



CITY OF WORCESTER, MASSACHUSETTS

Michael V. O'Brien
City Manager

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Attachment for Item #

FEBRUARY 10, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

As stated in my previous memorandum, my Administration continues to analyze and assess all facets of the City's current FY09 Budget and the accelerated development of the City's FY2010 Budget. This comprehensive effort is underway to adapt to the following: the Governor's 9C FY2009 reductions of \$5M in Local Aid (by June 30, 2009), the State's proposed reductions in Local Aid, and other budget pressures projected for FY2010 (which begins July 1, 2009). We remain committed to the presentation of an 18-month Budget recommendation to this City Council and our community by mid-March to address the reductions required by the State's \$5M "9-c" FY2009 cut and to transition to the FY2010 service levels that could factor up to \$30.8M of reductions without immediate, short-term and long-term decisive actions.

As I have stated, this process continues to evolve as information is made available and confirmed. We are committed to continually updating all as to progress, status and findings. Evaluation of an updated, proposed FY2010 State Cherry Sheet and follow-up confirmation from the State Administration resulted in a positive adjustment of \$600,000 from our February 3rd FY2010 projection in the miscellaneous categories including the Veterans and Elderly Exemptions State line items. This positive adjustment is reflected in the summary below:

FY 2010 Updated Projections - As of February 10, 2009

- Governor's Proposed 2010 Local Aid Reductions & Other Cuts (\$16,800,000)
This sum reflects the \$600,000 positive adjustment from the previously projected \$17.4 million.
 - Lottery and Additional Assistance Cut \$14,800,000
 - Quinn Bill Reimbursement Cut \$ 1,100,000
 - Community Policing Cut \$ 800,000
 - Miscellaneous \$ 100,000

- City's FY 2010 Adjusted Exp. / Revenue Projection (Non-State Aid) (\$ 7,000,000)



- FY2009 Snow and Ice Removal Carry-Over to FY2010* (\$ 2,500,000)

**This snow and ice projected deficit is inclusive of 75% FEMA and 25% MEMA reimbursements for the City expenses associated with the December 2009 Ice Storm.*

Subtotal City-side Projected FY2010 Deficit (\$26,300,000)

- Recommended Retirement System FY2010 City-side Pension Deposit** (\$ 4,500,000)

***City Auditor estimates the need for an additional FY2010 City-side deposit of \$4.5 million into the City's Pension System. This estimate is based on our responsibility to begin to address the dramatic stock market losses within the retirement system portfolio over the past year.*

City-side Projected FY2010 Deficit (w/ City Auditor's Recommendation) (\$30,800,000)

This projected FY2010 City-side deficit of \$30.8 million, inclusive of the City Auditor's recommendation, represents almost 25% of our total operational budgets (less all fixed costs). I have detailed to you previously that:

- Approximately 85% of our operational costs are comprised of direct personnel costs - wages and benefits.
- 70% of our total operational budget is comprised of Police, Fire and DPW services (non-enterprise staff)

Preliminary estimates indicate that we would need to lay-off up to 600 staff, or one in every three City-side employees (600 of the current 1,800), to make-up a \$30.8 million projected deficit for our FY2010 Budget. I believe that statistic alone, "one in three," in the context of the data above, provides a clear sense of "the math" of what might remain post reductions. I can detail the dramatic effects of a reduction of this magnitude, if so requested, but I believe it is best to focus our attention on where we go from here to proactively address this crisis. In all candor, pure reductions to materialize \$30.8 million, as difficult as it would be to grasp or fathom, could be a reality unless we are prepared to act, collectively and decisively, on tangible solutions.

The following will detail my recommendations as to solutions that could and should be considered to address this crisis and to stabilize our community and the core municipal services that shape our quality of life:

REAL SOLUTIONS - IMMEDIATE ACTIONS TO REDUCE PROJECTED FY2010 BUDGET

City-side Projected FY2010 Deficit (w/ City Auditor's Recommendation) (\$30,800,000)

- Home Rule Legislation Filed to Extend Pension Funding Schedule
4,500,000
I will recommend Home Rule Legislation, in cooperation with the City Auditor and the City's Retirement Board, to extend the City's Pension Funding Schedule by 10 years to allow additional time to recover the significant losses experienced over the last 18 months. This in conjunction with other administrative actions would address this defined amount.

Subtotal City-side FY2010 Deficit w/ Adopted Pension Schedule Extension **(\$26,300,000)**

- One Time Revenues/ One Time Costs – Snow Removal Carryover 2,500,000
*I will recommend the use of one-time monies to address the FY2010 Snow Removal Carryover (costs from FY2009). These would be comprised of the FY2010 MSBA reimbursements identified to address the planned increases to the North High Stabilization Account (\$1.6 million) and the Bond Rating Stabilization Account (\$900,000). Per the Five Point Plan, both of these deposits are **critical to our long-term stability** and will need to be ultimately deposited as soon as possible to adhere to our payment schedules to address our capital obligations and reserve needs.*
- One Time Revenues for Recurring Costs to Stabilize Services 1,500,000
*I will recommend a one-year application of **one-time monies for recurring costs** to allow the City more time to adapt to these changing economic times. This \$1.5 million is the City-side share (non-WPS and non-employee) of deposits to our Health Care Trust Fund in excess of our conservative projections of employee health care cost obligations due to reforms and lower utilization. This would equate to operational reductions of \$1.5 million for FY2011 if revenues do not rebound and State Aid is not restored.*
- Fifty Current Open/ Frozen Positions Held Through FY2010 1,500,000
I will recommend that the current open/ frozen positions held in FY2009 remain open and frozen for the entirety of FY2010. The real operational impacts of this decision will be detailed in a subsequent transmittal.
- Twenty Additional Open Positions Frozen FY2010 500,000
I will recommend that an additional 20 positions be held in FY2010 when they become vacated during the FY on a case by case basis, beyond any lay-offs required and other administrative actions. The real operational impacts of this decision will be detailed in a subsequent transmittal.

Subtotal City-side FY2010 Deficit w/ Immediate Administrative Rec. **(\$20,300,000)**

It is critical that I point out that these recommendations above exhaust one-time monies and immediate administrative actions to reduce the projected FY2010 deficit. I believe it to be prudent to inform the City Council and the community where I believe we can act expeditiously now and factor that which we can assume, predict and control to reduce this projected deficit by over \$10 million, all by accepted fiduciary means. Each of these actions, in true transparent “open-book” fashion, will have a resultant impact. The myths of “rabbits from the hat” and “buried treasures” that solved previous budget crises in the lore of City government did not, and do not, exist.

A projected FY2010 deficit of \$20.3M, upon consensus on the above immediate steps, must be the benchmark from which we begin to develop our 18-month Budget, exclusive of all measures that require others to act in partnership and in conjunction with the City (detailed later in this document). It is as real as it gets at this juncture and we must begin to act to ensure we are prepared to balance our FY2010 Budget with \$20.3M less than projected expenditures.

Again, in as much as the City's operational budget is almost 85% personnel cost, I must begin the process to address this potential shortfall by and through layoffs of personnel. The timing of these layoffs must also coincide with the real need to generate the budgetary savings required to address the Governor's \$5M FY09 reduction. Civil Service and collective bargaining contracts require proper notification, layoff hearings and other requirements that may take weeks to complete. Employees are also able to exhaust accumulated vacation time prior to removal from our payroll. It is for this reason that I must begin the process of union notification to undertake layoffs for as many as 400 employees. The timing will allow for the necessary layoffs to materialize these savings by April 30, 2009. I will provide much more detailed information as to recommendations as to these positions next week. This is of course ultimately dependent on other real solutions that will require others to act in partnership and in conjunction with the City.

REAL SOLUTIONS – ACTIONS TO REDUCE THE FY2010 DEFICIT REQUIRING PARTNERSHIP

LEGISLATIVE

- **Subtotal City-side FY2010 Deficit w/ Immediate Administrative Rec.** **(\$20,300,000)**
- **Emergency Recovery Bill – Estimated Net New City-side Revenues** **\$11,276,707**
 - Statewide Hotel/ Meals Tax \$5,876,707
 - Local Option Hotel/ Meals Tax \$3,000,000
 - Telecom Loophole \$2,400,000

Governor's Pension Reform Component is Under Further Evaluation

COLLECTIVE BARGAINING – CITY-SIDE ONLY

- **Employee Health Care Cost Reforms – Contribution Rates 75/25 (All)** **\$1,500,000**
- **Employee Health Care Cost Reforms – Co-Pay Changes (All)** **\$ 850,000**
- **Wage – Zero Percent Increase for FY2010 (All)** **\$2,000,000**
- **Furloughs – One Week (Non-Public Safety)** **\$ 500,000**

OTHER CONSIDERATIONS

- **Fee Increases – Departmental (Parking, Inspectional Services, etc.)** **\$ 500,000**
- **Pay as You Throw – Trash Bag Fee \$0.50 Increase** **\$1,000,000**
- **Early Retirement – Est. 100 Factoring Additional Pension Obligation** **\$2,000,000**

As mentioned in my previous memorandum, the following scopes are also under final evaluation: program reductions, elimination of divisions and services in their entirety (reduction to below core mission), further Departmental/ Divisional reorganization, the transfer of the airport, public-private partnerships to assist City services, and much more. There are also additional elements of the Patrick-Murray Emergency Recovery Bill that may assist us in these various categories, if adopted. We expect to present these recommendations as soon as possible in the weeks ahead, all building toward a FY2010 Budget Recommendation in mid-March. Again, as stated in my previous memorandum, this will require immediate and short-term actions and cooperation on

multiple fronts: City Council Requests, Administration Recommendations, City/ WPS Collective Bargaining, City Council Actions, State Legislative Actions, School Committee Actions, etc. We must stay on track with real solutions, within the context of our Five Point Financial Plan, and stay away from any sizable influx of one-time cash and “sleepers” such as wage freezes where the wage liability exists to be paid in some future year. These unfortunately ignore the long-term negative consequences of living well outside of our means.

We must build an 18-month Budget from known revenues and known expenditures and we must make decisions to stabilize services that will result in a balanced FY09 Budget and a balanced FY2010 Budget. Therefore, I had to in the most immediate terms address the \$5M “9-c” cut for June 30, 2009 and the status of the current police recruit class. Upon consultation with the Chief of Police, I made the difficult decision to graduate the recruit class on February 25th but not swear them in. This action will save approximately \$500,000 through June 30, 2009. The graduation and subsequent integration of the recruits within the department would have triggered nearly 100 transfers of police personnel from their current assignments. If we were to delay this action, it would require a second phase of reorganization and restructuring within the department, causing additional disruption in operations and changes in shifts and assignments. By taking this action now, while difficult, we will prevent unnecessary transfers and disruption of police services. However, it is certain that this action will have real and significant impact to the operations of the WPD in the short term and is necessary until we better define FY2010. I made the decision to recommend this class in March of 2008, based on real needs of the WPD to maintain levels of public safety (statistics speak for themselves) and based on all known and reasonable projections as to the economy, State support, City revenues, etc. This is a difficult choice in difficult times but indicative of the many actions required in the weeks ahead as we adapt to a rapidly changing world where the reasonable financial assumptions made six months ago have no bearing.

I will provide further detail of my recommendations in subsequent memos as well as the impact of these recommendations on operations and personnel.

Respectfully submitted,



Michael V. O'Brien
City Manager