



Has the Budget Crisis Passed?

WRRB Presentation

City of Worcester

Fiscal Year 2013 and Beyond



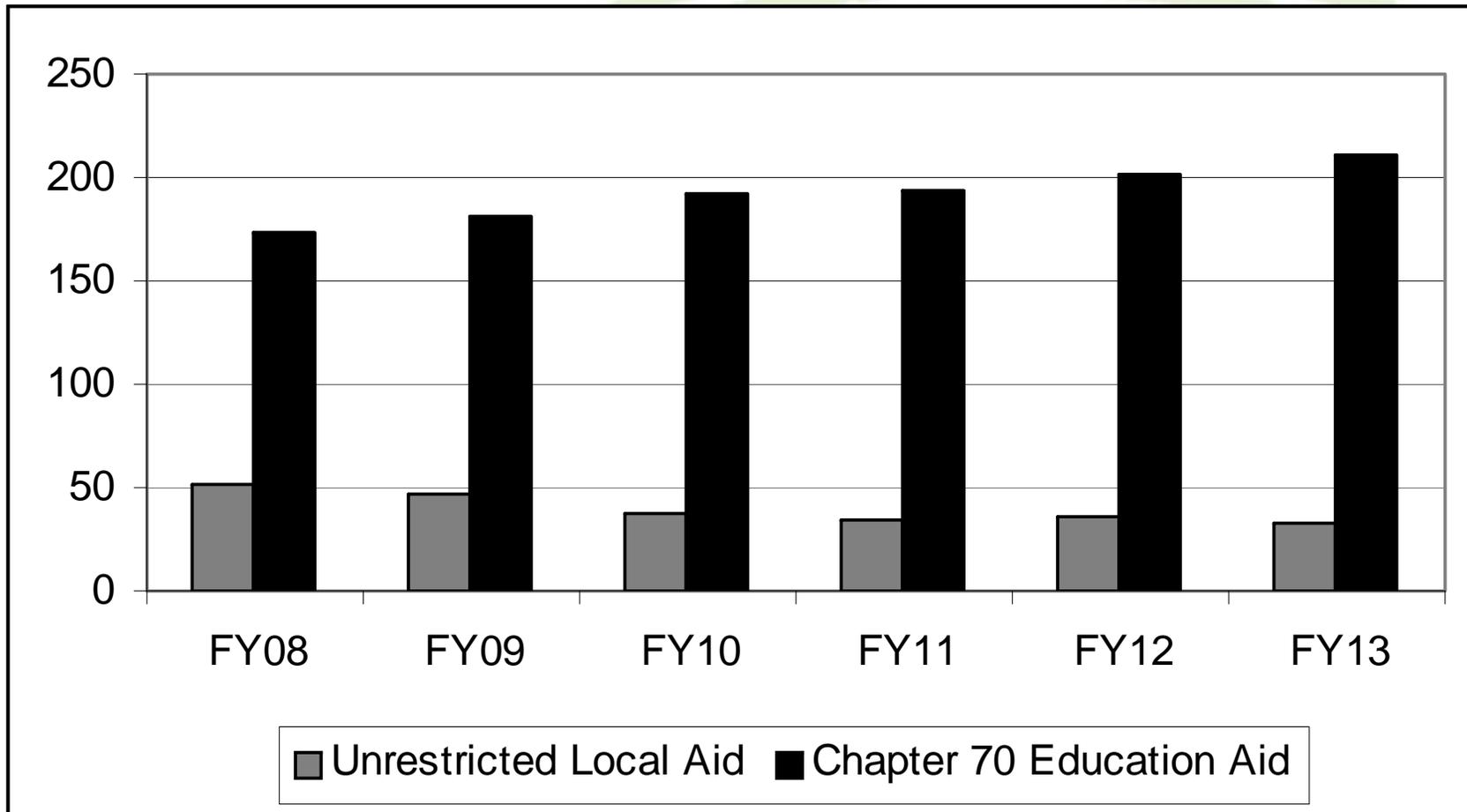
City Manager Michael V. O'Brien
March 7, 2012

Adaptation

- **Unrestricted State Aid Cut by 37%**
- **Loss of \$21 M in Annual Revenue**
- **Unrestricted Local Aid FY 1988 Levels**
- **Local Receipts down by almost 17%**
- **Revenue Growth Not Keeping Up With Rising Fixed Costs**

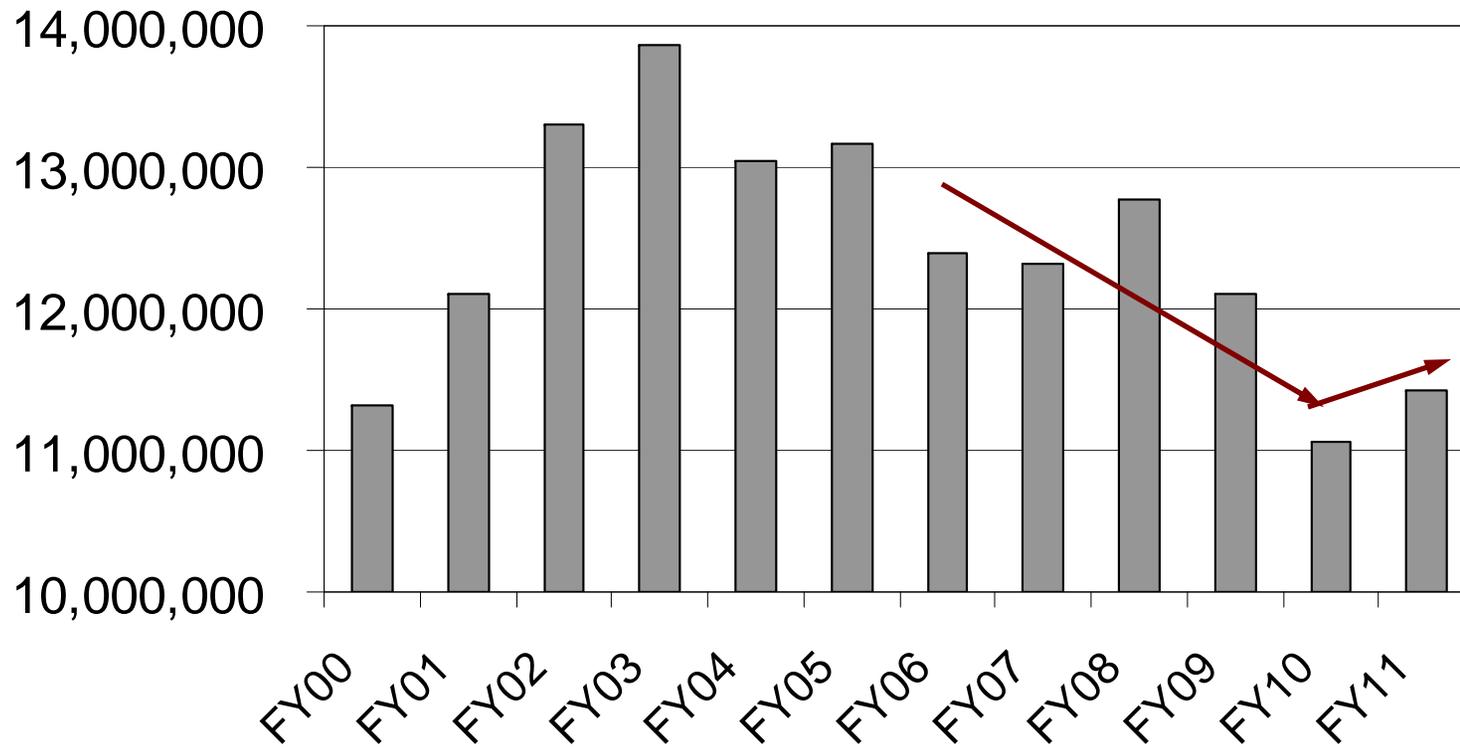
Local Aid History

From FY08-FY13



Revenues Sensitive to Economy

- **Motor Vehicle Excise, Permits, Property Taxes, New Growth**

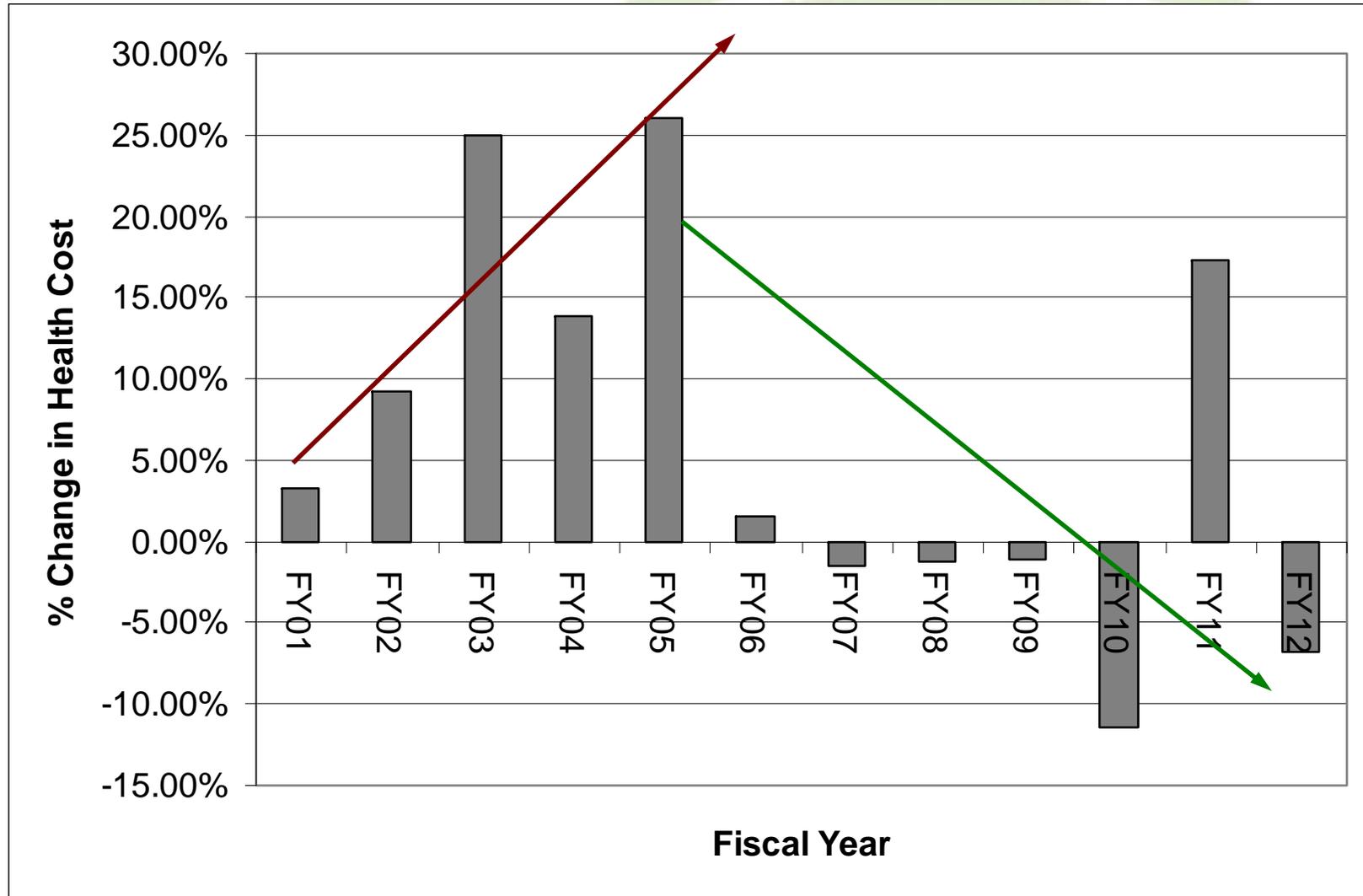




Managed To Stabilize

- **City-Side: Prioritize, Reform, Reduce, Restructure, Realign Core Services ...**
 - Downsized Government; Loss of 225+ Positions in 3 Fiscal Years, 15% Workforce Reduction
 - Deep Cuts. All Departments Restructured. Rise to Challenges.
 - No Wage Increases Two Consecutive Years/ Employee Health Care Changes
 - Reserve-Building; One-Time State Funds Set Aside for FY12

Flat-lined Health Care Costs





FY 2011/ FY 2012

- **FY11 Year End Results:**
 - Increased Deposits to Reserves
 - Improved Bond Rating Outlook – FY13
 - Eliminated Snow Deficit – 70”
- **FY12 Budget Balanced—On Target**
 - Results to Date are Consistent with Budget
 - Police Overtime Higher Than Anticipated
 - Snow Removal Costs Lower Than Anticipated – YAHOO!



Promising Fiscal Year 2013

- **FPPF – Early Projection of \$8M Deficit**
- **Improved Revenues and Expenditures—\$1.5M**
 - Reduced Overlay
 - Increased New Construction Growth Projection
 - Additional Grant Funds for Fire Department
- **Health Insurance Reform—\$3.3M**
 - Complete Implementation of Reforms
 - Rates Well Under Typical Annual Increases
- **Reduces Deficit \$3.2M**
 - Deficits as High as \$32 M in Recent Past
 - Tough Work to Close \$3.2M - Bone



Fiscal Year 2013: Areas to Watch

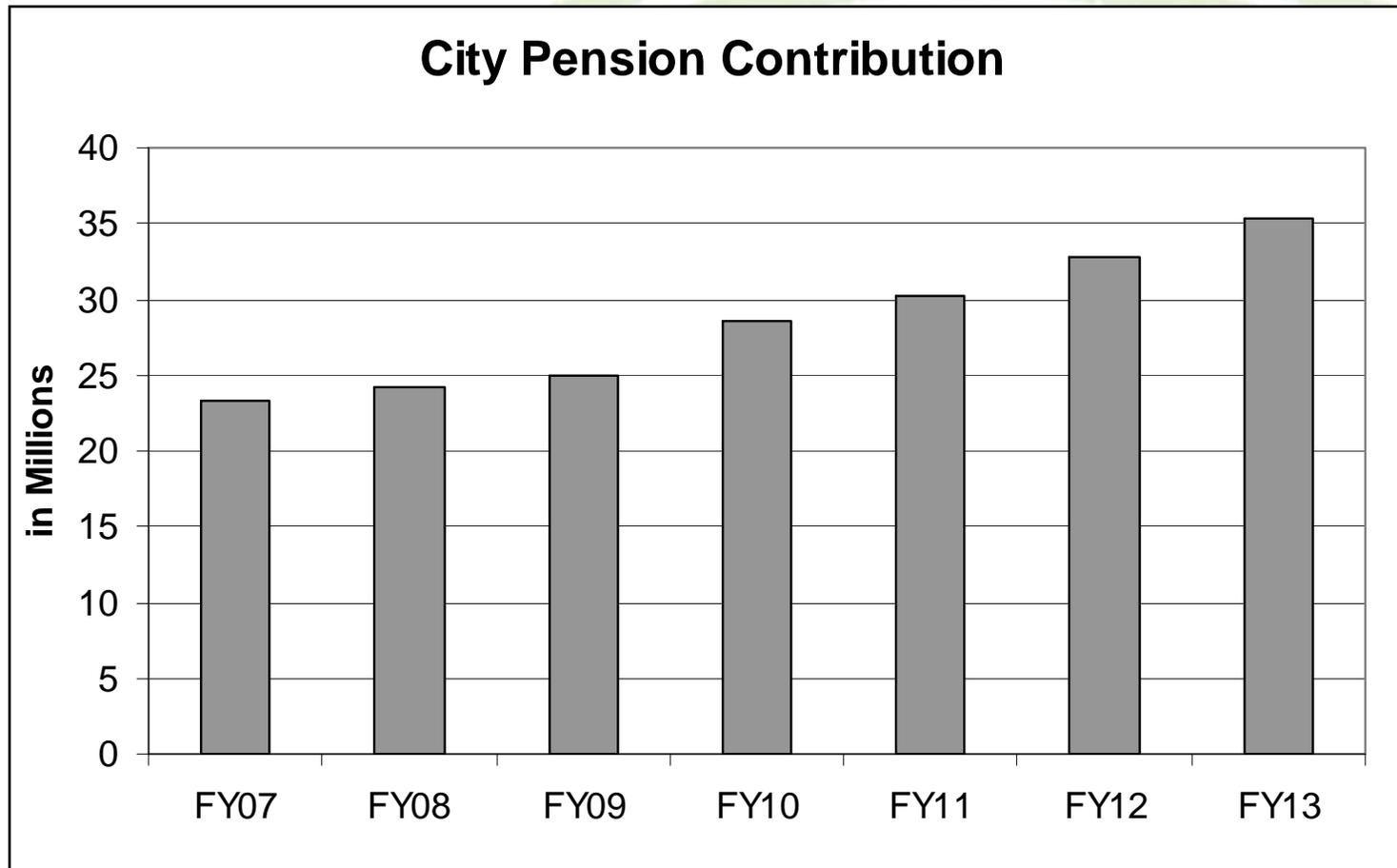
- **Additional State Local Aid?**
 - Governor's Budget Promises Additional \$2.6 M if State meets Revenue Benchmarks
 - Non-Recurring Revenue Dedicated to One-time Use (Crosswalks, Guardrails, Long Patch)
- **Federal Budget Cuts**
 - CDBG and HOME Funds to be Cut by 4 and 41 Percent Respectively
 - Other Federal Grants at Risk



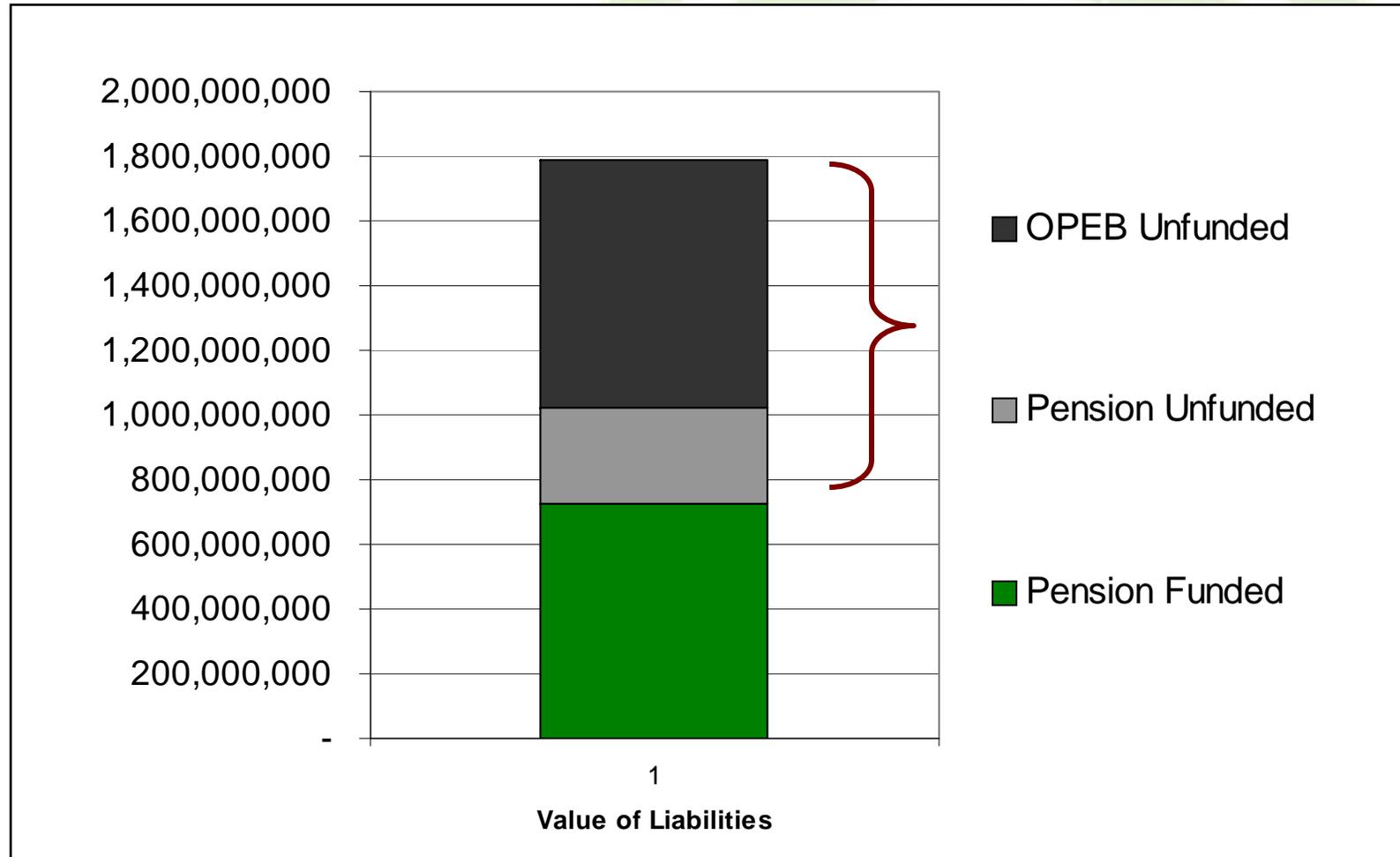
Future Liabilities: *Pensions and OPEB*

- **Pension Obligations**
 - **\$300M Unfunded Liability**
 - **\$725M in Assets in Retirement System**
 - **Funding Schedule Requires Increasing City Contributions out to 2035**
 - **Bigger Percentage of Our Budget – Where?**
- **OPEB Obligations—Retiree Health Care**
 - **\$765M Unfunded Liability**
 - **At this Juncture No Dollars Set Aside to Fund Liability**
 - **Current Funding—Pay as You Go (\$21M)**
 - **The Liability Will Grow Each Year – Where?**

Recent Pension Cost Escalation: 50% increase in Contribution since FY07



\$1.79 Billion in Liabilities: over \$1 Billion of Unfunded





OPEB Strategies

- **Without Dedicated Funding Source, Focused on Cost Side**
- **Adoption of Section 18**
- **Implementation of Health Reforms – Includes Retirees on Conventional Plans**
- **Reduction of Cost Side Through Reform will Reduce OPEB Liability – LIMITS TO REFORM**
- **Pension Liability is Known. Health is a Volatile Target Due to Health Cost Inflation. Legislative Actions**
- **Massachusetts Taxpayers Foundation—Almost All Require State Legislative Action.**



Other Future Liabilities: City Infrastructure

- **Streets and Sidewalks—Push Underway - Backlog Persists.**
- **Storm Water System—EPA Mandates & Upkeep of Aging Infrastructure will Require Significant Future Investments**
- **Wastewater/ Water System—Continued Reinvestment, Above Current Levels**
- **Bridges and Dams—City has More “Private” Dams than any Municipality in the Commonwealth. Meet Safety Requirements but Millions Required to Update**
- **WPS – Hundreds of Millions of Dollars Required to Bring our Facilities to Standards.**



So.... Has the Crisis Passed?

- **Short Answer – No... Long Answer... No**
- **Manage by FFP. Tough Decisions Lie Ahead for FY2013 and Beyond. FUEL – ENERGY COSTS?**
- **Special Interests Will Be Active... Must Govern with Sensitivity but with Common Interests of All**
- **OPEB and Pension Liabilities Will Draw Away from Services... Pressure is There Now.**
- **Solutions – Cannot Pretend The Issues Are Not There and the Solutions Can Be Ignored...**
- **Remain Optimistic. Great City, Great Things Underway... Not Without Challenges But Collaboratives Across the Spectrum Make Solutions Easier.**
- **Keep Smilin’ – The Mayans Calcs are Off...**