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City Manager

CITY OF WORCESTER

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Attachment for Item # 7.31 A

February 2, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

On January 27, 2010, Governor Deval Patrick filed his Fiscal Year 2011 budget recommendation. The Governor's recommendation maintains funding for Unrestricted Local Aid at \$36.6 million and Chapter 70 Education Aid at \$192.8 million. These figures were assumed in our FY 2011 budget projection (inclusive of the \$13.3 million budget gap) and are consistent with the Five Year Financial Forecast.

Our Five Year Financial Forecast identified a \$13.3 million budget deficit for FY 2011 based on expected growth for categories, such as employee health care and debt service, as well as declining revenues, such as real estate growth and motor vehicle excise tax. All City revenue and expenditure categories were adjusted to reflect the economic conditions. The budget deficit assumes level-funding of State Aid, which is a net reduction in itself, given that our costs grow between 3-4 % annually and State funding represents 25% of our revenue stream. It is important to note that this forecast preserves the city's commitment to meet the State foundation formula for education.

Our preliminary analysis of the Governor's proposed FY 2011 budget reveals a known *net* reduction in other revenue sources and grant programs to support city services (non-Worcester Public Schools) of approximately \$242,900. This is inclusive of the Governor's proposed cuts to Quinn Bill reimbursements to the City by approximately \$200,000 as well as other categories, such as state-owned land (\$127,000); regional libraries (\$34,000); exemptions; and some positive variances in other revenues and reimbursements.

The proposed budget recommendation also relies on \$1.3 billion in Federal Medicaid Assistance, which has not been approved as of this writing. If these funds do not materialize, a revised budget or the possibility of Local Aid 9C cuts is likely. The budget recommendation also assumes \$175 million from the State Stabilization "Rainy Day" Fund. This action would draw down the fund to \$400 million, depending on whether there are any uses for the current fiscal year. Other assumptions within the Governor's proposed budget include the repeal of certain sales tax exemptions and the expansion of the bottle deposit to other beverage products. If these proposals are not approved, the State's FY 2011 Budget will require further modifications.

Additionally, the Gang Prevention Grant Program (Shannon Grant) has been reduced by 30% statewide. In Fiscal Year 2010, the city's funding was reduced from \$850,000 to \$310,000. Though grant programs have not yet been announced, this statewide action could cut the city's



funding by approximately \$100,000. Other grant programs may be impacted as well through administrative action by the Secretary of State.

The proposal also eliminates the designation and funding requirements for regional reference centers. The City of Worcester/ Worcester Public Library is a regional reference center funded through the Massachusetts Board of Library Commissioners. This would mean a loss of \$115,684 to the City.

The Governor included a series of recommendations intended to help cities and towns during the difficult economic time. The following provides further analysis into these recommendations:

#### **Early Retirement Incentive Program**

The Governor's proposal has some important differences from the city's proposed early retirement program. For example, the Governor's proposal allows for three (3) years of service or three (3) years of age to be added to the formula as opposed to five (5) years of service and five (5) years of age. There is also a funding requirement tied to the value of accrued vacation and sick time, which the retiree would forego. Those available funds would be assigned as a payment toward the funding of the early retirement liability. The impact of these changes and their potential savings will need further evaluation.

#### **Pension Schedule Extension**

The Governor's proposed pension schedule extension is similar to the city's proposal from last year's budget process. This action would reduce the city's budgeted pension assessment by approximately \$1.7 million.

#### **Pension Reform Proposal**

The Governor's proposed pension reform includes several changes to the existing retirement system, particularly for individuals hired after July 1, 2010. There are provisions that would affect cities and towns immediately, including an assessment for retiree health insurance obligations for employees who worked for the city and then retired into another system. This legislation would require that the city pay a proportionate share of health insurance costs for employees who left the city to work for other subdivisions of the Commonwealth, or the State itself. The cost of the assessment is unknown, but preliminary projections estimate it could be a minimum of \$1 million.

The Governor's budget recommendations will go before the State Legislature and are subject to change as the House and Senate develop their recommendations and respective line items, then debate and deliberate, factoring up-to-date State revenue receipts and trends. Our planning and preparation have begun; however, this is an evolving process due to a host of variables. We will continue to monitor actions at the State level during the development of the City's budget. I intend to continue the tradition of an inclusive process and promise to address these budget challenges as we have in the past – with thorough planning, fiscal prudence, candor, communication, and partnership.

Respectfully submitted,



Michael V. O'Brien  
City Manager