



Michael V. O'Brien
City Manager

CITY OF WORCESTER

May 14, 2013

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

I am pleased to forward to your Honorable Body my recommendation for the City's \$564 million dollar Fiscal Year 2014 Annual Budget. This recommendation achieves a true balance among the City's real and shared priorities. It is a reflection of the collective progress we continue to make and recognizes the deep crisis from which we have emerged. It is through the hard work of the last several years - making difficult choices, introducing innovative initiatives, identifying new efficiencies and reforms - that put us in a position to be able to present this realistic FY2014 Budget Recommendation that stabilizes essential City services.

In March 2013, I presented to you our projected revenue and expenditure challenges and forecasted a \$5.8M FY2014 budget deficit. We have carefully managed to close this budget deficit over the last couple of months, requiring some tough decisions, prioritizing between operational needs, and deferring deposits to address important unfunded liabilities.

We were able to apply fiscal year-to-date revenue information and were able to adjust FY2014 estimates for unrestricted State Aid, Property Taxes, and Local Receipts. For the first time since the Great Recession, our State Aid revenue line item is projected to increase (based on the House FY2014 Budget Recommendation). We made adjustments for more promising estimates in Property Taxes from New Growth; and recognized improving trends in Motor Vehicle Excise revenues. These overall revenue adjustments improved our FY2014 projections by \$2.7M (from a \$6M deficit to \$3.3M). I also had to make the difficult decision to defer our first annual deposit into the OPEB Trust Fund for FY2014, further reducing the deficit by \$1.8M (from a \$3.3M deficit to \$1.5M); and reduced the original Contingency Fund line item from \$2M to \$1M, closing the budget deficit by another \$1M (from \$1.5M to \$500,000). The balances to address the remaining \$500,000 deficit came from a combination of factors updating vacancy

calculations for public safety departments based on likely and known retirements and reducing our contributions to the Capital Campaign Stabilization fund to the level of the debt service due from that account only, as prescribed by the Five Point Financial Plan. These collective changes are done with the confidence in known budgetary trends and sound financial management.

The FY2014 Budget Recommendation appropriates \$564M in revenues as follows: \$326.4M (58%) to fund Education including Worcester Public Schools and Charter and Choice School Tuition; \$123.4M (22%) to fund City Departmental Operations; and \$114.2M (20%) to fund City Fixed Costs (Debt, Pensions, Health Insurance, etc.).

<u>Category</u>	<u>FY13</u>	<u>FY14</u>	<u>Change</u>	<u>%</u>
Public Education	314,153,474	326,399,763	12,246,289	3.9%
City Services	235,111,139	237,594,333	2,483,194	1.1%
Total	549,264,613	563,994,096	14,729,483	2.7%

The FY2014 Budget Recommendation represents a 3.9% increase in funding for Education, a \$12.25M addition for the operations of our Public Schools. The City-side budget grows at 1.1%; an increase of \$2.48M. Combined, the City's budget is growing at 2.7%; an increase of \$14.73M from the following revenue sources:

<u>Revenues</u>	<u>FY13</u>	<u>FY14</u>	<u>Change</u>	<u>%</u>
Property Tax Levy	236.7	245.8	9.2	3.9%
State Aid General City	38.3	39.1	0.8	2.1%
State Aid Education	210.4	219.7	9.3	4.4%
State Aid Charter Schools	4.2	3.5	(0.7)	-15.9%
State MSBA	15.2	15.2	-	0.0%
Local (Permits/Motor Vehicle)	39.0	39.4	0.4	1.0%
Other Available Funds	1.17	1.21	0.0	3.7%
Free Cash	4.3	-	(4.3)	-100.0%
Total Revenues	549.3	564.0	14.7	2.7%

The marginal 1.1% year-to-year City-side budget growth does not adequately address our fixed costs increases, creating a significant challenge and requiring us to make difficult choices to prioritize operational needs. Following years of reform, our Health Insurance trends are beginning to climb again with conventional plan premiums growing at 9%, (or \$1.6M of additional costs to City-side). In addition, our required pension contributions for the City-side are increasing by 8% (or \$1.5M) in FY2014. We must also prepare for the realities of Federal Sequestration and Federal funding cuts. Therefore, the Budget Recommendation is presented with a reduced dependency on Community Development Block Grants funds by \$350,000 within City Departments such

as Economic Development and Inspectional Services. This reduction in Federal funds is addressed through new tax-levy appropriations to these respective accounts.

Despite these mounting fixed costs, we must provide for operational and departmental needs in order to properly deliver services to our citizens. The FY2014 \$2.48M City-side year-to-year funding growth will be used for vital departmental needs and staffing in line with our priorities. In addition, we must maintain our commitment to reserve building and adhere to the City's Five Point Financial Plan (FPFP). Accordingly, the Recommendation maintains our annual commitment to increase the Snow Removal Budget by 10% and continues to commit to appropriating 50% of net Free Cash to reserve building and 30% of net Free Cash to the City's OPEB Trust Fund. This FY2014 Budget Recommendation also includes establishing a small contingency fund to be used for unforeseen expenses such as extraordinary Police Overtime, excessive snowfall, potential shortfalls in state or local revenue projections, as well as a means to fund employee wages as collective bargaining agreements are reached.

As noted, I have reduced the contingency by \$1M to balance this Recommendation. We will, as always, manage the City's finances hour to hour, day to day, month to month and year to year as our citizens and owners do for their finances at homes and in their businesses. This level of control and insight allows for quick adjustments as required. The recent past finds Mother Nature's wrath to be more predictably unpredictable and far more intense. We will adjust operations and service levels accordingly in the event that we deplete or exhaust the recommended \$1M contingency for what will be "expect the unexpected" and "plan for the worst and hope for the best."

The highlights of the FY2014 Budget Recommendation include:

Public Education

The FY2014 Budget Recommendation includes increased funding of \$12.25M for Public Education. Per Massachusetts General Law, the City is responsible to fund schools as defined by Chapter 70 and applicable chapters and sections. Our desire to provide funds to Worcester Public Schools (WPS) goes well beyond legal requirements for the quality of our public education defines our quality of life here and our overall future as well. The FY2014 Recommendation directly increases WPS funding by \$12M, reducing our carryover deficit for Net School Spending by more than \$434,000 (from a deficit of \$862,000 to \$428,000). The Recommendation also absorbs the growing cost of non-Net School Spending within the WPS by adding an additional \$870,000 for items such as transportation, crossing guards, and leased space, which do not count toward the State's net school spending formula.

In this world of competing City priorities, I was required to make the difficult decisions to delay the new and much needed Police and Fire recruit classes from July 1, 2013 to September 2013 or later in order to achieve this funding level for WPS. This was not an easy decision to make for the manpower requirements in these public safety departments are great and immediate. I am very confident these departments will maintain the public safety of our community at all times.

Public Safety

This FY2014 Budget Recommendation places a firm priority on public safety. Historic low staffing levels remain a true concern despite the recent addition of 17 new police officers. There can be no doubt that before any other City priority can be achieved, the overall safety of the City must be realized. This Budget Recommendation calls for new recruit classes for both the Worcester Fire Department (WFD) and Worcester Police Department (WPD). A WFD recruit class of 20 firefighters will offset upcoming retirements, will maintain current manpower levels, will preserve grant funding and will reduce overtime obligations. A WPD recruit class will add 25 officers to patrol our streets. This recommendation is in lock-step with all the professional police efforts to date to realign Department with the number one goal to increase patrol/front line police resources in our neighborhoods and throughout the City.

Public Works and Parks

The FY2014 Budget Recommendation plans for the transition of the City's Department of Public Works and Parks (DPW&P) with organizational and structural changes necessary for a smooth transition as our current DPW&P Commissioner prepares to retire. The Budget Recommendation will include a new-six month position titled "Deputy Commissioner" that will allow me to fill this on July 1, 2013 with the individual I expect to fill the Commissioner's role on or about January 1, 2014. I am also recommending changes within the FY2014 Budget that will exhibit the additional workloads that will need to shift to existing management positions in DPW&P. All these changes, including the addition of the Deputy Commissioner position, will be budget neutral. The Budget also addresses the need to increase the line positions in Streets Operations and Parks services as we continue to invest in our infrastructure to attract new development opportunities.

Worcester Public Library

The FY2014 Budget Recommendation restores services at the Worcester Public Library. The Library will continue to operate on Mondays, some evenings, and most

Sundays thanks to the additional investments within this Budget. “Libby”, the innovative and state-of-the-art mobile library, will continue to expand its services to give residents unprecedented access to the Worcester Public Library materials and technology. The Library budget includes organizational recommendations by the Head Librarian that will allow for improved customer service and Library amenities. The implementation of the RFID (Radio-frequency identification) and the AMH (Automated Materials Handling) systems are two examples of how the library is able to redirect its labor force to increase valuable contact with its customers and expand its hours to include additional days and evenings. Initial plans for the expansion of our Public Library's programming further out into our neighborhoods, making them even more accessible for all of our citizens and students, will also begin in FY2014. These new services will complement and enhance the mobile library's and library branches' operations.

Public Health

The FY2014 Budget Recommendation builds on service delivery in public health as we strive to become a national model for the structure of an accredited, regional Public Health Department. Last December, the Division of Public Health (DPH), in partnership with UMass Memorial Medical Center and Common Pathways, announced the completion of the Greater Worcester Community Health Improvement Plan (CHIP). The CHIP is a comprehensive, strategic framework for identifying and linking community assets, leveraging expertise and resources, and enhancing initiatives already underway - all to create a region which is healthy, prosperous, and sustainable. The CHIP is the strategic plan the DPH will utilize as they work to attain the goal of “Healthiest City in New England” by the year 2020. The role of the Director continues to expand as the Division grows with its regional partners in order to address the additional initiatives, services and programs. The Budget Recommendation includes funding for needed management coverage in the Region as well. These costs are paid directly by the towns for the services provided within their jurisdictions.

Other Recommendations

The FY2014 Budget Recommendation establishes a City Division of Energy and Asset Management to supervise the City's ongoing energy efficiency measures and oversee City facilities, beginning with City Hall, the Library, the Senior Center, Inspectional Services and Union Station. The City will more efficiently manage existing resources by reallocating from other City departments into a centralized division, using specialized expertise to address problems as they arise, and allowing operational departments to focus on their core mission. We expect to realize cost savings over time.

We can take a measure of pride in the stable budget presented here. It is balanced fiscally and operationally, providing the necessary resources for all our shared public priorities. The challenges ahead, however, are real. As you are aware, we continually manage our City finances over a five year forecast. For FY2015, we currently project a deficit of \$10M as we anticipate the loss of nearly \$4M in recurring revenues as reimbursements for certain school building projects come to an end and the loss of \$1M in Urban Renewal Reimbursements. We face the continued escalation in our pension system costs (estimated at 6% increase for FY2015), health insurance cost escalation (estimated at 8% increase in FY2015), in addition to growth in debt service and snow removal costs. At the same time, we can project only modest growth in unrestricted State Aid based on current trends.

Our unfunded liabilities, if not tamed or funded, will simply consume our capacity to provide services in the future. We must continue to find new ways of doing business in order to provide fundamental services to our citizens. Last October, two of the three independent credit rating agencies upgraded the City or Worcester's municipal bond ratings, a third reaffirmed its rating with a stable outlook. Just this week, our bond ratings were affirmed again (refunding), which is clear proof that our financial management is strong and we are on the right track. However, we are deferring our FY2014 deposits to the OPEB Trust Fund (\$1.8M City, \$3.0M WPS) in order to relieve other budgetary pressures.

This action instead redirects these funds to the WPS classroom, fulfills our promise for new public safety recruit classes, and addresses fixed costs and other critical departmental needs. Indeed, we have not met our pledge to make an operational deposit to this OPEB Trust Fund in this FY2014. I am not pleased but these are the challenges with funding legacy liabilities from decades ago. It is actually a \$20M deposit into the OPEB Trust Fund that is required annually to begin to address the \$656M unfunded liability. Think of the devastating service and staff cuts required in WPS and the City (60% WPS/ 40% City) to achieve this deposit – just to fund future, growing liabilities for retiree health care costs. Think of it in these simpler terms – it was a choice for me between funding a class of 25 much needed police recruits in FY2014 or making a \$1.8M deposit into the OPEB Trust Fund.

In the long run, difficult decisions like this will have costly results in future budgets by requiring us to divert more and more of our limited operational dollars to skyrocketing retiree health insurance costs. Therefore, it is my full intention to recommend any new or unanticipated funds, such as unanticipated increases in unrestricted State Aid from final State FY2014 budget actions, to fulfill our commitment to make this OPEB Trust Fund deposit for FY2014.

I am grateful for all the leadership, support and guidance of your Honorable Body in shaping the priorities of this community as reflected in this Recommendation and respectfully request your adoption of the Fiscal Year 2014 Budget Recommendation as presented in the Line Item Budget.

Respectfully submitted,

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

Michael V. O'Brien
City Manager