



Fiscal Year 2014 Budget Preview:

City Manager Michael V. O'Brien

March 12, 2013



Macro –View of Fiscal Realities

- **City Municipal Services and City Finances are Stable. Manage to Our Five Point Financial Plan. Key Mandate – Sustainability... Decisions and Growth Today that Can Be Afforded Tomorrow and Every Day Thereafter.**
- **City Government is Smaller and Leaner than Ever Before. We are More Efficient and We Rely on Technology More and More. However...**
- **Staffing Level Reductions Will Equate to Fewer Services and Can Equate to Longer Responses - Particularly in Core Service Areas like Police and Fire and DPW.**
- **Unfunded Liabilities Such As Retiree Health Care (OPEB) and Pension Costs Must Be Addressed. Ticking Time Bombs.**
- **We Must Build Reserves (Rainy Day Funds) to 5%**



FY 14 Expenditure Outlook

- **Cost Drivers in Budget Continue to Be Employee/ Retiree Health Insurance Costs. 8-10% Year to Year Increases Expected.**
 - **Range of Cost Increase to WPS/ City (60/40) for FY14: \$8-10M**
- **Pension Assessment Increase of \$2,000,000 to Addresses Losses and Pay as You Go.**
- **OPEB Policy – Address Long Term Liabilities**
- **City Council Priorities:**
 - **FY14 -WPD Class of 25 Recruits (with Health Benefits and other Fringe) for July 1, 2013 – Cost of \$1,800,000. Process Initialized**
- **45 -60 Days to Go Until Launch – Budget Recommendation Deficit Gap \$5.8M (PD Class Included). Five PFP and Great Work**
- **WPS, State Education Formulas – Net School Spending and Non-School Spending. Cost Drivers and Year to Year Growth.**



FY14 Revenue Outlook

- FY14 City-side Local Receipts have Experienced Minor Positive Trends for the First Time in Years - Motor Vehicle Excise, Permits
- Property Taxes—2.5% Plus New Growth
- State Aid for Cities and Towns— Big Question
 - Governor's FY14 Budget Recommendation Proposes an Increase of \$1.35M to Unrestricted State Aid, a Restoration of Less Than 5% of the FY09/FY10 Cuts
 - New Revenues Predicated on Governor's Tax Revenue Package
 - Legislative Appetite for New Taxes Unknown at this Time
 - City is Waiting for House Budget to Adequately Project a FY14 Deficit Estimate. Current FY14 City Budget Projections Include Level Funding of Unrestricted Local Aid of \$35,000,000. \$38,000,000 Inclusive Restricted State Aid - Veteran Reimbursements, State Owned Land, Etc.



State Emphasis on Education

State Aid Category	FY08 Actual	FY14 Budget	FY08 to FY14 %
Education Chapter 70	174,025,314	223,217,770	28.3%
Education Charter School	5,082,267	4,515,444	-11.2%
Education Aid	179,107,581	227,733,214	27.1%

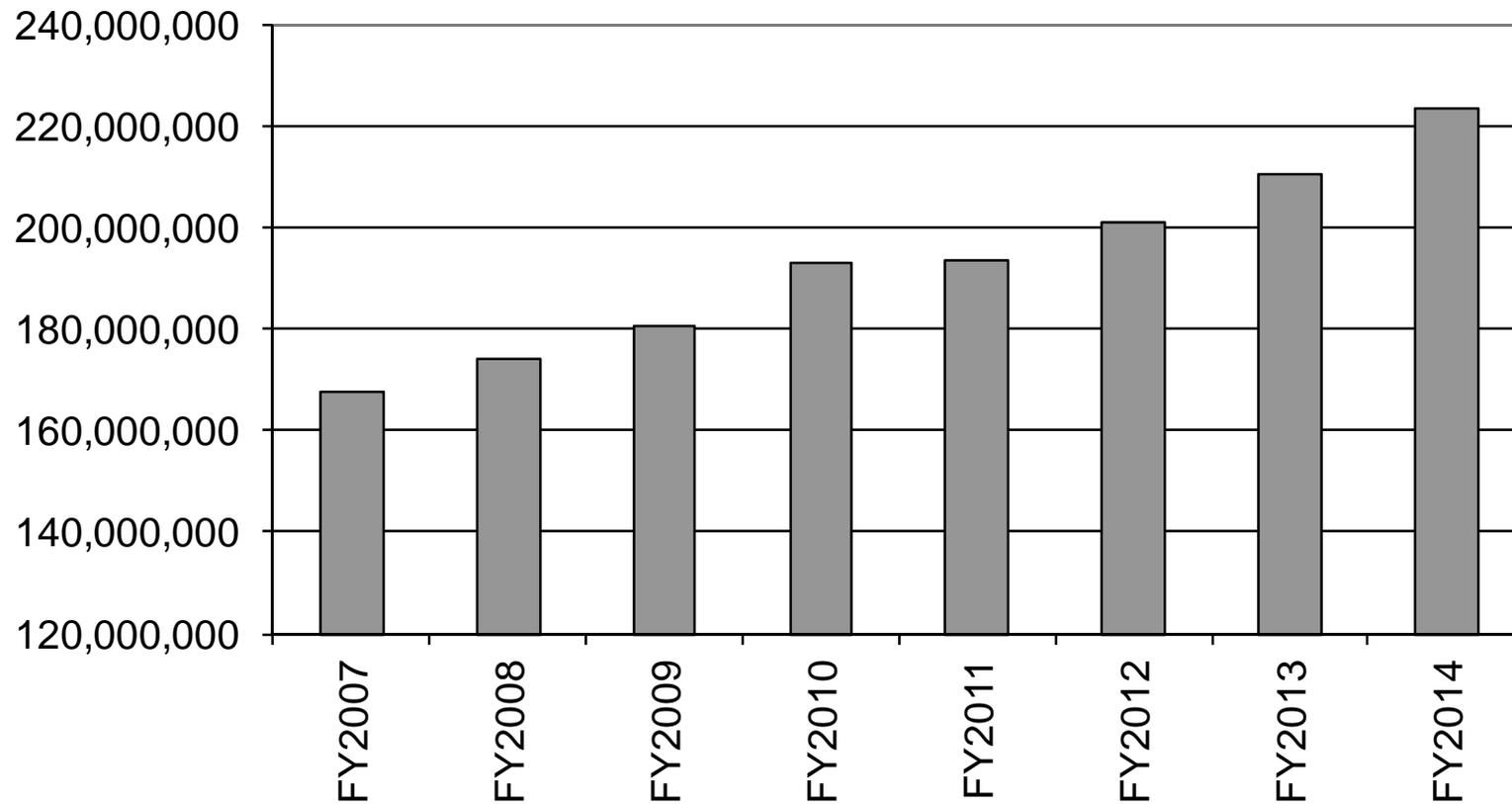
State Aid Category	FY08 Actual	FY14 Budget	FY08 to FY124%
General Revenue Sharing	51,721,578	35,150,026	-32.0%
Urban Renewal	2,410,000	945,856	-60.8%
Veteran's Benefits	347,564	1,193,375	243.4%
Vet/Elderly Abatements	668,998	594,684	-11.1%
State Owned Land	615,428	418,144	-32.1%
Regional Lib	119,655	0	-100.0%
Quinn Bill	2,190,117	0	-100.0%
City Aid	58,073,340	38,302,085	-34.0%

- Since FY08, Education Aid Has **Increased 27%**
- Since FY08, Municipal Aid Has **Decreased 34%**
- \$20M in Lost Recurring Revenue Absorbed By the City During Great Recession
- Please Note: Despite The Cuts, We Did Not Close ~~The White House~~ City Hall



State's Priority - Education

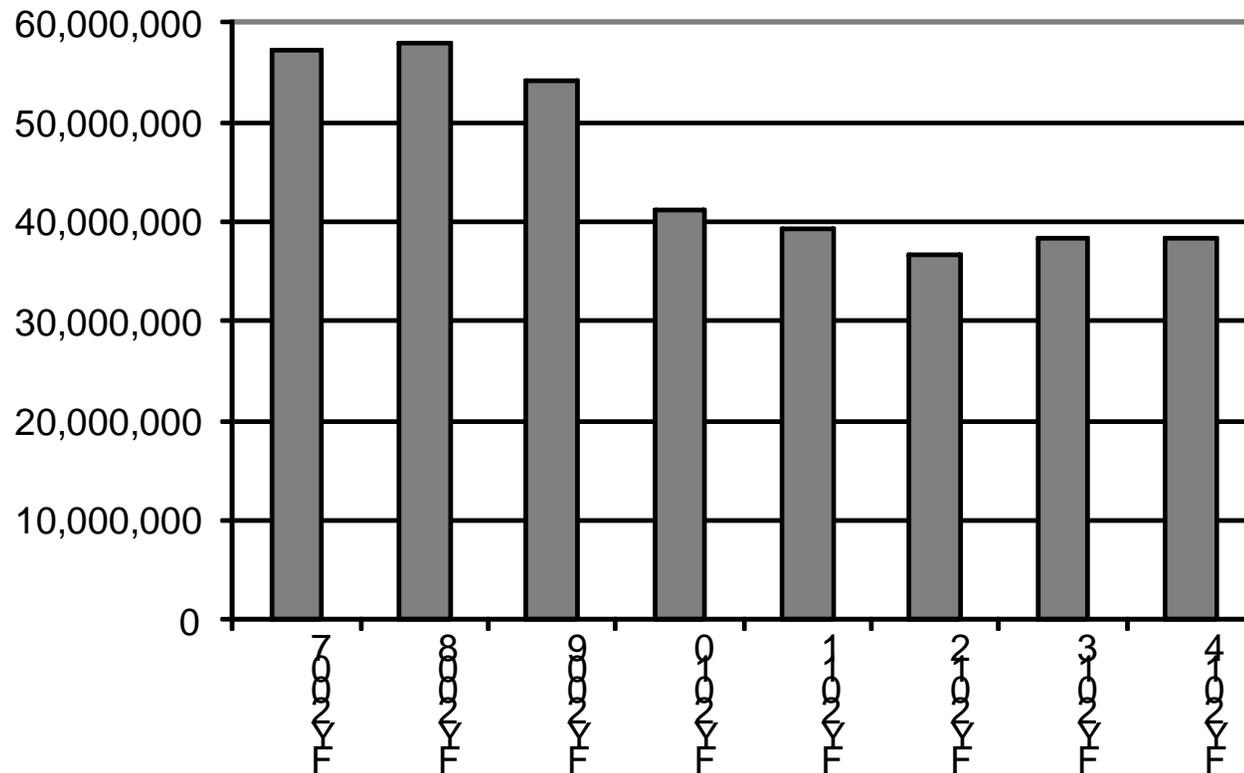
State Education Aid FY07 to FY14





Unrestricted State Aid for City Municipal Services

State General Government Aid FY07 to FY14





City Contribution to WPS

- **Our Public Schools Are Bedrock for Progress, Quality of Life and Economic Development. Macro-View of Sustainability... Love, Care and Consideration Front and Center**
 - **State Calculates the “Foundation Budget” — \$315.5M in FY14.**
 - **State Calculates the City’s “Required Contribution” — \$92.3M in FY14.**
 - **State Funds the Gap Between Foundation and the City’s Contribution as Chapter 70 State Aid. — \$223.2M in FY14**
 - **Since FY08 the City’s Required Contribution has Gone from \$80M to \$92M, almost 15% Increase at a Time When Most City Department’s Staffs and Services Had to Be Cut or Reduced.**
 - **The City’s Contribution Comes from All Other City Revenues—the City’s Tax Levy Budget - Including a % of City Side Overhead Amounts that Count as Educational Expenditures (Treasury, Auditing, Purchasing etc).**
 - **WPS Receives Additional Funding for Cost Increases that the State does not Recognize as Educational Expenditures: Crossing Guards, Leases of Space, and Student Transportation.**

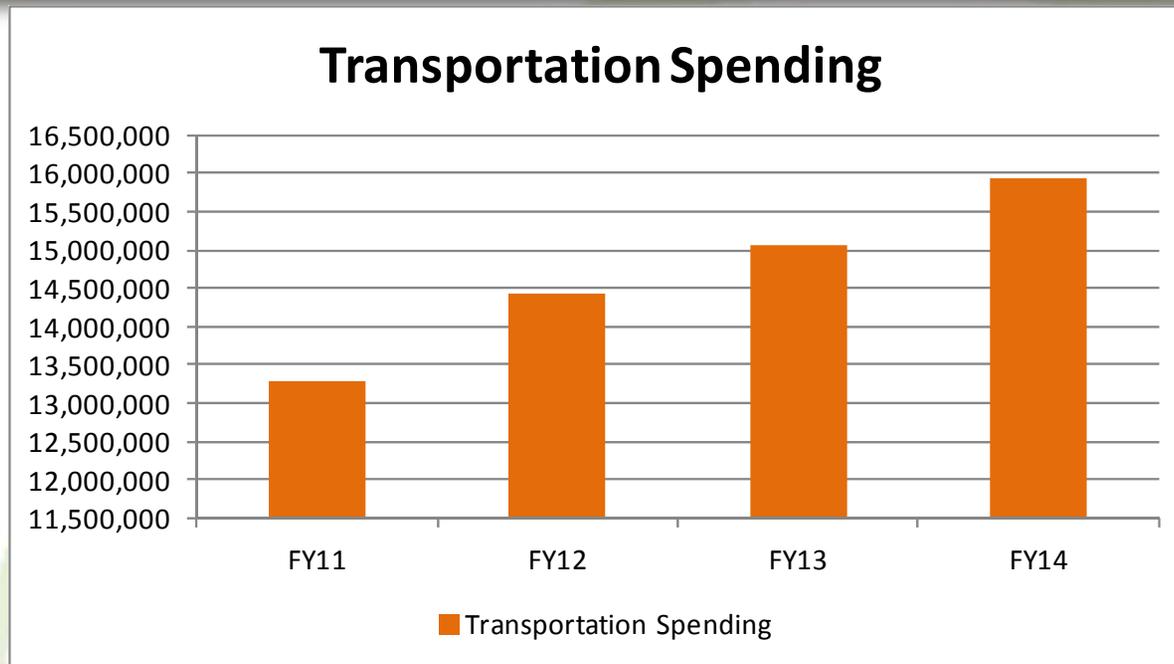


City Contribution to WPS— Continued

- **Per the City Auditor's: City's Actual Contribution to WPS in FY13 was \$99.2M, \$10.6M Above the Required State's Minimum Contribution. In Addition, \$5.9M in City Staff Expenses to Support WPS.**
- **City Contributes \$16.5M above State's Min Contribution Formula.**
- **WPS Spending on Non-Educational Scopes: Some Categories are not Recognized by the State as "Educational" Expenditures as Noted —Transportation, Crossing Guards, Space Rentals.**
- **The City Remains \$890,000 Below State's Net School Spending**
- **Superintendent/School Committee Determine how the Excess Contribution of Tax Levy Funds will be Spent on Either Classroom or Non-Classroom Costs. City Provides Lump Sum.**



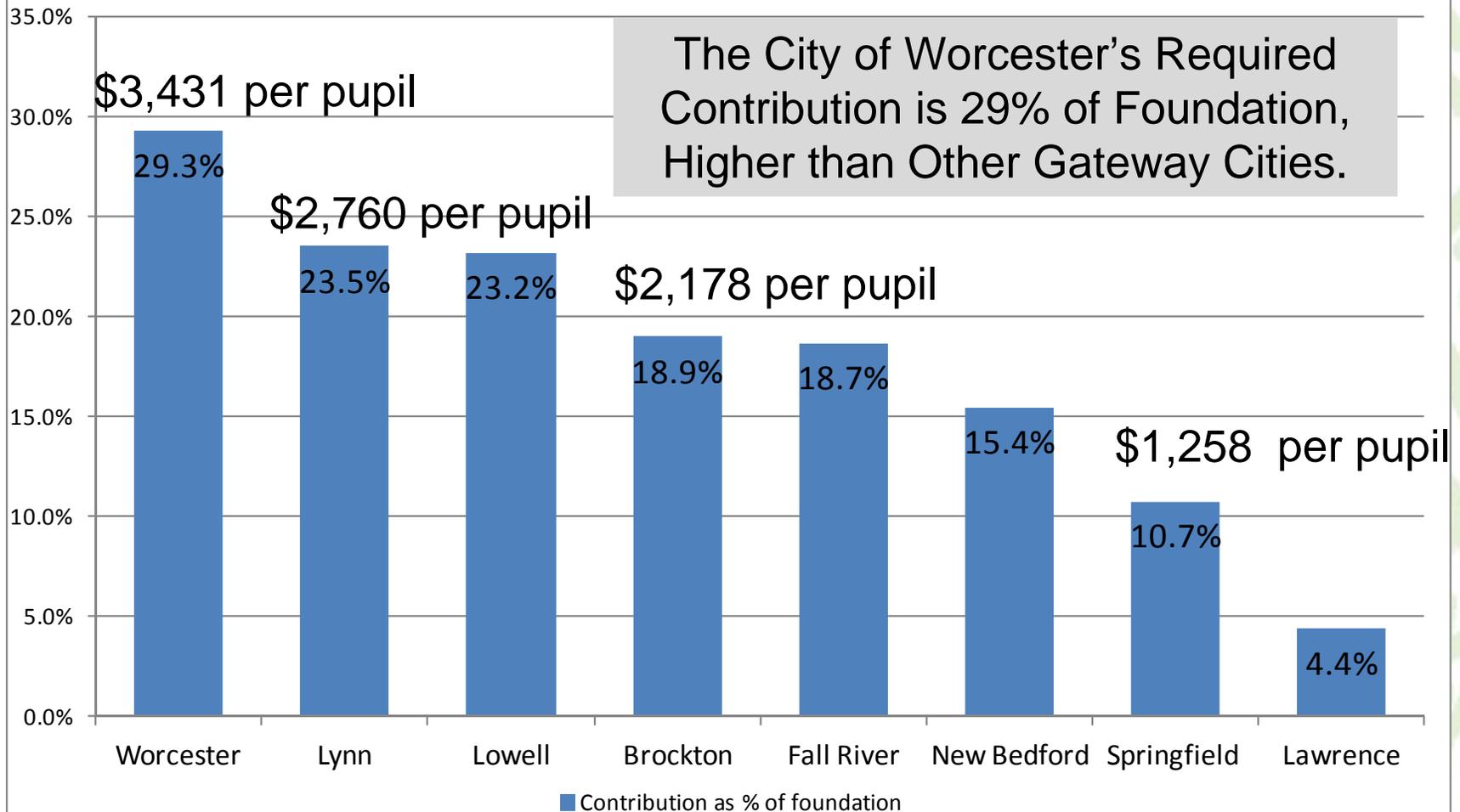
WPS Transportation Year to Year Increases Non-School (Classroom) Spending



- WPS Annual Funding Spent on Transportation is not Available for Net School Spending Categories within Classrooms. Mandates.
- These Spending Areas have been Increased by 20% (\$2.7M) since FY11. From FY02 to FY11, Transportation Spending is Up Over 60%
- What Reforms Could be Brought to Bear on Student Transportation?
- How Should We Weigh Student Transportation Costs vs. Classroom Needs and/ or Other Core Municipal Services? How Do We Address Mandates?

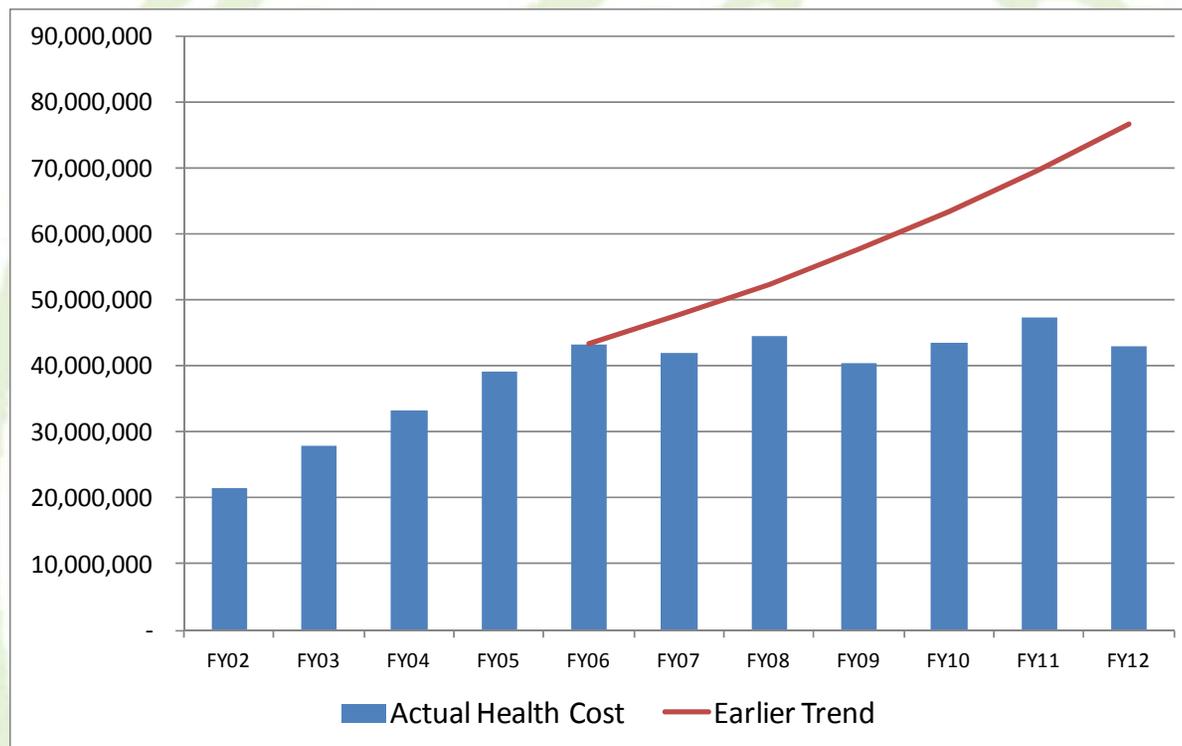
Perspective....

Minimum Tax Levy Contribution as % of Foundation



Intangible Investments: The Rewards of Reforms

- City Reforms Generate WPS Savings: Health Insurance, Reverse Energy Auctions, ESCO Project, but are not Recognized by the State. Real \$ Redirected to the Classroom.
- Health Savings Alone Tells a Remarkable Story.
 - From FY02 to FY06, School Health Insurance Costs Doubled
 - From FY07 through FY13, School Health Insurance Costs were Nearly Level.





Budget Balance: Education and Public Priorities

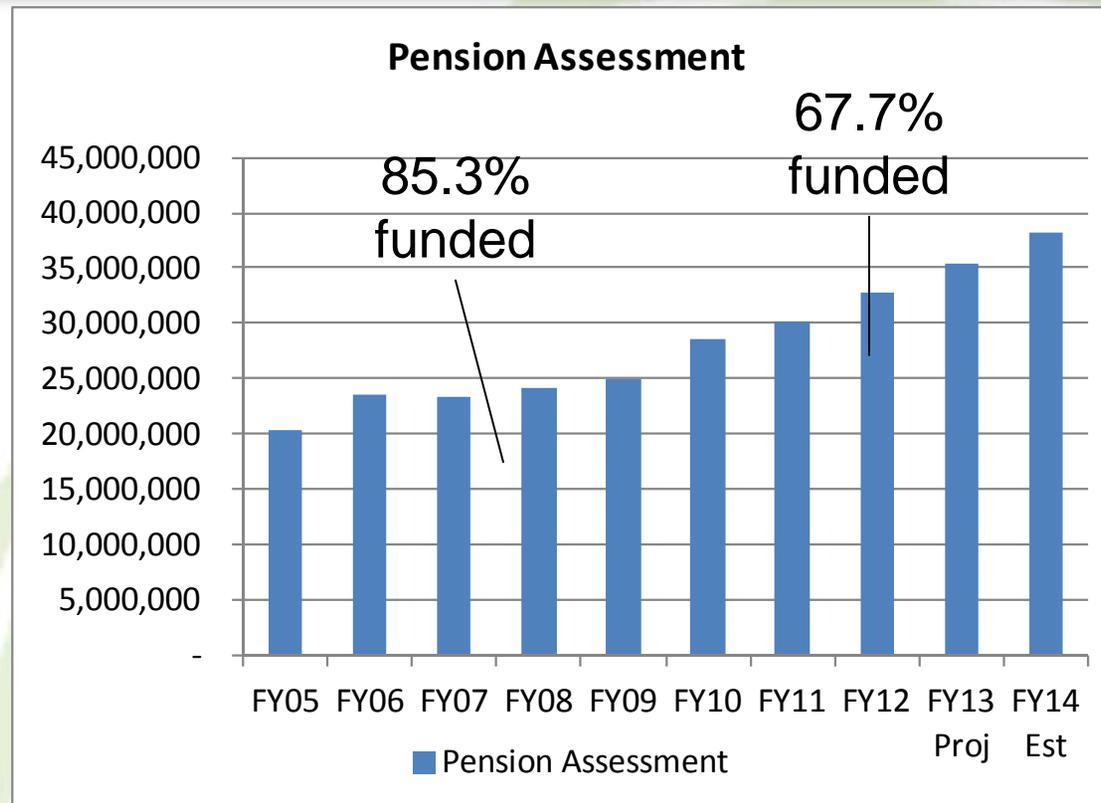
- **Education: Since FY08—Foundation Budget (State Required Spending) has Grown from \$252,522,466 to 298,950,312 in FY13 (18% increase), and is headed up to \$315M in FY14.**
- **City Side: Operations Preserved through Reductions Reforms, Redeployments, and Reorganization**
 - **Police Budget from \$40.1M in FY08 to 41.8M in FY13 (4% increase)**
 - **Fire Budget from 34.1M in FY08 to 33.7M in FY13 (1.3% decrease)**
 - **DPW Budget from 12.1M in FY08 to \$12.4M in FY13 (2% increase)**
 - **Parks Budget from \$3.85M in FY08 to \$3.99M in FY13 (3.6% Increase)**
 - **Layoffs, Redeployments and Positions Left Open and Unfilled**
- **Our Desire to Increase WPS Funding is Ever-Present - as is the Desire to Restore Manpower and Service Levels on City-side.**
- **We Know and Understand Our Shared Public Priorities. Sustainability - (Affordable Growth Year after Year) and Addressing Unfunded Liabilities**



Living with OPEB Liability: Funding Regiment

- City Council Adopted the City's Five Point Financial Plan to Require Deposits into the City's OPEB Reserve Fund.
- FY14 Deposit Scheduled for \$5M, \$1.7 from the City and \$3.3M from WPS. Should be \$20M Annual Deposits. Only Way to Get there is Cuts.
- Unfunded Liability Stands at \$656,000,000, More than the City's Entire Budget. State Changes? In Less Than Five Years, REALITY!
- There are now More Retirees than Active Employees
- Pay as you Go will Slowly Consume More and More Operational Dollars— Without Forward Funding OPEB – CUTS to Services will Be Required to Address these Real Costs
- Adequate OPEB Trust Fund to Preserve These Benefits in the Future will Required Participation by City, WPS, and Employees, as well as Changes/ Reforms in State Law

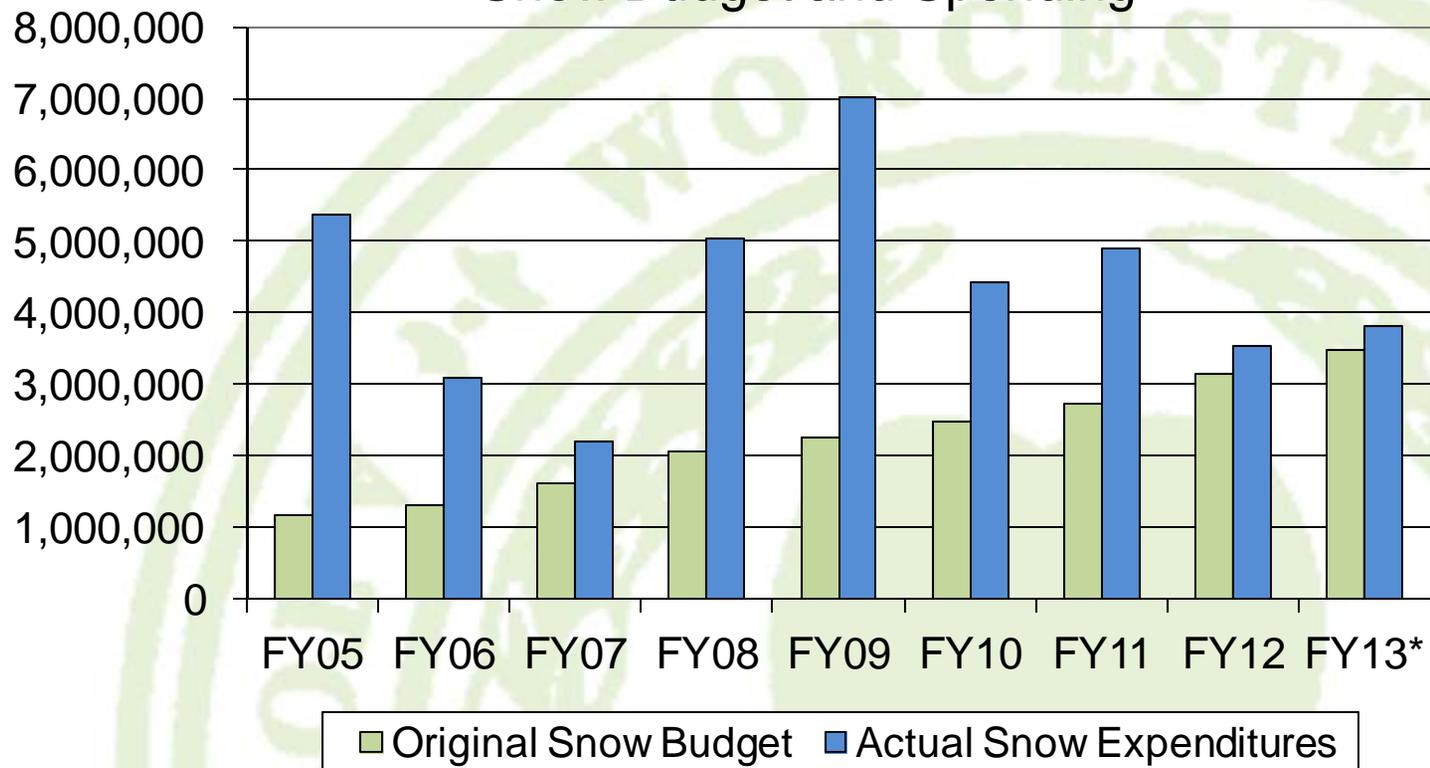
Pension Realities - Retirement System



- **Recovering from the Great Recession and Market Fluctuations Requires a Greater Rate of Increase of the Pension Assessment – Occuring Since FY08.**
- **FY14 Includes an 8% increase from FY13. The Market Crash of 2009 has also taken a Toll on the Pension System’s Funding, which is down to 67.7 Since FY08.**

Snow Removal

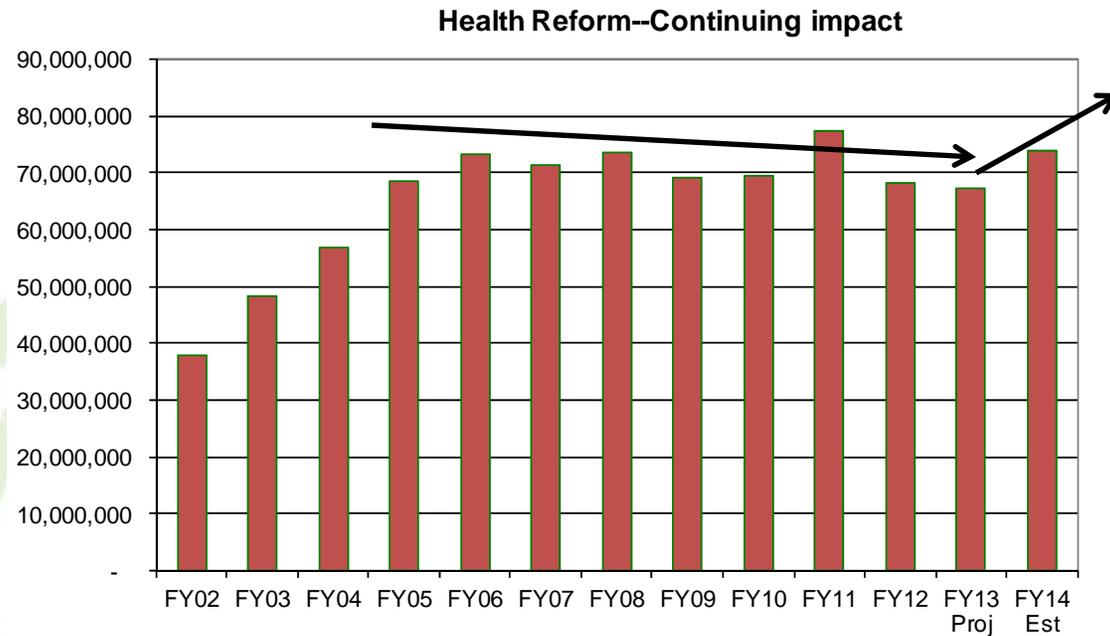
Snow Budget and Spending



Our Systematic FY Increases in the Snow Removal Budget Get Us Closer to Reality... and Mother Nature

*** And Counting ...**

Upward Pressure Health Insurance Costs



Since FY06, Continuous Reform Implementation has kept Actual Health Care Costs Nearly Level.

FY14 will Likely Exhibit the Return of Significant Health Care Cost Increases.



Risk Management: FY14 Challenges

- **Uncertainty of State Aid – Both Unrestricted and Chapter 70**
- **Sequestration – 700K Cuts in City Low Mod Programs, 1.6M Cuts to WPS**
- **City’s Collective Bargaining Agreements all Expire June 30, 2013. Unfunded Liabilities – City/ WPS Prefunding OPEB (Partially) in FY14**
- **Priorities. \$5.8M Budget Gap to Solve in 45 – 60 Days... Must Present a Balanced Budget to CC. Please Note Increases Above the \$5.8M Have Been Requested by WPS (NSS and Transportation). We Are Analyzing and Assessing Reductions and Reforms to Balance Budget Recommendation (\$5.8 M Gap) and What Reductions and Reforms Would Be Required to Address An Additional \$2M WPS Budget Request**
- **Must Align Costs of Government Services Closer to the Growth of Economy. If Service Costs are Growing at 5-6% and Revenues Grow at 2.5-3% - Do the Math. If These Costs Increases are Annual, Year After Year... How Do We Address Structurally?**
- **Has To Be A Statewide Conversation on How We Share in the Common Wealth – Urban Cities, Federal Reserve Bank Study. One Size Fits All Doesn’t Work**
- **Five Point Financial Plan – Live Within Your Means, Decisions Today We Can Afford Tomorrow, Plan for Future, Address Reality... and Borrow Only What You Can Afford to Pay Back**

FY14 The Good News— Energy, Excitement, Endurance

