate savings on electrical bills, while avoiding harmful environmental emissions. The six audited municipalities had the potential to save almost \$1 million over the projected life of the panels.<sup>33</sup>

The audit also concluded that State funding for solar panel installation was essential – without a government subsidy, the installation of solar panels would not be cost effective for local governments. NYSERDA's Solar Electric Incentive Program provides cash incentives for the installation of new solar electric or photovoltaic systems.<sup>34</sup> As incentive programs have changed, it is important for local government officials to verify levels of funding before committing to a project.<sup>35</sup>

In 2005, the Village of New Paltz in Ulster County used a NYSERDA Photovoltaic Incentive Grant of \$96,000 to invest in the installation of solar panels to produce approximately 15,000 kWh annually. Taxpayers will be responsible for roughly \$40,000 of a \$130,000 project. New Paltz's solar project consists of three different systems that are connected to the utility grid through three utility meters that serve Village offices, the Village fire department, and the Town of New Paltz police department. A solar-powered battery back-up system provides supplemental power for the fire department during utility outages.

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## Wastewater and Sewage Treatment Facilities

For many local governments, a large percent of energy spending is related to the maintenance of wastewater or sewage treatment plants, which can account for as much as one-third of the electrical operating costs. Installing separate electric power meters at critical points allows officials to determine where energy consumption is greatest, in order to determine where conservation efforts will yield the greatest results. According to NYSERDA, facilities that have installed power meters at critical points in the treatment process have determined where energy consumption is greatest and have found opportunities to improve efficiency, reduce energy use and cut operational expenses – most with payback periods of fewer than 10 years.<sup>36</sup>

## Street Lighting

The cost of street lighting services can be one of the more significant items in a municipal budget. Street lighting services are usually provided through a leasing arrangement in which the utility company retains ownership of the equipment and is responsible for its maintenance. When street lighting services are provided in this manner, equipment-leasing charges are a significant component of street lighting costs. Under this arrangement, leasing charges are billed to the municipality on a monthly basis, with the municipality never acquiring title nor building equity in the assets.

As an alternative, some municipalities have purchased their street lighting systems from the local electric utility company. Where these buy-outs have occurred, municipalities have reported substantial cost reductions. However, it is the utility company's option to sell the street lighting systems, so the potential for cost savings will depend on negotiations with the utility.

An OSC audit released in January 2008 focused on potential savings if municipalities bought street-lighting systems from local electric utility companies. It concluded that if the five audited municipalities bonded to buy their street lighting systems instead of leasing street lighting equipment from their local electric utility, they could save over \$13 million over the term of the 20-year bonds.<sup>37</sup>

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## Jails

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Jails are one area where counties have found numerous opportunities to save money. The following represent a few examples of ways in which some counties are focusing on specific program areas to try to reduce jail-related expenditures.

### Cook–Chill Food Preparation

A cost-saving option for local governments serving institutionalized populations is to utilize this innovative approach for food preparation. Some counties are saving money by purchasing “Cook-Chill” food products for inmates in county-operated correctional facilities from the Department of Correctional Services’ (DOCS) Food Production Center in Rome, which currently prepares food for all of the State’s 70 prisons. At this point, 14 counties have signed contracts to purchase cook-chill food products from DOCS’ Food Production Center: Alleghany, Chautauqua, Chenango, Columbia, Cortland, Delaware, Genesee, Livingston, Madison, Oneida, Schenectady, Warren, Washington and Wayne.<sup>38</sup>

### Information Technology

**Over the past two decades, local governments have learned to leverage savings through the use of advances in information technology (IT). Even as IT products become less expensive, the current economy makes any purchase more difficult. One way smaller governments can help control costs is by subscribing instead of purchasing certain software. Subscriptions eliminate the need to make a large one-time investment and permit governments to purchase only the amount of IT services they actually use.**

Under the cook-chill process, bulk quantities of food are cooked to a just-done state, then chilled rapidly and stored under controlled temperature conditions. The food is then shipped and only needs to be reheated to be served, with an average preparation-to-consumption window of about three weeks.<sup>39</sup> The DOCS Commissioner recently estimated annual savings at \$730 per inmate.<sup>40</sup> Oneida County, the first county to enter into a contract with the State to purchase cook-chill food products, feeds its inmates at a cost of \$3.12 per inmate per day, and has estimated its arrangement with DOCS saves local property taxpayers about \$40,000 per year.

The 2009-10 State Budget expands State law to expand the cook-chill program to allow DOCS to sell food and drinks for general government purposes to county governments from the DOCS Food Production Center. Implementation guidelines are currently being drafted. Areas where this could provide potential savings include county nursing homes and health care facilities, meals on wheels and other senior programs, and community colleges.

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## Telemedicine in County Jails

By law, prison inmates are guaranteed medical treatment, which can be a costly, and sometimes dangerous, service for counties to provide, especially if the prison facilities are in rural locations without access to specialists. Telemedicine, the practice of treating a patient over a closed-circuit or Internet video and data feed, helps address these challenges. In most cases, inmates are treated by local physicians in the prison hospital or infirmary, but they can also be connected to specialists in other cities, states and countries through telemedicine. Since inmates do not have to leave the facility, extra resources (transportation, fuel, guards) are not necessary, and the inmates often receive a better level of care, faster, for less money.<sup>41</sup>

Through a fiber-optic network, Westchester County is enabling real-time telemedicine consultations between Westchester Medical Center physicians and inmates in the Westchester County Jail, a mile away. Telemedicine was originally implemented between the Westchester Medical Center and the Westchester County Jail in order to reduce the number of trips for emergency and specialty care. Under this arrangement, inmate visits have been reduced by more than 50 percent.<sup>42</sup>

## Alternative Incarceration

Counties spent over \$1 billion for costs associated with correctional services in 2007. In Madison County, the Probation Department has implemented a new alternative incarceration plan to address costs associated with the housing of inmates. Once only available to high-profile criminals, electronic monitoring bracelets (EMBs) are now being used to keep some defendants under home arrest while they await trial. While it costs the County between \$80 and \$90 per day to house an inmate in the jail, if the same offender is monitored by wearing an EMB, daily costs average between \$4 and \$9 per day.<sup>43</sup> At the time of publication, 12 offenders were using EMBs through the Madison County Probation Department program.

Jails in other states have had success with using EMBs to reduce the number of inmates and to cut costs. In Janesville, Wisconsin, the Rock County Jail started limited usage of EMBs in 2001, but as the jail became more crowded in 2007, usage increased to an average of 55 to 65 inmates at a time, with monthly savings of over \$1,500 per inmate.

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## Other Cost-Saving and Revenue Enhancement Opportunities Identified in Recent OSC Audits

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### Revenue Enhancers

**PILOTs** – Industrial Development Agencies (IDAs) often execute agreements with businesses or other organizations that require Payments in Lieu of Taxes (PILOTs) be made to affected municipalities and school districts. Recent audits of IDAs, municipalities and school districts have revealed that mismanagement of PILOTs can result in lost revenues to local governments to the tune of hundreds of thousands of dollars annually. Many local governments incorrectly bill project owners due to unclear terms in PILOT agreements, have poor communication with assessing bodies and fail to monitor the PILOT billing process.<sup>44</sup>

**Enforcing fee/fine collection** – Many municipalities own and maintain utilities such as water, sewer and electricity and provide these services directly to residents, who, in turn, pay fees to cover the costs associated with the service delivery. An OSC audit released in October 2008 addressed the billing and collection processes of several municipal electric utilities. The audit found that while most municipalities generally do a good job of billing and collecting payments, a more consistent assessment of late fees would have resulted in \$16,300 in additional revenue for two villages.<sup>45</sup>

**Maximizing interest on cash deposits** – A simple way local governments can enhance revenues is through the maximization of interest earnings. If possible, municipalities should ensure that all municipal cash is deposited in interest-bearing accounts. For funds that require infrequent disbursements, longer-term investments often pay higher interest rates. Municipalities should establish and annually review a formal investment policy to guide decisions.<sup>46</sup>

### Purchasing

**Regional fuel purchases** – A recent audit of Otsego County, the City of Oneonta and the Oneonta City School District found that, by cooperatively bidding for fuel and rotating the bidding process each year, the administrative workload for each unit was reduced. In addition, the audit found that additional savings for fuel purchases could have been achieved if these entities had been more specific about the consumer fuel price to be used.<sup>47</sup>

**Use of State contracts** – Local governments often purchase goods and services through a competitive bidding process. As an alternative to seeking competitive bids, local governments can use contracts offered by the New York State Office of General Services (OGS) or county contracts to reduce costs and take advantage of economies of large-scale acquisitions. A recent audit of the purchases of certain goods made by ten cities and towns concluded that municipalities could save time, take advantage of pre-established benchmarks and benefit from reduced prices by using State and county contracts.<sup>48</sup>

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## Highlights from Other States

Local governments in other states, which are also severely impacted by the recent economic downturn, have also turned to cost-cutting measures to help them through these difficult fiscal times. Many employ strategies that are similar to the approaches used by New York's local governments. Some highlights include:

- Cumberland County, Pennsylvania, saved nearly \$130,000 between 2005 and 2008 by purchasing natural gas through the Central Pennsylvania Energy Consortium.<sup>49</sup>
- Suburban Columbus, Ohio, police departments are reacting to volatile fuel prices by increasing foot and bicycle patrols.<sup>50</sup>
- The City of Houston, Texas will replace almost 2,400 traffic lights with Light Emitting Diode bulbs that could save more than \$4 million a year in electricity costs.<sup>51</sup>
- Salt Lake County, Utah, passed an ordinance to require drivers of county-owned vehicles to turn off their engines if idling for more than one minute. If drivers reduce engine idling 15 minutes a day, annual savings of over \$100,000 are expected.<sup>52</sup>

While these practices have proven to be successful in other states, local government officials should always consult the municipal attorney to ensure these programs are legal in New York State.

## Conclusion

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Higher than inflationary growth in many categories of expense combined with stagnant or declining revenues has forced some local government officials to make difficult decisions to raise taxes, reduce the municipal workforce, or both. In the face of prolonged fiscal stress, local government managers are seeking new techniques to reduce expenses without decimating levels of service to citizens.

The strategies highlighted in this report offer a cross-section of what disparate local governments are doing to address the increasing costs of health care, energy, public safety and other areas. Some of these strategies are inexpensive and can be implemented quickly; others require professional assistance or an up-front investment. Regardless, local government officials must continue to implement creative ways to cut costs without sacrificing vital services. The State Comptroller will continue to help identify cost-saving strategies and best practices. In the current environment, every dime counts; every nickel matters.

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## Notes

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- <sup>1</sup> [www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)
- <sup>2</sup> Employee Benefit Research Institute Fast Facts #89, July 2008.  
[www.ebri.org/pdf/publications/facts/fastfacts/fastfact07022008.pdf](http://www.ebri.org/pdf/publications/facts/fastfacts/fastfact07022008.pdf).
- <sup>3</sup> McGuire, Jim. "Broadalbin schools look at cutting 20 jobs." Schenectady Daily Gazette. March 11, 2009.
- <sup>4</sup> Kathleen Moore. "Insurance deal saves county cash." Schenectady Daily Gazette. April 12, 2008.
- <sup>5</sup> Office of the State Comptroller. "Containing the Cost of Employer-Provided Health Insurance Benefits." Audit Report 2008-MR-2. January 2009.
- <sup>6</sup> Hudson Valley Community College, Saratoga County, Town of Queensbury, City of Johnstown, and the Village of Tupper Lake.
- <sup>7</sup> OSC. "Containing the Cost of Employer-Provided Health Insurance Benefits."
- <sup>8</sup> Nelson, Paul. "County sees thrift in Rx plan." Albany Times Union. February 5, 2009.
- <sup>9</sup> DeMare, Carol. "Another try at lowering drug costs." Albany Times Union. August 19, 2008.
- <sup>10</sup> New York State Association of Counties. "County Prescription Discount Program Saves New York Residents \$10 Million Dollars in 3 Years." April 8, 2009. [www.nysac.org/Press%20Room/County\\_Prescription\\_Discount\\_Program\\_Saves.php](http://www.nysac.org/Press%20Room/County_Prescription_Discount_Program_Saves.php).
- <sup>11</sup> Levy, Clifford and Michael Luo. "New York Medicaid Fraud May Reach Into Billions." New York Times. July 18, 2005.
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June 2009