



Michael V. O'Brien  
City Manager

CITY OF WORCESTER

Attachment for Item #

13a

November 23, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

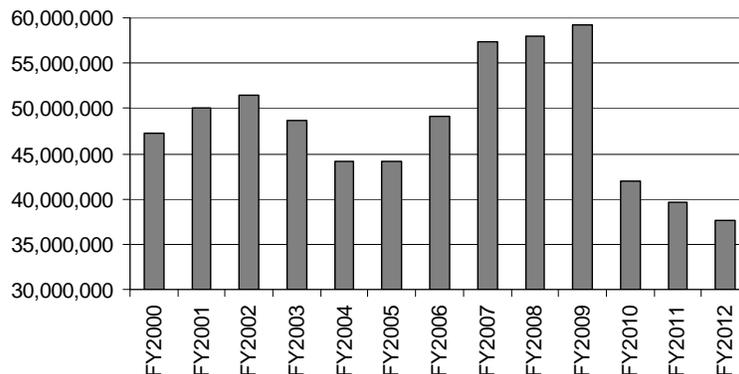
I respectfully submit to your Honorable Body a detailed update relative to Financial Forecasts for next Fiscal Year (FY2012) and projections through 2017, per the Five Point Financial Plan. The attached report includes revenue and expenditure assumptions based on past experience, current economic trends, and forecasting by financial experts.

**FY2012:**

Year to year expenditures (from FY2011 to FY2012) are expected to increase by \$16.8M or more than 3%, while overall revenues are expected to increase by only \$3M or less than 1% for the same period. We are preparing for our Fiscal Year 2012 Budget Recommendation factoring a deficit of approximately \$13.7M. For the purposes of these projections, we have factored a 5% cut in the Unrestricted Aid category for FY2012. It is important to note there have been early indications that Unrestricted Local Aid may be reduced as much as 10% (Massachusetts Taxpayers Foundation).

The following is a summary of Unrestricted Local Aid reductions over the last three FYs.

State General Government Aid FY00 to FY11



It is likely that declining State revenues, coupled with unpredictable snowfall, variations in the energy and other commodity markets, and other factors, will impact the initial forecasts outlined in the attached. This information however, is based on the most



reliable data we have at this time, and we continue to monitor trends and adjust accordingly to changing economic conditions.

## REVENUES AND EXPENDITURES

Property taxes are projected to increase in accordance with Proposition 2½. This projection assumes \$5.6M for Proposition 2½, New Growth of \$2.2M, and preservation of the tax levy capacity. This growth is offset by anticipated reduction in State Aid and Local Receipts. Local Receipt line items (permit fees, fines, excise taxes, etc.) have also been reduced by \$2M in anticipation of economic conditions.

While revenue projections continue to decline, expenditures are expected to rise, particularly in the area of fixed costs, such as health care benefits, retirement benefits, and debt service. Tax levy pension obligation is expected to increase by \$5M.

Health insurance premiums are projected to increase by 10%. The overall health insurance increase is projected to be \$3.5M. Debt service expenditure is estimated to increase by \$1.28M. The City's Snow Removal budget will increase by 10% per Five Point Financial Plan to a total of \$4.2M.

The City's contribution to the Worcester Public Schools is determined through a State-mandated formula. The FY2012 increase of \$1.76M brings total projected contribution to schools to \$265.8M. The City's operational budget are projected to increase based on assumed bargaining contracts through June 2012, identified step increases, assumed utility and energy cost increases, and known expiration of Federal grants for WPD and WFD for a total increase of \$4M. The following chart provides a breakdown of projected revenues and expenditures:

REVENUES	FY10 Act	FY11	FY12	% Inc	\$ Inc
Property Tax Levy	204.6	214.9	222.1	3.3%	7.19
State Aid General City	41.2	39.7	37.6	-5.3%	(2.09)
State Aid Education	176.9	191.5	191.5	0.0%	-
State Aid Charter Schools	4.8	4.4	4.4	0.0%	-
State MSBA	19.1	15.7	15.7	0.0%	0.00
Local Receipts	41.4	38.5	36.5	-5.4%	(2.06)
Other Available Funds	1.3	1.3	1.3	0.0%	0.00
Free Cash	-	-	-	0.0%	-
<b>Total Revenues</b>	<b>489.4</b>	<b>506.1</b>	<b>509.1</b>	<b>0.6%</b>	<b>3.04</b>
EXPENDITURES	FY10 Act	FY11	FY12	% Inc	\$ Inc
<b>Total Fixed Costs</b>	<b>103.8</b>	<b>107.0</b>	<b>117.7</b>	<b>10.0%</b>	<b>10.75</b>
<b>Total Education</b>	<b>272.1</b>	<b>289.2</b>	<b>291.0</b>	<b>0.6%</b>	<b>1.76</b>
<b>City Operations Total</b>	<b>111.3</b>	<b>109.9</b>	<b>114.2</b>	<b>3.9%</b>	<b>4.27</b>
<b>Total Expenditures</b>	<b>487.3</b>	<b>506.1</b>	<b>522.9</b>	<b>3.3%</b>	<b>16.8</b>
<b>Surplus(Deficit)</b>	<b>2.1</b>	<b>-</b>	<b>(13.7)</b>		<b>(13.7)</b>

	FY08	FY09	FY10	FY11	FY12
<b>Total Revenue Sources</b>	<b>475.7</b>	<b>480.1</b>	<b>506.0</b>	<b>506.1</b>	<b>509.1</b>
Less Fixed Costs	(92.7)	(106.1)	(105.6)	(107.0)	(117.7)
Less Education Cost (W Charter)	(265.8)	(260.6)	(288.0)	(289.2)	(291.0)
<b>Balance for City Departments</b>	<b>117.2</b>	<b>113.4</b>	<b>112.3</b>	<b>109.9</b>	<b>100.4</b>

As always, we continue to monitor revenue trends and work with departments to develop realistic expenditure projections for the coming fiscal years. We are diligent in our efforts to reduce spending, wherever possible, and preserve contingencies. This will be the third consecutive year of significant budget reductions faced by the City, and we are steadfast in our proactive approach to identify and assess solutions for generating savings, while maintaining core municipal services.

As you know, all vacancies and position requests are reviewed on a case-by-case basis with only critical positions filled to fulfill core mission. These staffing reductions, coupled with the early retirements, will continue to have an impact on service levels. We have endured reorganizations, restructuring and redeployments; we have combined functions wherever possible and utilized technology to improve services and reduce costs. The integrated citywide permitting software is the most recent example of increased efficiency and long-term savings. The current fiscal climate has prompted us to take the lead on pursuing regionalism to not only fulfill mandatory statutes, but also achieve economies of scale. We will continue to pursue these opportunities, much like we have done in the areas of public health and emergency management. It is likely however, that even as we pursue all of these options, additional reductions will need to be made if we are unable to address the projected FY2012 budget gap.

Our path of last resort is further staff reductions. Departments are at their very baseline. We continue to seek reforms. We have effectively demonstrated that we can maximize savings available to us in the marketplace, such as prescription drug carve-out plans, self-insurance, Medicare Part D, and plan design changes. We know that the implementation of these reforms and the good-faith collective bargaining that increased contribution rates from 20% to 25% have stabilized health care costs. Without additional reforms, such as State-sponsored GIC plans and the authority to manage costs without collective bargaining, health care costs will begin to climb at rates in excess of 10%. Early analysis from our health care actuary indicates that the first stages of Federal health care reforms may require an additional 2-3% to these projections for FY2012. This review continues and I will be providing additional information as it becomes available.

Additionally, the extension of the pension schedule provided short-term relief for cities and towns. This is a helpful measure, but it is a treatment that masks the problem rather than cures it. The fact remains that our pension system is underfunded and that this burden will continue to grow over time. Without changes to the structure of benefits, this cost center will become a significant obstacle to the provision of services in coming years. I will continue to work with our Legislative Delegation to advance proposals for retirement reform. It will be imperative to maintain the stability of the existing retirement system and to create the possibility that the City will have the resources to provide core services in the future.

These projections are presented for perspective. As forecasted, the outlook for FY 2012 is bleak and magnitude of our challenges great. I will continue to work with departments and your Honorable Body to adapt to these realities with further reductions and reforms. In addition to the FY2012 projection, I've attached the five-year forecast, which assumes slow economic improvement and a persistent projected deficit. There is much work ahead.

Respectfully submitted,

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

Michael V. O'Brien  
City Manager

**City of Worcester**  
**Fiscal Year 2012 Projection**  
**Five-Year Forecast (Fiscal Year 2012 – 2017)**

**Discussion and Analysis:** The City's fiscal predicament for Fiscal Year 2012 presents a number of challenges due to the expectation of gross revenue reduction due the economic climate and the reality of an escalation in fixed costs, particularly health insurance, pensions, and the required increase in contributions to the Worcester Public Schools.

**Revenue Summary:** Budget forecasts for the Commonwealth do not allow an increased State Aid projection for FY12. In fact, it is possible that the State will again reduce Local Aid to cities and towns. A number of factors could produce this result. The State's obligations under Education Reform remain even as Federal Stimulus funding is exhausted. This could require a continued shifting of State resources from other areas to education. The State will be addressing escalating benefits costs both for pensions and health benefits for employees as well as the continually climbing cost of the State's publicly funded health plan to cover the uninsured. The State has been projected to be \$2.05 Billion by the Mass Taxpayers Foundation. Finally, the economy has evidenced significant uncertainty that could further strain other regular revenue sources at the State. As a result of these real possibilities, a significant reduction in the estimated State Aid would be entirely justified. This projection includes a decrease of \$2M in these non-education related State Aid categories. It must be noted that this assumption makes this projection somewhat optimistic given the current economic climate and contingencies described above.

Property taxes are increased per the provisions of proposition 2½ and an assumption of new growth similar to that of the early nineties, an increase of \$7.1M net of overlay. State reimbursements for School Building Construction will remain at FY11 levels consistent with the existing reimbursement schedules. Local receipts have been reduced to reflect economic and operational realities, for a total reduction of \$2.06M. The net effect of current revenue projections for Fiscal Year 2012 is an anticipated increase in total revenue of \$3.0M less than one percent (0.6%).

**Expenditure Summary:** The City's fixed costs are the source of the largest expenditure increases for FY12, representing an anticipated increase of \$10.75M, primarily associated with increases in health insurance and pensions contributions as well as from schedule contributions to dedicated funds for the City's Five Point Plan including the construction of the new North High.

This projection assumes a zero percent raise for all bargaining units for Fiscal Years 2010 and 2011. Step increases are recognized in the FY12 projection as well as 2% salary increases in all out years. Actual salaries will be dependent on the results of collective bargaining. The projection recognizes the end of certain

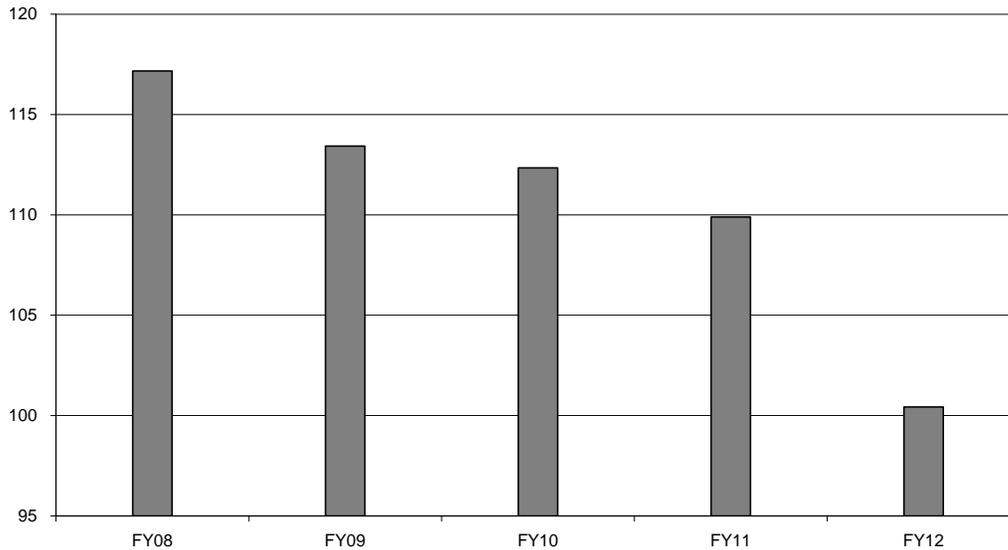
Federal grants that have stabilized the Police Department and Fire Department in Fiscal Year 2010. Staffing levels are assumed consistent with the Fiscal Year 2010 budget for other operational departments. Adjustments will be required in the actual budget to reflect the City's Early Retirement Incentive which was completed at the end of October. Utility cost categories are assumed to increase 5% pending more accurate market information closer to the actual FY12 budget development process.

The biggest single departmental expenditure increase is the projected required contribution to the Worcester Public Schools. The Department of Elementary and Secondary Education relies on a calculated "Municipal Revenue Growth Factor" to determine the City's required contribution. This formula takes into account annual increases in revenues from property taxes, local receipts and general State Aid. The projected increase for Fiscal Year 2012 is 2% for an increase of \$1.76M.

Total anticipated expenditure increases from all sources for Fiscal Year 2012 are projected to be \$16.78M, a 3.3% increase in expenditures. This forecast generates an anticipated deficit of \$13.74M for Fiscal Year 2012 based on the above described assumptions. The simplified way to understand the City's projection for Fiscal Year 2012 is to look at the total revenues, less mandatory education costs, less fixed costs, leaving the balance available to fund City operations. The following table illustrates the transition underway over the last few fiscal years:

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
<b>Total Revenue Sources</b>	<b>475.7</b>	<b>480.1</b>	<b>506.0</b>	<b>506.1</b>	<b>509.1</b>
Less Fixed Costs	(92.7)	(106.1)	(105.6)	(107.0)	(117.7)
Less Education Cost (W Charter)	(265.8)	(260.6)	(288.0)	(289.2)	(291.0)
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### Revenues Available for City Operations (In Millions)



**Out Year Projections:** There is a higher degree of uncertainty with the out year projections for both revenues and expenditures as many factors are not known until economic realities are established and State or Federal decisions are made. These projections take into account the best information available, and are presented with the caveat that forecasts are subject to a greater degree of revision over time. This projection relies on the Fiscal Year 2011 Consensus Revenue Estimate package from the State Department of Revenue as well as economic forecasts from the Massachusetts Taxpayers Foundation, historical trends and economic data made available from the Federal Reserve Bank system, projections from the Massachusetts Budget and Policy Center as well as internal data and analysis. This projection shows a couple of enduring challenges that have no easy solution. One is the growth in fixed costs, particularly pension assessments and employee/retiree health insurance. While extension of the pension schedule makes some improvement in the City's short term obligations, the growth in the City's pension assessments is projected to continue. Similarly employee/retiree health insurance will create a significant increase in costs each year. Recently passed Federal Health Care Legislation is expected to increase health care costs as the City will now be required to cover older dependents, eliminate coverage ceilings, and meet other coverage requirements, all of which increase costs to the system, and therefore premium levels. Energy costs are another area of assumed expenditure increases which could be affected by national legislation as well as market forces. These major changes are not assumed in the current financial forecasts, but they are all examples of ways in which outside factors can affect the specifics of this forecast. The document presented includes the best reasonable estimates for revenues and expenditures for the next five years.

## City of Worcester Five Year Forecast Line Notes

The following provides explanatory notes on the City of Worcester's Five-Year Forecast worksheet. Details on each revenue and expenditure area are included in the following line by line notes.

**Revenues:** The City's Revenues are comprised broadly of four categories: Property Taxes, State Aid, Local Receipts and Other Available Funds. The following notes provide definitions and brief assumptions included in the current forecast.

1. **Property Taxes:** The City's ability to levy and collect property taxes is limited by statute Chapter 59 Section 21C, Proposition 2½. The City's ability to levy property taxes is limited by a "levy ceiling", an absolute cap on the level of property taxation, set at 2.5% of the overall property tax valuation and a "levy limit" which restricts the annual growth in taxation by a 2.5% increase over the previous year's levy plus the value of new growth. Taxation in excess of the levy limit requires a voter approved override. Taxation in excess of the levy ceiling can only be accomplished through a voter approved debt or special exclusion, allowing taxation for a specific purpose.

The City of Worcester has maintained \$10M or more below its levy limit for more than five years. The projections in this report assume that this level of excess capacity is maintained. It is worth noting that as property values decrease, the City's levy ceiling falls as well. As a result, consecutive years of valuation declines could eliminate the City's unused levy capacity. This recently occurred in Springfield due to the decline in property values in that community. Given the current status of the economy, the new growth projection is based on average growth in the fiscal years of the 1990s. While it is unrealistic to expect the current recovery to mirror the early nineties, these recession years are used as an approximation of development cycles during a down economy. Given the degree to which the current downturn was specifically tied to housing and mortgage issues, a slower recovery may be anticipated. Should development levels increase rapidly during an economic rebound, these conservative projections could increase. Similarly, if there is a double-dip recession or additional weakness in the housing market, these growth figures may have to be revised downward.

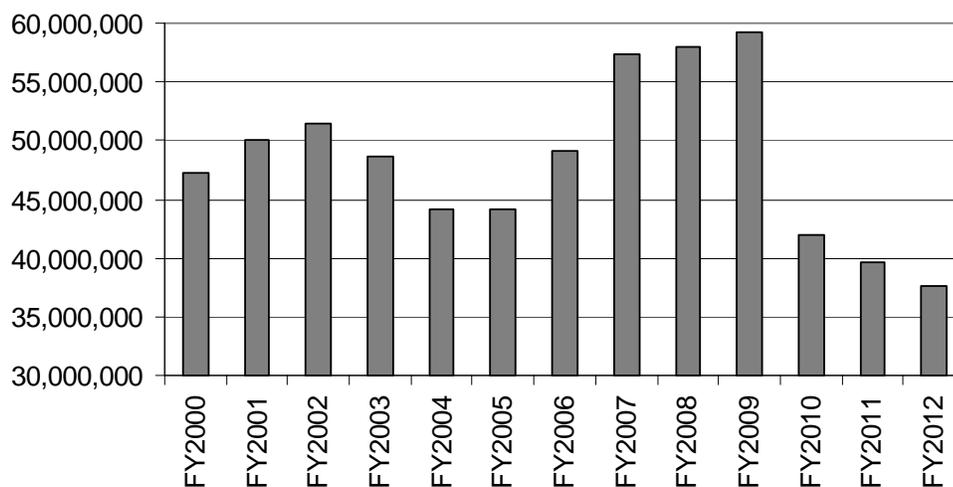
The following chart shows the most recent calculation of the City's level ceiling and levy limit as well as projection out to Fiscal Year 2015. The Overlay amount is the anticipated reserve to be set aside for abatement and exemptions in each fiscal year. This amount is not available for appropriation but set aside for anticipated abatements and exemptions.

## Property Tax Revenues

	2012	2013	2014	2015	2016	2017
<b>Prior Year Levy</b>	<b>217,691,243</b>	<b>225,584,315</b>	<b>233,874,714</b>	<b>242,072,373</b>	<b>250,674,973</b>	<b>259,592,638</b>
Amended Growth						
2.5% Increase	5,693,072	5,890,399	6,097,659	6,302,600	6,517,665	6,740,607
New Growth	2,200,000	2,400,000	2,100,000	2,300,000	2,400,000	2,000,000
New Limit	235,615,951	243,906,349	252,104,008	260,706,608	269,624,274	278,364,880
<b>New Total Levy</b>	<b>225,584,315</b>	<b>233,874,714</b>	<b>242,072,373</b>	<b>250,674,973</b>	<b>259,592,638</b>	<b>268,333,245</b>
Less Overlay	(3,500,000)	(3,300,000)	(3,100,000)	(2,900,000)	(2,900,000)	(2,900,000)
<b>Available Tax Levy</b>	<b>222,084,315</b>	<b>230,574,714</b>	<b>238,972,373</b>	<b>247,774,973</b>	<b>256,692,638</b>	<b>265,433,245</b>

2. **State General Government Aid (City-side):** The City's revenues from the State are contingent upon the State's fiscal health. While the current year results have shown improving State revenues, the State's budget challenges are expected to endure into the coming years due to structural deficits that have been closed with one-time funding sources including Federal stimulus funds in Fiscal Years 2009 and 2010. The Massachusetts Taxpayers Foundation analysis of the State's structural deficit generates projects a \$2.05B deficit for Fiscal Year 2012, and \$4.5B if the sales tax cut is approved by voters. This forecast assumes a \$2M cut in State Aid in Fiscal Year 2012, followed by 1.5% increases for out year projections. This is based on the assumption that resumed national and regional economic growth will improve the State's fiscal outlook and ability to restore Local Aid funding in those future years, but at a modest level of growth. Even with this estimated restoration, the level of Local Aid projected in this forecast for FY2017 is well below the levels received by the City from Fiscal Years 2008 and prior as illustrated in the chart below.

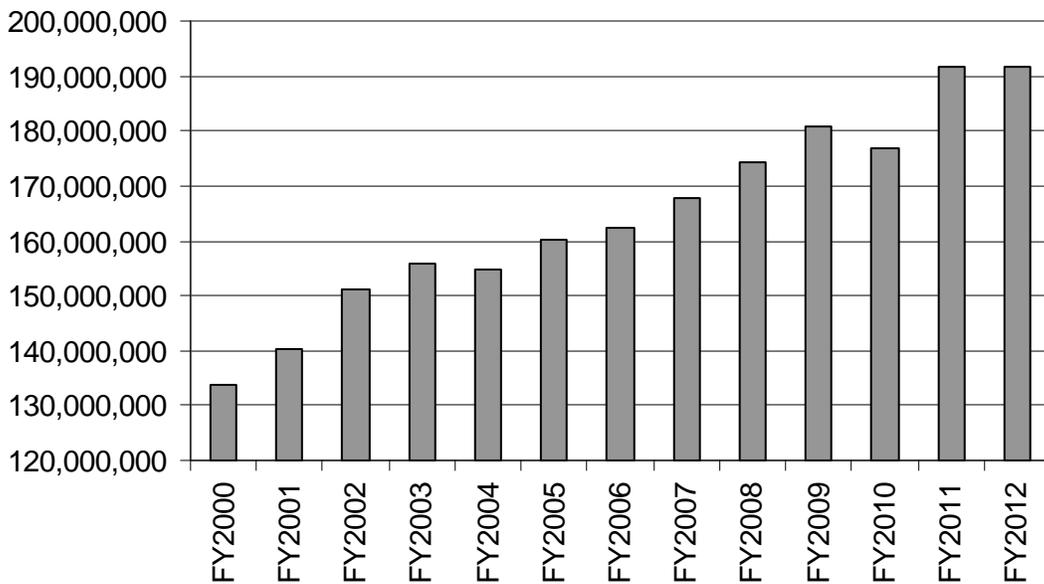
State General Government Aid FY00 to FY11



The most recent period of deep reductions to this revenue category prior to this recession was in 2003 to 2004. Those reductions constituted a 14% cut in state aid, compared to a 33% reduction in the current recession. The reductions were dramatic in 2004, resulting in deep cuts and departmental reductions including layoffs. The chart below illustrates how much deeper the current reductions have been in comparison to that period.

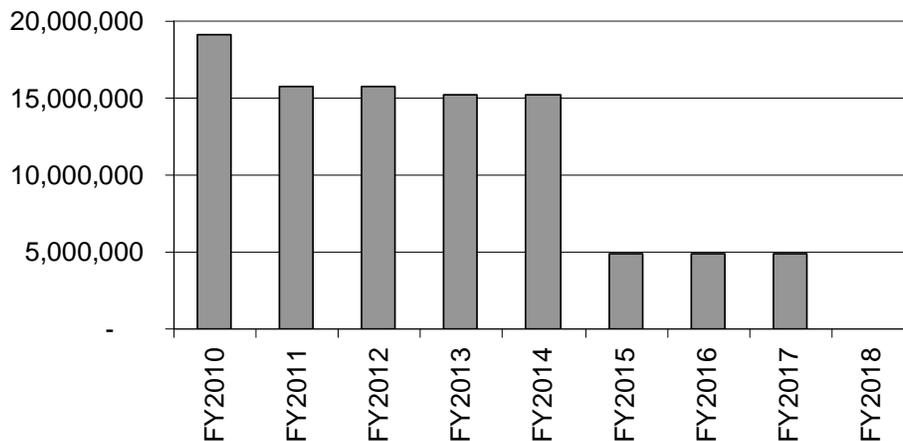
- 3. State Aid Education (Chapter 70):** The Commonwealth arrives at this State Aid amount through a calculation that determines the public schools “foundation budget”. The State then calculates the City’s required contribution, the gap between the foundation budget and the City’s required contribution is to be provided by State funding. Any change in this funding is reflected directly in the Worcester Public Schools expenditure budget. For the purposes of this projection, the Chapter 70 funding is assumed to be level with the current fiscal year. The following chart shows the history of education funding over the last ten years. The increases shown in Fiscal Years 2009 and 2010 include Federal Stimulus funding allocated by the State to allow the Worcester Public Schools to achieve a foundation level budget. It does not include other stimulus funds made available to Worcester Public Schools over this period.

**State Education Aid FY00 to FY11**



- 4. State Aid Charter Schools:** In addition to the State Aid for Education required to allow the schools to reach the State determined foundation budget, the State also allows for reimbursements to cities and towns for Charter School students. This formula is based on charter school enrollments as well as State formulas governing the number of years and percent reimbursements to the sending school districts. Similar to State Aid for Education (line 3 above), any variance in this line item will have a corresponding variance in the City's expenditure budget. As result, this revenue line item is forecasted as a level dollar value.
- 5. State MSBA School Construction Reimbursements:** The Massachusetts School Building Authority provides reimbursements to the City for capital expenditures made for school construction in past years. These reimbursements are scheduled over a 10 year term and are discontinued when complete. As result, this revenue source declines significantly in the out years of the forecast as several school reimbursement streams are completed. The current projection assumes a reduction in the MSBA reimbursements in the coming years due the close out of earlier projects for which the City will have received its allotted reimbursement amount. A portion of these reimbursements (\$3.5M) is programmed out per the City adopted Five Point Plan to address the following reserve funds: The City Manager's Capital Campaign, The Bond Rating Stabilization Fund, and the North High Construction Fund.

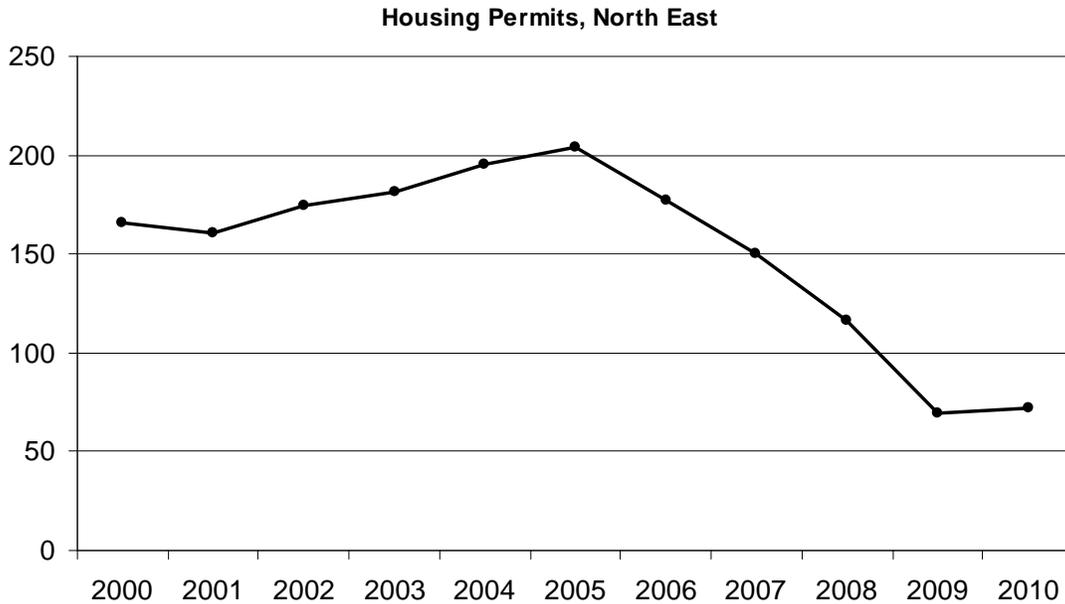
**School Construction Reimbursement**



- 6. Local Receipts:** The City's Local Receipts consist of all fees, charges, licenses, permits, excise taxes, and other charges which the city charges for services provided. Many of the categories are linked to the broader performance of the economy, for instance motor vehicle excise taxes,

which rise and fall with car sales or building permits which decrease during economic downturns.

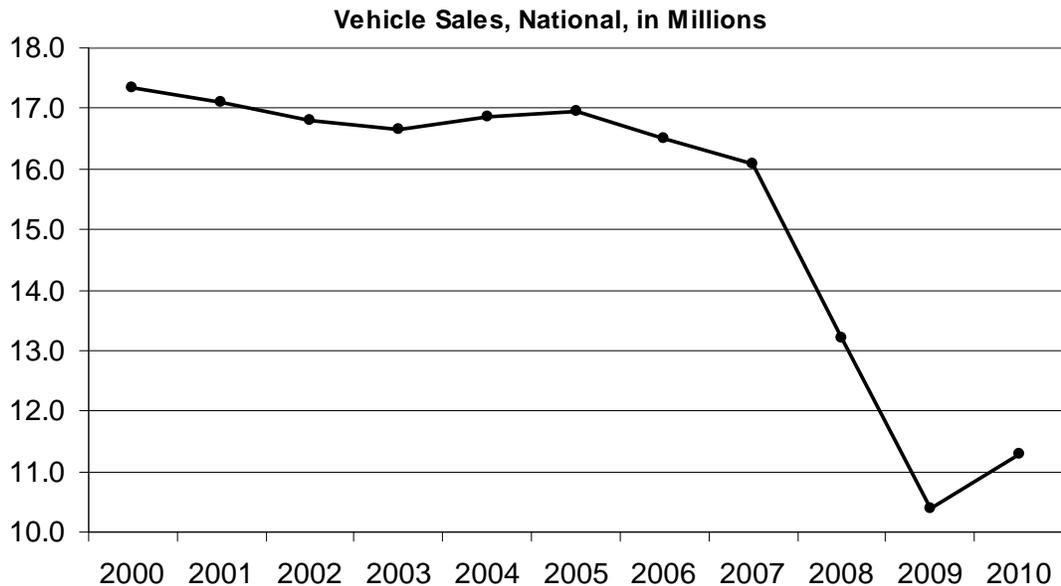
Worcester is not immune from national trends which currently show that building activity and housing development is still greatly reduced from pre-recession levels. With this trend in place, reductions to our permit estimates are required until real economic activity justifies and projected increase at some later date. The following charts (based on economic data from the Federal Reserve) illustrate the challenges of the current economic climate.



Similarly, construction employment also provides an indication of likely permit activity. The following chart shows the construction employment in Massachusetts since 2002:

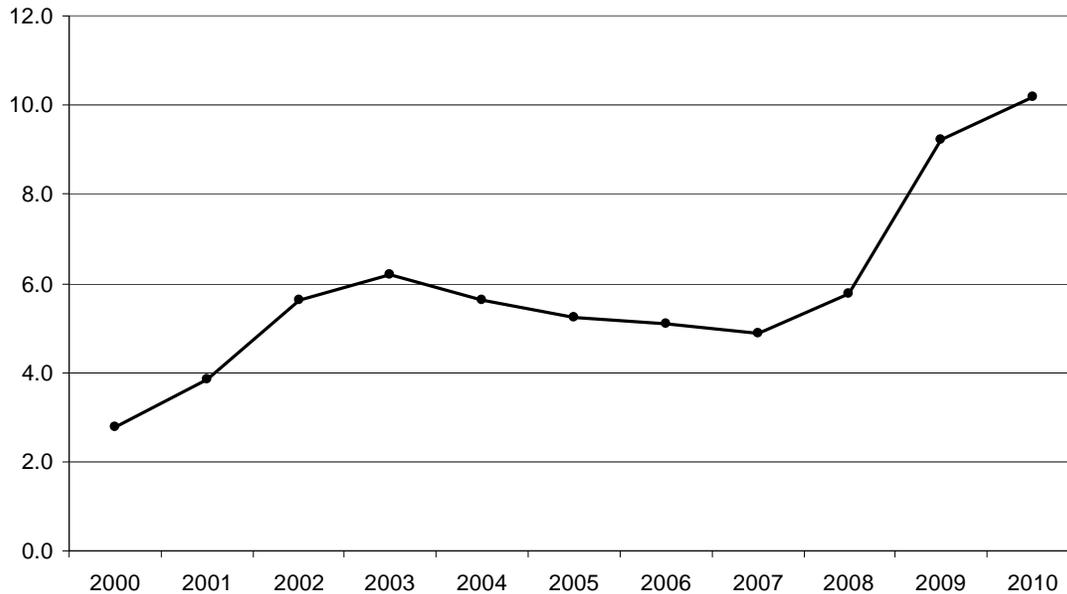


Motor vehicle sales are an indication of likely Motor Vehicle Excise revenues. The City has seen a steep decline in this revenue source over the last three years. The following chart shows the national trend for auto sales since 2000:



Of course, other tax sources are dependent upon the City's population to have discretionary income in order to generate local sales and or meals tax. The recession has placed a significant burden on the City of Worcester's employment levels, reducing the income available for economic activity and therefore tax revenues.

Unemployment Rate, Worc County



All of these trends demonstrate that revenue estimates must remain conservative until actual economic activity provides a justification for increased estimates. The following list shows the line items included in the Local Receipts category and the projections for each area. Some growth is projected in Fiscal Year 2012 through Fiscal Year 2015. The total projected reduction in local receipts is for FY2012 is \$2.06M.

Category	FY10 Actuals	FY11 Budget	FY12 Forecast
Motor Vehicle	11,062,859	11,350,000	10,750,000
Other Excise	1,731,200	2,375,000	1,950,000
Penalties and Interest	2,273,110	2,572,000	2,572,000
In lieu	1,144,356	1,100,000	850,000
Charges Trash	3,535,160	3,400,000	3,150,000
Other Charges	268,592	65,000	65,000
Fees	1,611,799	1,487,920	1,442,420
Federal Reimbursement (Medicaid)	7,169,791	5,000,000	5,500,000
Dept Rev Cemeteries	230,602	189,500	189,500
Dept Rev Rec.	72,780	50,000	50,000
Other Dept	214,157	180,000	180,000
Licenses and Permits	4,890,145	3,961,410	3,830,410
Special Assessments	332,526	370,000	370,000
Fines and Forfeits	3,187,865	3,350,000	2,690,000
Investment Income	613,627	750,000	550,000
Misc Recurring	3,064,719	2,328,000	2,328,000
Misc Non	0	0	0
<b>Total Local Receipts</b>	<b>41,403,287</b>	<b>38,528,830</b>	<b>36,467,330</b>

- Other Available Funds:** Other available funds represent other funding sources that are appropriated in the general fund budget for specific operations. This includes direct allocations for departmental support of

8. **Free Cash:** Free Cash is the amount certified by the Commonwealth of Massachusetts as the City's excess in revenues over expenditures that is available for appropriation in a subsequent fiscal year. Per the City's Five Point Financial Plan, 50% of net free cash (after addressing snow or revenue deficits) is deposited into City reserves until a sufficient reserve level has been achieved.
9. **Total Revenues:** This is the total revenues forecasted to be available for appropriation in the given year.

**Expenditures:** The expenditure budget forecast is based on known current expenditure levels, assumed inflation factors, and known operational cost increases—for instance settled collective bargaining agreements.

**Fixed Costs:** Fixed costs are those expenditures which the City must pay and which are difficult to reduce in the short term. These costs, including debt service, employee and retiree pension and health care costs, snow removal, street lighting and the City's Five Point Financial Plan Funding, much of which is targeted to fund related debt service including North High School.

10. **Pensions (And POB):** The City is obligated to properly fund the Worcester Retirement System. This obligation is calculated in the form of an Annual Required Contribution (ARC) calculated by an actuarial valuation of the system and certified by the State Public Employee Retirement Administration Commission (PERAC). The City must also meet the debt service obligations on the Pension Obligation Bond issued in 1996 to improve the funding level of the system and to maximize market returns as a means to fund the system. Both elements of the City's pension liability are included in this line item for this forecast. In Fiscal Year 2011, the State approved a pension funding schedule extension similar to the one sought by the City in Fiscal Year 2010. This forecast assumes the schedule extension to 2040 is in place and the funding amounts for each fiscal year are based on the latest actuarial valuation for the Retirement System, dated January 1, 2010.
11. **Health Insurance (City):** The City pays health insurance benefits for eligible employees and retirees. The Health Insurance costs borne by the Worcester Public Schools are contained within the Schools expenditure appropriation estimate. This forecast assumes that the City's health insurance premium costs grow at 10% into Fiscal Year 2012 and 9.25%, 8.5%, 7.75%, 7.0% respectively in each of the out years of the forecast.

12. **Unemployment:** This City's unemployment obligations spiked in Fiscal Year 2010 due to the number of layoffs required to balance the Fiscal Year 2010 budget. Due to extended benefits associated with Federal Mandates, some of these benefit costs will extend into Fiscal Year 2011. Due to the likelihood of continued staff reductions, the projection for unemployment is maintained at levels higher than those from prior to Fiscal Year 2009. The Fiscal Year 2012 projection assumes an unemployment budget of \$750,000 which is reduced to \$500,000 in Fiscal Years 2013 through 2017.
13. **Debt:** Principal and Interest payments are required of the City to pay for the issuance of Bonds and Bond Anticipation Notes which are used to finance capital purchases including citywide equipment, building rehabilitation and construction, and infrastructure improvements including parks, sidewalks, street resurfacing and street construction. Increases here are associated with the cost of borrowing of known and anticipated debt issuance. Debt service in future years is predicated on the City's continued adherence to the Five Point Financial Plan borrowing limits, borrowing \$18M or less as adjusted for inflation each fiscal year. This forecast assumes an adjusted debt service cost associated with the Street and Sidewalk investment program approved as part of the Fiscal Year 2011 budget and funded with the use of unused levy capacity in that Budget.
14. **Intergovernmental Charges:** The City is required to fund certain intergovernmental assessments including the Regional Transit Authority and the Registry of Motor Vehicles Surcharge. These costs are assumed to escalate at 2% per year.
15. **Streetlights:** Streetlights are included as a fixed cost due to the consistent nature of the usage and cost of these assets. Electricity, maintenance, and lease costs where applicable are included in this

16. **Snow Removal:** The City's budget for snow removal was included in the City's Five Point Financial Plan as it is a known and unavoidable expenditure. While the Commonwealth allows for City's and towns to "carryover" snow deficits and raise them through taxation the following fiscal year, the basic budget for this function is a known unavoidable annual cost. Per the Five Point Financial Plan, the budget has increased 10% per year with the aim of achieving a budget that is adequate for an average snowfall of about 60 inches of snow. In addition, the Fiscal Year 2012 projection assumes the city retires the debt incurred during the December 2008 Ice storm that required emergency borrowing for adequate funding.
17. **Snow Carryover:** When snow expenditures exceed the snow budget and are not addressed through year end transfers to provide additional funding, then the carryover expenditures must be addressed in the subsequent year budget. Fiscal Year 2010 shows the budgeted Carryover of \$3.1M. The Fiscal Year 2011 budget included a \$1M assumption for carryover snow deficit. The projection included in this report shows a \$1.150M carryover in Fiscal Year 2012 and no carryover assumed in out years.
18. **Five Point Financial Plan Funds:** The Five Point Plan was established to improve the City's financial stability and position the city to improve its bond ratings and reduce its cost of borrowing over time. That plan included several elements of reserve building, including the establishment of the North High Construction Fund, the Bond Rating Stabilization Fund, and a funding plan for the existing Capital Campaign Stabilization Fund (providing debt service for the Worcester Technical High Schools, The Senior Center, the Worcester Public Library, and Forest Grove Middle School). The Contributions to this fund are mandatory per the Five Point Financial Plan and serve to address known debt service obligations or to build the City's reserve levels.
19. **Total Fixed Costs:** The total fixed costs in this projection include all of the above items, for a total of \$117.8M in Fiscal Year 2012, representing an increase of \$10.75M.

**Education Expenditures:** The City appropriates to the Worcester Public Schools a bottom line appropriation consistent with the requirements of the State's Education Reform statutes. The State calculates the City's Required Contribution to the Worcester Public Schools which is included in this forecast, including increases associated with projected overall revenue growth in forecasted years. No increases are assumed for State Aid to Education as those

increases would be offset by increases to the Worcester Public Schools budget and have no effect on the bottom line deficit presented.

20. **Worcester Public Schools:** The increases in education expenditures are associated with the increases in the required contribution per the current Education Reform formula.
21. **Charter Schools:** Tuition costs to the City for charter schools are preserved at their current level for the term of this projection.
22. **Total Education:** This total represents the combined expense projection for both the Worcester Public Schools and Worcester's Public Charter Schools

**City Operations:** City Operations represents the costs of city service provision, inclusive of salaries and ordinary maintenance expenditures for City departments other than education and exclusive of the fixed costs described above. The key assumptions included in the departmental projections below are the following:

- For any bargaining unit with a settled agreement for a given year, the contractual increase is included. For unsettled units, no raise is assumed for Fiscal Year 2011.
- For years Fiscal Year 2012 through 2017, a 2% base wage increase is assumed in departmental budgets. Actual increases will be determined through collective bargaining.
- Energy cost escalation of 2% to 5% is also applied to departmental energy costs including fuel and natural gas. These costs could increase significantly based on national policy decisions. Conversely usage may be reduced through conservation measures including the results of an ongoing ESCO project. The current projection assumes consistent energy usage and conservative rate escalation.

The following lists denote the departments included and core functions in each operational area as well as any other notes relevant to the projection.

23. **Legislative Offices:** These offices do not report to the City Manager, the Mayor, the City Council, the City Clerk and Elections, and the City Auditor.
24. **City Manager:** The Executive office of the City Manager includes the City Manager's direct oversight of the Human Services, Elder Affairs, Veteran's Administration, Human Rights, and the Public Libraries.
25. **Contingency:** The City Manager's Contingency fund is in primarily to provide funding for unsettled collective bargaining agreements. In the case

26. **Human Resources:** Human Resources includes the divisions of Employment, Benefits, Labor Relations, and Training.
27. **Economic Development:** The Economic Development Office includes Economic Development, Youth Service, Neighborhood Services, Union Station, and Planning and Regulatory Services.
28. **Law:** The Law Department includes the Law Department, Property and Casualty Insurance, and the Court Judgments departments
29. **Fire:** The Fire Department
30. **Police:** The Police Department
31. **Emergency Communications:** This line includes the City's combined Emergency Dispatch center and citywide Emergency Management. The increase in the Fiscal Year 2012 projection assumes that State 911 funding is available for operational salaries as it was in Fiscal Year 2011.
32. **Inspectional Services:** Inspectional Services includes building, housing, and health inspections.
33. **Public Works and Parks:** Public Works and Parks includes the DPW Divisions of Administration, Engineering, Streets, Sanitation, and Central Garage as well as Parks, Recreation and Hope Cemetery, City Messenger, the Worcester Auditorium, and the DCU Center.
34. **Finance:** The Finance Divisions include Budget, Treasury, Purchasing, Assessing, and Technical Services
35. **Enterprise (Airport):** This line represents the projected subsidy to the Worcester Regional Airport. The projection eliminates this subsidy in Fiscal Year 2012 and beyond due to the transfer of the Airport to Massport.
36. **Enterprise (Golf):** This line represents the projected subsidy to the Worcester Municipal Golf Course at Green Hill. No subsidy is included in the projection, but when bad weather and economic changes effect the airport, its lack of revenue could impinge on the general fund.

37. **City Operations Total:** The total of all City Operational Departments.

38. **Total Expenditures:** The total of Fixed Costs, Education Cost, and the City Operational Costs.

39. **Surplus or Deficit: Total Revenues Minus total Expenditures:** The forecasted deficits reflect the degree to which the costs of city operations are greater than available revenues. A Structural solution to the deficit in Fiscal Year 2011 would improve the outlook of the out years. The current Fiscal Year 2012 projected deficit is \$13.7M.

# # #

Five Year Forecast

**Five Year Summary**

<b>Revenue Summary</b>	<b>FY09 Act</b>	<b>FY10 Act</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
1 Property Tax Levy	197.5	204.6	214.9	222.1	230.6	239.0	247.8	254.0	260.3
2 State Aid General City	53.3	41.2	39.7	37.6	38.0	38.5	39.0	39.6	40.2
3 State Aid Education	161.5	176.9	191.5	191.5	191.5	191.5	191.5	194.4	197.3
4 State Aid Charter Schools	5.4	4.8	4.4	4.4	4.4	4.4	4.4	4.5	4.6
5 State MSBA	17.8	19.1	15.7	15.7	15.7	15.7	4.9	4.9	4.9
6 Local Receipts	39.8	41.4	38.5	36.5	35.1	35.1	35.1	35.1	35.1
7 Other Available Funds	4.8	1.3	1.3	1.3	1.3	1.3	1.3	-	-
8 Free Cash	-	-	-	-	-	-	-	-	-
<b>9 Total Revenues</b>	<b>480.1</b>	<b>489.4</b>	<b>506.08</b>	<b>509.1</b>	<b>516.7</b>	<b>525.6</b>	<b>524.1</b>	<b>532.5</b>	<b>542.5</b>
<b>EXPENDITURES</b>									
	<b>FY09 Act</b>	<b>FY10 Act</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
<b>Fixed Costs</b>									
10 Pensions (and POB)	25.5	29.0	25.1	30.1	31.0	32.6	33.8	34.5	35.5
11 Health Insurance (City)	25.8	22.8	27.5	31.0	34.1	37.2	40.2	43.2	46.0
12 Unemployment	0.5	0.7	0.6	0.8	0.7	0.5	0.5	0.5	0.5
13 Debt	28.9	29.9	29.9	31.2	33.0	33.0	33.0	33.0	33.1
14 Intergovernmental	3.2	3.2	3.3	3.3	3.4	3.5	3.6	3.6	3.6
15 Streetlights	3.1	1.9	1.9	2.0	2.1	2.2	2.3	2.3	2.3
16 Snow Removal	7.0	4.4	2.7	3.2	3.5	3.8	4.2	4.3	4.3
17 Snow Carryover	-	-	1.0	1.2	-	-	-	-	-
18 Five Point Plan	12.1	12.0	14.9	15.0	13.0	12.7	12.4	12.1	11.9
<b>19 Total Fixed Costs</b>	<b>106.1</b>	<b>103.8</b>	<b>107.0</b>	<b>117.7</b>	<b>120.7</b>	<b>125.5</b>	<b>129.9</b>	<b>133.6</b>	<b>137.2</b>

Five Year Forecast

**Five Year Summary**

Education Expenditures	FY09 Act	FY10 Act	FY11	FY12	FY13	FY14	FY15	FY16	FY17
20 Worcester Public Schools	237.6	248.5	264.1	265.8	269.1	271.2	273.4	276.3	279.2
21 Charter Schools	22.9	23.7	25.1	25.1	25.5	25.9	26.3	26.7	27.1
<b>22 Total Education</b>	<b>260.6</b>	<b>272.1</b>	<b>289.2</b>	<b>291.0</b>	<b>294.6</b>	<b>297.0</b>	<b>299.7</b>	<b>303.0</b>	<b>306.3</b>
City Operations	FY09 Act	FY10 Act	FY11	FY12	FY13	FY14	FY15	FY16	FY17
23 Legislative Offices	2.2	1.8	2.0	2.1	2.1	2.2	2.2	2.2	2.2
24 City Manager	8.3	7.0	6.9	7.0	7.3	7.6	8.0	8.2	8.2
25 Contingency	-	-	0.3	-	-	-	-	-	-
26 Human Resources	1.0	1.1	1.0	1.0	1.0	1.0	1.1	1.1	-
27 Economic Development	2.2	1.1	1.1	1.1	1.3	1.3	1.3	1.4	1.4
28 Law	1.6	1.3	1.4	1.4	1.5	1.5	1.6	1.6	1.6
29 Fire	33.5	33.2	32.1	33.8	34.7	35.4	36.0	36.5	36.7
30 Police	40.3	38.9	38.9	40.5	41.0	41.8	42.7	43.3	43.5
31 Emergency Comm.	2.6	1.9	2.0	2.1	2.8	2.8	2.9	2.9	2.9
32 Inspectional Services	3.2	2.7	2.8	2.9	3.0	3.1	3.2	3.2	3.2
33 Public Works and Parks	16.3	15.5	16.1	16.7	17.4	17.7	18.0	18.2	18.3
34 Finance	6.5	5.5	5.3	5.5	5.7	5.8	5.9	6.0	6.0
35 Enterprise (Airport)	1.2	1.2	-	-	-	-	-	-	-
36 Enterprise (Golf)	0.1	-	-	-	-	-	-	-	-
<b>37 City Operations Total</b>	<b>119.0</b>	<b>111.3</b>	<b>109.9</b>	<b>114.2</b>	<b>117.8</b>	<b>120.2</b>	<b>122.7</b>	<b>124.6</b>	<b>124.1</b>
<b>38 Total Expenditures</b>	<b>485.7</b>	<b>487.3</b>	<b>506.08</b>	<b>522.9</b>	<b>533.2</b>	<b>542.8</b>	<b>552.3</b>	<b>561.1</b>	<b>567.5</b>
<b>39 Surplus(Deficit)</b>	(5.6)	2.1	(0.0)	(13.7)	(16.5)	(17.2)	(28.2)	(28.6)	(25.1)