



CITY OF WORCESTER, MASSACHUSETTS

Michael V. O'Brien
City Manager

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Attachment for Item #

9.34 B

May 5, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

As you know, the Commonwealth funds over 25% of our City-side annual budget with non-restricted State local aid and other categories. Today's presentation by State leadership of the continued precipitous decline of State revenues is cause for concern as we continue the deliberations on the FY2010 Budget Recommendation. There is also a cause for greater concern as it appears that there may be additional State 9C cuts to local aid under consideration for this current FY (2009), on top of the current \$5.5 million 9C mid-year reductions we are working to address. The potential local assistance cut to the State's fourth quarter payment will compound our current year-end deficit, will result in few options to address this and will leave little time to adapt.

The State has reported that their April 2009 tax collections are almost 35% below their previously adjusted expectations for this year and almost \$1 billion lower than last year's collections at this time. The current projections are that the State will have to address a revenue shortfall of \$1 billion to balance and close their FY2009 budget by June 30, 2009. As of this writing, the State's reserve fund is at \$1.3 billion. This is the reality and the pressure that may result in 9C reductions to State local aid prior to June 30, 2009. In addition, State revenue projections for next FY (2010) have been adjusted downward by an additional billion. The Governor plans to release a revised FY2010 budget recommendation and the Senate will use these adjusted revenue numbers in the preparation of their budget due out next week.

As I stated above, we continue to work at addressing the Governor's current 2009 9C cuts of \$5.5 million. The following is a summary of these actions year to date:



FY2009 State 9C Reductions to Date:

○ FY09 9C Reductions	(\$5,000,000)
○ FY09 9C Reduction - Quinn Bill	<u>(\$ 500,000)</u>
Subtotal State 9C Reductions to Date	(\$5,500,000)

FY 2009 Budget Measures to Address Deficit:

○ Hiring Freeze (50+ positions) since July 2008	\$1,600,000
○ Wage Savings from Layoffs in FY09	\$1,000,000
○ Ordinary Maintenance Accounts Freeze	<u>\$ 500,000</u>
Subtotal FY09 Reductions to Date	\$3,100,000

FY 2009 Deficit Balance (as of May 5, 2009) (\$2,400,000)

Market conditions since July 2008 have resulted in dramatic decreases in interest income, from budgeted interest rates at approximately 3% to interest rates of just over ½ percent. It is expected that these decreases in interest income (\$1 million) will be offset with increased revenue collections in the categories of tax titles and sales of collector's deeds (projected at \$1 million).

Clearly, our FY09/10 Budget continues to evolve, especially with the volatility of State revenues and the potential impacts to local aid. We continue to monitor the situation closely. I am obligated to close the remaining \$2.4 million gap by June 30, 2009 and continue to push to ensure this will indeed be the case. I must state for the record there is a potential for the City to have to draw on our thin reserves to balance and to close our FY2009 books. Our focus is to avoid this action if at all possible for it will have collateral negative effects on our Bond Rating and other measures. This would obviously be compounded with additional 9C cuts prior to FY2009 end.

Our FY2010 Budget recommendation was and is a benchmark to begin our work for a blueprint of City services, as dramatically reduced, for next fiscal year. It includes steep reductions in all services to this community and, in some cases, eliminates departments and divisions in their entirety. This Budget recommendation was presented with a knowledge we may very well have to reduce services further if State Aid continues to decline. As you are aware, concurrent plans are in place to initiate additional layoffs, as required, to adapt as required, barring any new revenues that may be adopted or presented.

Respectfully submitted,



Michael V. O'Brien
City Manager

Bigger deficit looms for state

The Boston Globe

April revenue is \$456m below expectations

By Matt Viser, Globe Staff | May 5, 2009

Wary Beacon Hill leaders warned last week of a worst-case scenario in which state tax revenues for April might fall as much as \$365 million below projections. In hindsight, that looks more like unbridled optimism.

Revenue officials reported yesterday that tax collections for April plunged 34.9 percent from the prior year, or \$456 million below expectations, setting off another frantic scramble in the State House to plug a budget deficit that appears to be expanding by the day.

Almost every tax that the state collects - sales, income, capital gains, and corporate - fell below projections that were revised downward just three weeks ago.

The only tax that did not fall dramatically was meals taxes. Income tax collections in April were down \$905 million over what was collected last year.

"Very somber" was how Senate President Therese Murray described an afternoon meeting with Governor Deval Patrick and House Speaker Robert A. DeLeo.

The result, officials now estimate, is an additional \$1 billion shortfall over the final three months of the fiscal year, in addition to the \$3 billion deficit that has already been closed by a combination of cuts and spending from the so-called rainy day fund.

But with only eight weeks left in the fiscal year, the state's options are limited. The state has only about \$1.3 billion remaining in its reserve account, which means that further cuts are almost certain, possibly to a local aid payment scheduled to go out June 30.

The shortfall for the remainder of this year is growing even as State House officials are trying to stitch together a budget for next year that has revenue projections that continue to fall. The revenues that House lawmakers and the governor built their budgets on, an estimated \$19.5 billion, is now expected to fall by at least \$1 billion, and Patrick is planning to submit a revised budget based on the new figures.

Patrick said he is planning to announce solutions to the current year's shortfall later this week. While he said he would try to avoid cutting local aid, he would not definitively rule it out.

"You know how I feel about local aid, the same way I feel about education," Patrick said following a press conference late yesterday. "What we have to solve for so late in the fiscal year means you can't really get there through cuts. You have to find other ways."

Revenues have consistently fallen short all fiscal year, which will put even greater pressure on Patrick and the Legislature to cut programs or raise taxes. The discussions will almost certainly ratchet up tensions in the already tense relationship between Patrick and Democratic lawmakers, who have been quarreling over which taxes to raise and how much to raise them.

Last week the House approved an increase in the state sales tax from 5 percent to 6.25 percent, but Patrick has threatened to veto it unless lawmakers approve a series of ethics, pension, and transportation overhauls. There were heavy tensions between Patrick and the Legislature all last week, with many Democratic lawmakers accusing Patrick of launching his reelection campaign by using the Legislature as a punching bag.

Murray said the topic of last week's tensions did not come up during the meeting today, part of their series of regular Monday gatherings and the first time the three leaders met face to face since the tax vote.

"I'm not going to respond to any of that," Murray said. "We have such a fiscal crisis in front of us that it's imperative that we all work together to resolve this."

Meanwhile, a Massachusetts business group launched a statewide campaign yesterday to oppose a sales tax hike, arguing that a recession is the worst time to increase the tax burden on businesses. The group has not opposed the gas tax.

The campaign released two radio spots, titled "Tough Times" and "Main Street," that urge residents to call the governor and state lawmakers to oppose the proposed sales tax hike.

"An increase in the sales tax at this time will have a devastating impact on the small retailers that populate the storefronts of our 351 Main Streets across Massachusetts," said Jon Hurst, president of the Retailers Association of Massachusetts, which has 3,000 members across the state. "Many of these small businesses are barely surviving because of the economic downturn. An increase in the sales tax is going to send even more of their customers to tax-free New Hampshire and the Internet."

The radio campaign is schedule to run for the next two weeks on stations across Massachusetts. The business group is also planning further actions that could include radio, print, and direct mail campaigns.

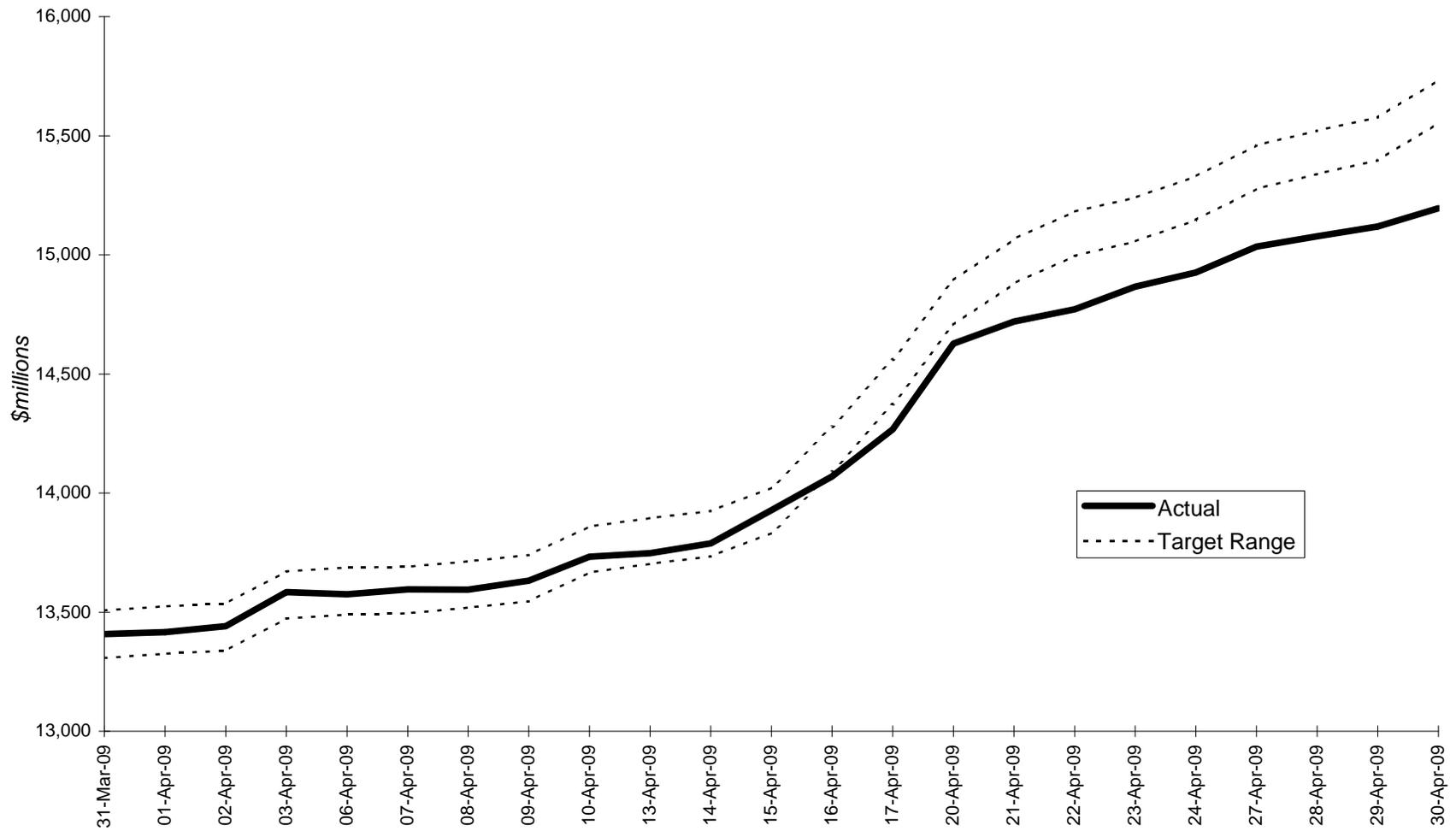
The House plan, approved by a veto-proof margin of 108-51, would raise an estimated \$900 million. The representatives voted to dedicate about \$275 million of new revenue to transportation, instead of seeking a gas tax increase as proposed by Patrick.

Senate lawmakers are preparing their budget proposal for next fiscal year and are planning to lower revenue estimates by at least \$1 billion below the budgets crafted by Patrick and the House.

Senate Ways and Means chairman Steven C. Panagiotakos and other senators are planning to hold a hearing with economists today to firm up the revenue estimates before the budget proposal is released later this month.

Matt Viser can be reached at maviser@globe.com. ■

FY2009 Year-to-Date Tax Revenue Through Apr. 30, 2009



YTD target range is based on 4/15/09 A&F revised tax revenue estimate of \$19.333 billion (includes \$767 million in MBTA transfer funds).