



Michael V. O'Brien
City Manager

CITY OF WORCESTER

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Attachment for Item #

8.39 C

April 27, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

In the last few years, we have been faced with significant financial challenges due to the national and international recession. We have seen our four revenue sources—property taxes (with new construction growth), local receipts (Motor Vehicle Excise, building permits, etc.), State Local Aid, and other available funds—drop steadily, while our fixed costs continue to rise. State Aid has been cut by nearly 32%, a loss of \$19M in annual, recurring revenue; while, local receipts have fallen nearly 10%, a loss of \$4M in annual, recurring revenue.

We have prepared and planned over the last six years through re-structuring, reducing, and fiscal planning, but the operational impacts have been felt across the organization and the City. We have eliminated more than 200 positions from the table of organization through layoffs and attrition. We also anticipate the loss of an additional 80 positions through the early retirement incentive program likely to be approved at Beacon Hill. When combined, the City's workforce will have shrunk by 15% in two short years. We have frozen wages for two years, reduced uniformed staff in our public safety departments, reduced staff levels in all other departments, cut programs, and pushed for and achieved multiple employee health insurance reforms. The reality is that we have stabilized our quality of life due to our employees rising to this challenge. Their dedicated efforts in all departments and divisions have transitioned us, in a systematic and professional manner, to this new era of fewer resources.

In January, I presented to you revenue and expenditure challenges that would culminate into a \$15M projected budget deficit for Fiscal Year 2011. I also identified a number of responsible solutions to apply toward closing the budget gap, including the pension schedule extension, the early retirement incentive, additional frozen/ vacant positions, further department reductions, and the use of one-time proceeds from the transfer of the Worcester Regional Airport. These adjustments, some subject to the final approval of the State Legislature, reduce the projected deficit to \$2M, leaving deep program cuts to close the remaining gap. We would be required to reduce or eliminate entirely these successful core programs and services:



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Worcester Police Department = \$800,000

- Elimination of Additional Summer/ Fall WPD Patrols
- Elimination of Community Impact/ Crime Watch Program
- Elimination of A-Team, Saturation Patrols and Gang Unit Program
- Elimination of Vice Stings

Department of Public Works & Parks = \$700,000

- Closure of Three Yard-Waste Drop-Off Sites
- Elimination of Nuisance Team Program
- Elimination of KWC and Neighborhood Clean-Ups
- Dramatic Reduction in Hope Cemetery Maintenance
- Elimination of Graffiti "Grime Watch" Team
- Closure of Summer City Beach Program

Worcester Fire Department = \$500,000

- Additional Company Closures During Summer, Response Time Increases
- Significant Drops in Staff Levels – New Class Would Be Unlikely
- Unable to Maintain Staff Levels to Qualify for Recently Awarded Federal S.A.F.E.R. Grant

Addressing Our Priorities

My Fiscal Year 2011 Budget Recommendation stabilizes these core programs and services and reinvests net new millions of dollars into critical infrastructure. It accomplishes this through the modest use of our un-levied tax capacity to generate the recurring revenues to properly fund this endeavor, all per our Five Point Financial Plan. It will reinvest nearly \$20M more in a push to address the backlog of reconstruction of our streets and sidewalks Citywide. This backlog of streets and sidewalks that is in great need of repair is the number one issue cited time and time again by citizens and surveys.

This \$20M plan will be funded by a combination of net new capital borrowing and proceeds from the transfer of the Airport. This infusion will require a recurring revenue stream of \$2M annually to finance approximately \$17M of this reinvestment. This will require \$2M from the un-levied tax capacity of the City, reducing it from \$12M to \$10M, in effect raising taxes within the Prop 2 limit to fund this capital reinvestment program. As mentioned, the balance of \$3M will come from pending one-time revenues from the transfer of the Worcester Regional Airport to MassPort.

Upon approvals of the \$20M additional streets and sidewalks reinvestment program (in addition to the annual \$9M+ capital budget for this purpose), we will begin the planning and implementation process as early as this summer. As you know, the selection and engineering process will create a ramp up to actual construction over a 12 month period, with the physical work completed over the next year's construction season and two construction seasons thereafter. The debt service payments on this borrowing will ramp up similarly over this period. As a result, the \$2 million of recurring revenue will be available for FY2011 to stabilize services for it will not be

obligated to debt service payments. This provides a means to close the remaining FY2011 budget gap and avoid further cuts to critical programs and services. In each succeeding fiscal years (FYs 2012-2014), the balance available to stabilize the services will decline dramatically as we transition to the full commitment to pay principle and interest on the \$17M borrowing.

Revenue Stabilization to Debt Service Illustration

	FY11	FY12	FY13	FY14	FY15
Recurring Tax Revenue	2.00	2.00	2.00	2.00	2.00
Debt Service Due	-	(0.30)	(1.10)	(1.81)	(2.00)
Revenue to Stabilize Budget	2.00	1.70	0.90	0.19	0.00

Capital Reinvestments In Our Public School Buildings

Our public schools are in critical need of capital repair. As part of the FY 2011 Capital Budget (to be submitted to City Council in May 2010), I will propose an increase in the allocation of capital dollars for the repair and rehabilitation of school facilities. Over the past two years, we have maintained the City’s tax levy borrowing cap at \$15M, a self-imposed cap that is well below the level set within the Five Point Financial Plan. I will propose to restore the borrowing cap to \$18M, and dedicate this additional \$3M in capital funding for school rehabilitation. Our annual Capital Budget has historically funded schools at \$3M. This action effectively doubles their FY2011 allotment to \$6M. In addition to this, I will recommend \$14M in energy efficiency upgrades to school facilities Citywide such as the installation of state-of-the-art boilers, HVAC systems, controls, new windows, insulation and other technology. These energy upgrades will be affected through our Energy Savings Contract with Honeywell International. The annual cost savings from decreased energy use as a result of these upgrades are substantial and are guaranteed as part of this contract. These savings are applied to finance these upgrades. The net effect of these efforts will be a \$20M reinvestment in our Worcester Public school facilities over this same period.

These reinvestments will address our top priorities while interest rates and construction costs are still low—all within the parameters of responsible financial planning. The City will maintain over \$10M in un-levied tax levy capacity—the second highest in the State—and will demonstrate to residents, visitors, and bond rating agencies that we recognize the value of investing in ourselves.

S.A.F.E.R. Grant

The U.S. Department of Homeland Security has awarded the City a Federal S.A.F.E.R. grant in the amount of \$2.2M. This grant will fund 100% of the cost for an additional 17 new firefighters this year and next year, allowing us to put on recruit classes on to address expected waves of firefighter retirements expected over this same time period, all to maintain a consistent compliment of 389.

Continued Challenges

It is important to note that in addition to these solutions difficult reductions are included as part of the FY 2011 budget recommendation and that there is more difficult work ahead. All positions and programs eliminated in FY 2010 budget have not been restored. All departments and divisions were asked to reduce their budgets by an additional 3% on average. Frozen positions and assumed vacancy savings in departments continues to put pressure on operations. Early retirements, if adopted by Beacon Hill, as noted above, will result in the loss of another 80 employees. These positions will also be eliminated entirely from the City's table of organization. The loss of these individuals, our most knowledgeable and most experienced employees, will ultimately have a significant impact on delivery of services. I will continue to work with all departments to address these changes, and intend to bring forward a number of proposals and recommendations by November, including:

Regionalization Through Shared Services and Cooperative Agreements with Neighboring Towns

I am currently pursuing proposals to develop a pilot program that would establish regional capability and cooperative agreements with neighboring towns. This would provide an opportunity to share resources and expertise, stretch dollars to support core services, and qualify us for significant grants to update technology and infrastructure. I intend to bring forth proposals in the coming weeks.

Consolidation Through the Use of Technology and Cross-Training

As you know, re-structuring and consolidation is underway in a number of departments and divisions, including Inspectional Services, Fire Prevention, Budget, Purchasing, and Treasury. In areas where certification or specialized training is not mandated, I will seek to cross-train sanitary inspectors in State Sanitary Code for Food Protection, Water Quality and Housing Sanitation in order to fill in gaps when staffing levels are not adequate. This will allow for interdivisional support as well during the ebbs and flows of peak service times. Work is also underway to relocate the Fire Prevention Division to Meade Street by July. This move will allow for the operation of one "point-of-sale" service desk for customers, shared administrative services for permits and licenses issuances, and cross-training of inspectors (both civilian and fire) to eliminate the need for multiple inspections at one site, and ultimately, to ensure that as many uniformed personnel as possible are on apparatus.

Alternative Service Delivery and Technology Deployment

We are currently evaluating alternative solutions to deliver services as effectively and efficiently as possible, including the exploration of permitting software and new financial applications to streamline critical departmental functions. In addition, I will continue to explore privatization and outsourcing where it makes financial and reasonable sense. I have included within my FY 2011 budget recommendation \$300,000 in the City Manager's contingency to provide the critical funding to support these necessary endeavors as we continue to transition to a leaner and leaner times. All of the above is aimed at achieving one goal—preserving and improving quality of life for our residents. We must maintain our commitment to core services and meet the expectations of the public through measured risks and aggressive reform. Investments in streets, sidewalks, and school facilities are critically important assets in our community, and this kind of investment, even more so when times are

challenging, speaks volumes about our values for our community and our willingness and motivation to move forward.

I respectfully recommend your approval of the appropriations shown in the Statement of Amounts included in the attached Annual Budget for Fiscal Year 2011. This recommendation calls for total expenditures of \$571,295,345. The largest item of this total expenditure recommendation is the Operating Budget (General Fund) of \$506,076,587 million. The total expenditure recommendation for all Enterprise Accounts is \$65,218,758. The accompanying budget documentation outlines the amounts and purposes for all recommended appropriations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael V. O'Brien", with a long horizontal flourish extending to the right.

Michael V. O'Brien
City Manager