



Michael V. O'Brien
City Manager

CITY OF WORCESTER

cm2009jul23190616

Attachment for Item # 9.42 B

July 28, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

As you know, the Fiscal Year 2010 Budget adopted by City Council on May 12, 2009 contained new revenues, reforms, layoffs and service reductions to close a projected \$31.4 million budget deficit. This adopted fiscal blueprint factored the dramatic State Aid reductions (City-side) that were included in the Governor’s proposed FY 2010 State Budget, as well as two Home-Rule Petition reforms that would allow the City to redirect \$6.5 million dollars to offset these deep State Aid cuts in order to stabilize City services.

In late June 2009, the Governor signed the Legislature’s Conference Committee Budget Recommendation. This final version of the State Budget included additional State Aid and assistance reductions (above and beyond those factored in our FY 2010 Budget), as well as local options for new revenues. Additionally, the Governor and Legislative Leadership announced on July 22, 2009 that they would not approve the City’s proposed Home-Rule Petitions for an Early Retirement Incentive Program and for the Pension Schedule Extension. The following is an update to our current FY 2010 status as a result of these recent State actions, as well as potentials to resolve these deficits:

FY 2010 UPDATED BUDGET PROJECTIONS

FY2010 Adopted City Budget Prior to Final State Action on FY10 Budget	Balanced
<ul style="list-style-type: none"> • <u>State Local Aid Reductions & State Assistance Cuts (City-Side)</u> <i>The enacted FY 2010 State Budget reduces Local Aid by an additional \$340,000, and includes a State PILOT payment reduction in the amount of \$60,000.</i> 	(\$ 400,000)
<ul style="list-style-type: none"> • <u>Police Career Incentive Program (Quinn Bill) Reimbursement Cuts</u> <i>This \$1.3 million reduction reduces the City’s State Reimbursement on the Quinn Bill to approximately \$400,000. The actual State reimbursement should be \$2.8 million. This total State reduction created a \$2.4 million dollar “hole” within our City’s FY2010 budget now subject to collective bargaining to resolve.</i> 	(\$1,300,000)
<ul style="list-style-type: none"> • <u>Shannon Police Grant Funding</u> <i>The enacted State Budget reduces Shannon Grant funding to municipalities by 50%.</i> 	(\$ 425,000)



OFFICE OF THE CITY MANAGER, CITY HALL, WORCESTER, MA 01608
TELEPHONE (508) 799-1175 | FAX (508) 799-1208
EMAIL: citymanager@ci.worcester.ma.us



- Early Retirement Incentive Program (\$2,000,000)
The State's rejection of the City's home-rule petition prevents this fiscally sound reform from redirecting \$2 million dollars in taxpayer savings that assisted to balance the City's FY 2010 Budget and to preserve City services.
 - Pension Schedule Extension (\$4,500,000)
The State's rejection of the City's home-rule petition prevents this fiscally sound reform from redirecting \$4.5 million dollars in taxpayer savings that assisted to balance the City's FY 2010 Budget and to preserve City services.
 - Closure of the "Telecom Loophole" for Poles and Wires \$ 360,000
Verizon is now required to pay taxes on their poles and wires on public ways.
- TOTAL FY 2010 BUDGET DEFICIT AS OF JULY 24, 2009** (\$8,265,000)

NEW REVENUE/ REFORM/ RESTORATION

- Local Option Meals Tax (Action Required by August 31, 2009) \$1,490,000
The State now authorizes cities and towns to increase meals taxes inside the community by 0.75%. The revenues are collected by the state and directed back to the municipality. DOR 3-Quarter estimate.
- Local Option Hotel/Motel Tax (Action Required by August 31, 2009) \$ 165,000
The State now authorizes cities and towns to increase hotel/motel room taxes by up to 2%. DOR 3-Quarter estimate.

**OTHER SOLUTIONS UNDER CONSIDERATION
(TO ADDRESS DEFICITS FROM FINAL STATE ACTIONS)**

- Worcester Retirement Board's One Year Contingency Plan for Losses \$4,500,000
The Worcester Retirement Board has quietly and proactively sought a contingency plan to assist the City in the event our Home Rule Petition for a Pension Schedule Extension did not secure final approvals. Their plan adheres to all applicable laws, statutes and regulations governing municipal finance and retirement systems. Their efforts will clearly now be most needed.

Our work with the Worcester Retirement Board in the preparation and the adoption of our FY 2010 budget resulted in an additional appropriation of nearly \$2 million dollars to fund our Pension Schedule, anticipating the 10 year extension (passage of our Home Rule Petition) to make up the dramatic market losses of FY2008. This additional \$2 million was based on their actuary's most recent analysis of our pension system and all current market factors and forces. These proactive efforts to recognize our true liabilities and to actually begin to pay these liabilities down, in addition to the two year pension schedule extension now allowed by law, may allow us a one year reprieve from the anticipated \$4.5 million

dollar payment to the retirement system. There is no question we would be required to layoff and to reduce City services now if we are required to make this payment. The review and approval of this FY2010 reprieve is now pending at the State level and we expect to receive formal notification early next week. If this meets with final State approvals, we would be responsible, however, for this \$4.5 to \$5 million dollar additional payment beginning next fiscal year, and must plan accordingly, if there are no changes to current applicable laws, regulations and statutes in the year ahead (such as general legislation for pension schedule extensions).

It is important to note that it is likely that the majority of retirement systems will fund according to previous actuarial schedules to avoid the need to recognize their true liabilities at this juncture. The Worcester Retirement Board deserves much credit here for their sound management of our pension system, concurrently addressing these market losses while working with the Administration and City Council to pay down these liabilities in the context of a most difficult budget year. Their consistent, strong management and quiet, behind-the-scenes actions are the sole reasons we may have this opportunity.

- State Quinn Bill Reimbursement Reductions and Necessary City Actions
The State has gutted the reimbursements for, and the future provision of, the Quinn Bill. The City must now engage in impact bargaining, in good faith, with the WPD Collective Bargaining Units for we cannot sustain the State's share of the Quinn Bill in FY10 and prospectively. The current level of benefits without the State support will result in further service reductions and deep layoffs if not resolved by the fall. We must secure bargained reforms and changes to address this State cut and policy change and stabilize the WPD.
- Health Care Reforms in the Balance of Unsettled Contracts \$ 675,000
There are two City collective bargaining contracts that remain unsettled as of this writing, Local 911 and Local 504. If through good faith bargaining we are able to secure the employee health care reforms that all the other City employees and retirees currently take on, these tax dollars savings can then be redirected to sustain WPD jobs and public safety services.

I continue to work with my Administration to develop and to pursue additional reforms and new revenue sources and I will advise City Council as to additional developments and actions in the weeks ahead. Decisions will be necessary by the August 11, 2009 City Council meeting to close all known budget deficits for FY 2010. These may include those opportunities identified above, as well as the need to undertake the unfortunate task of additional layoffs and service cuts if these are not adopted, reforms noted are not approved, collective bargaining efforts fall short and/ or the State initiates new 9C cuts to local aid due to dramatic drop in the State's FY10 revenues.

Respectfully submitted,



Michael V. O'Brien
City Manager