



Michael V. O'Brien
City Manager

CITY OF WORCESTER

Attachment for Item #

January 12, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

The extended Recession and the related impacts to the regional and local economy have affected all aspects of City government and our ability to provide prioritized, core services to our community. With the support and guidance of City Council, we adapted to these realities. The statistics are compelling over the last 12 months: We have addressed an over \$34 million dollar projected deficit (inclusive of over \$25M of City-side State aid and grant reductions) to address a combined FY09 mid-year State Aid reduction and adopt a balanced FY2010 Budget; we have reduced our workforce by over 300 tax-levy funded positions through layoffs, attrition, proposed Early Retirement, and on-going hiring freeze; we have eliminated programs/ services in their entirety and others have been dramatically reduced. All of our Departments and Divisions are, without question, impacted, and in most cases, are required to do "less with less" and it is safe to say we are below our baseline of core services. That said, we are proud of the efforts throughout the organization, from management through to our line positions that continue to rise to the challenges as presented. We are also grateful to our employees and our unions that have come forward and agreed to take on more of their health care costs and accept zero percent wage increases to preserve jobs and City services.

We have instituted reforms, reductions, redeployments, reorganizations, and new revenues all as a means to stabilize and preserve our municipal services that our taxpayers and our citizens expect. We have accomplished these difficult tasks and actions with the full engagement of the City Council and the community. Our Five Point Financial Plan (FPFP) continues to be our blueprint to manage, monitor and report all short term and long term budget trends. It provides us the format to address and adapt to these trends, as necessary, to maintain our stability and position us for the better days ahead. Our work to date on the FPFP clearly demonstrates that early indications of where our fiscal challenges will lie provide the valuable time required to adjust and adapt.

As you are aware, we closed the remaining \$3.2 million budget gap for the FY 2010 Budget in November of 2009 (prior to Tax Classification). This was accomplished with a series of solutions to include the Redeployment Plan for the Worcester Police Department and on-going employee health care reforms (Local 911 Agreement) that were the result of strong management, tough decisions and good-faith collective bargaining. It is imperative we continue to focus on the current FY, FY2010, and ensure



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we are preparing for snow removal costs that could reach between \$5-\$7M and any other potential year-end liabilities. Please see attached memo on Year to Date Snow and Ice Removal Costs. We must reduce spending, wherever possible, and we must preserve contingencies to close out this fiscal year with the expressed goal of mitigating any FY2010 snow removal cost “carry-over” (into FY2011) and rebuilding our reserves. These actions are key for we are all aware FY2011 will be one of our most difficult fiscal years in decades with the real potential for further State Aid reductions (to possibly include Chapter 70 Education Aid) and other budgetary pressures.

In step with this expressed goal, the following is a YTD recap of unanticipated reimbursements and contingencies we expect to apply to this effort, as well unanticipated year end liabilities:

REVENUES AND CONTINGENCIES

- **State Reimbursement for 09 Ice Storm Expenses** **\$227,000**
 - *State funding has been received to cover costs incurred during the storm clean-up effort.*

- **Federal Reimbursements – Eradication/ Restoration ALB** **\$150,000**
 - *To date, the City has received \$36,000 in reimbursements from the USDA to cover the costs of staff dedicated to the tree replanting effort in the impacted area. It is anticipated that we will receive an additional \$114,000 for FY 2010 as negotiated for the replanting effort that is expected to begin in April.*

- **Hiring Freeze** **\$500,000**
 - *A hiring freeze continues to be in effect. All position requests are addressed on a case-by-case basis with only critical positions filled to fulfill core mission. The FY 2010 Budget already assumes the savings generated from 20 vacancies. It is my intention to hold another 10 tax levy funded positions vacant through the balance of this FY. Please note this will further reduce all Departments’ abilities to meet service expectations.*

- **FY10 “Reserve for 9C Cuts”** **\$1,000,000**
 - *To date, we have preserved this necessary buffer in the event the Commonwealth was forced to make mid-year FY2010 State Aid cuts. The Governor and State Administration has held cities and towns harmless from State Aid reductions as of this writing and State revenue trends continue to be positive both provide a measure of optimism that this can be applied to close out this FY at current State aid levels.*

YTD YEAR END LIABILITIES

- **Snow Removal** **(\$???)**
 - *The Fiscal Year budget for snow removal has been expended and deficits are building with each additional storm. This will be a year end liability for the City. The extent of that liability will be determined by the weather over the next few months. Please See Commissioner Moylan’s detailed report on the Fiscal 2010 snow removal YTD expenditure budget.*

- **Special Elections** **(\$ 210,000)**

- *Per the attached letter from the State Auditor, the expense of the two special elections held this year must be borne by the Commonwealth. It is estimated that the special elections will cost the City approximately \$250,000. The State has yet to release guidelines relative to reimbursements, but as cited in the attached memo, the State has identified \$39,596 for Worcester for this purpose. In the meantime, the State will continue to work with affected parties and the Legislature to secure full funding for the mandated costs associated with special elections.*
- **City Street Light Acquisition and Maintenance** **(\$ 600,000)**
 - *The FY 2010 Budget assumes savings of \$1.2 million generated by the acquisition of the street light network from National Grid. The complex negotiations with National Grid are nearing completion and a transfer is anticipated for March 1, 2010.*

This is presented for your information and your perspective as to work underway to continue to provide core services and to balance the FY2010 Budget at year-end. There are a host of variables that could and may change this forecast, to include State aid, local receipts, weather and others. We are still experiencing declines in collections in key revenue categories such as Building Permits and Motor Vehicle Excise Taxes. **The year to date FY2010 revenue report, per the FFPF, will be presented to City Council as a supplemental for the meeting of January 12, 2009 as these were just available for compilation as of late this week.** This will likely result in some further adjustment to these projections through the second quarter of 2010.

Per the Five Point Financial Plan, it is also key we look forward now to FY2011 and beyond. We continue to monitor State revenue trends for the Commonwealth funds nearly 25% of the City's Budget and nearly 75% of the Worcester Public School's Budget. December 2009 collections for the Commonwealth of Massachusetts were above adjusted benchmarks. This marks the third consecutive month of above-benchmark collections. All in all, these signs of recovery are positive but the State still faces a \$3 billion structural deficit for FY 2011 due to the extensive use of one-time funding sources in FY 2010. Attached please find a memorandum from Michael Widmer of the Massachusetts Taxpayers Association. This is a cause for serious concern as we look ahead. Please note, we have factored "level funding" of the current FY2010 State aid in our following FFPF projections.

FISCAL YEAR 2011 AND FIVE YEAR FISCAL FORECAST:

The following is a detailed update to the FY2011 projection I provided to City Council in November 2009. At that time, I indicated a minimum of a \$10M - FY2011 deficit factoring level funding of the State's City-side local aid. You will note this revised update indicates a projected deficit of **\$13.3M**, an increase due primarily to unanticipated changes in Federal Medicare reimbursements to the City (to be calculated by fee for services vs. "bundled").

Revenue Changes for FY2011:

Property Taxes (Less Overlay)	\$6.7M
State Aid	(0.00)
State MSBA Reimbursements	(\$3.4M)
Local Receipts (Schools Medicaid Reduction - \$3.1)	(\$3.7M)

Total Revenue Changes for FY2011 Subtotal:

(\$400,000)

Property taxes are projected increase per Proposition 2 ½. All other major revenue categories are expected to fall or remain level for Fiscal Year 2011. The property tax projection assumes Proposition 2 ½ increase of \$5.5, New Growth of \$1.8M, an overlay contribution of \$3.3M (reducing the available tax levy), and the preservation of the city's \$12M in unused tax levy capacity. As previously noted, this projection assumes State Aid is level funded from Fiscal Year 2010 and recognizes the State's reimbursement for the Quinn Bill program at \$400,000.

State School Building Authority reimbursement reductions are due to the conclusion of state repayments for some projects and the revision to some reimbursement levels due to the completion of audits on school construction projects. This revenue stream is reduced by \$3.4M as a result.

Local receipt reductions are due primarily to an unanticipated change in the reimbursement structure for Federal Medicaid reimbursements which are expected to fall from \$5.6M to \$2.5M. Additional local receipt line items have been reduced in anticipation of continued softness in the local economy for a total reduction in local receipts of \$3.7M.

Expenditure Changes for FY2011:

While revenues are projected to fall from Fiscal Year 2010 to 2011, expenditures are projected to increase, particularly in the area of the City's fixed costs and State mandated expenditures.

The following summary provides our assumptions regarding the increase in expenditures for Fiscal Year 2011.

Fixed Costs

\$8.8M Increase

The City's fixed costs are projected to increase by \$8.8M comprised primarily of the following:

Tax levy pension obligations are anticipated to increase by \$2.7M per the current city valuation on PERAC approved funding schedule. This does not assume an extension of the pension schedule proposed last fiscal year.

Health insurance premiums are expected to increase 10% for Fiscal Year 2011. The City applied surpluses in the Health Insurance Trust Fund to reduce premiums for Fiscal Year 2010. The overall health insurance increase for the City is projected to be \$4.7M since these surpluses will not be available to reduce premiums in Fiscal Year 2011.

Unemployment costs are projected to fall by \$300,000 as benefits will not be paid for the entire fiscal year. However, benefit extensions mandated by the Federal or State government could increase this liability without city input or control. This estimate assumes current conditions persist for the next fiscal year.

Debt Service expenditures are projected to increase by \$650,000 based on current projections.

The City's Budget for Snow Removal increases 10% to \$2.7M per the Five Point Plan which requires that the city increase this appropriation each year until a sufficient funding for an average annual snowfall has been reached. An allocation of \$1M for snow deficit carryover is included as a projection based on the current status of the FY2010 snow removal budget.

City contributions to the Five Point Financial Plan reserve funds were level funded in Fiscal Year 2010. These contributions must increase per the original schedule in Fiscal Year 2011 (as per the FPPF). The funds supported by this increase of \$2.74M include the North High Construction Fund; the City Manager's Capital Campaign (which pays current debt service obligations for following completed projects: Worcester Technical High School, The Public Library Renovation, Worcester Senior Center, and Forest Grove Middle School Projects); and the Bond Rating Stabilization Fund intend to build general fund reserves to an acceptable level and maintain the city's bond rating

Worcester Public Schools **\$2.9M Increase**

The City's contribution to the Worcester Public Schools is determined through a State mandated revenue formula. The increase in our contribution for Fiscal Year 2011 is projected to be \$2.9M based on known factors. The FY2011 \$26M budget deficit projected for the Worcester Public Schools includes this increased contribution.

City Operations **\$1.2M Increase**

The City operational budget assumes a zero percent raise for all bargaining units in FY2011. Budgets have been adjusted to reflect contracts settled through June 30, 2010, identified step increases, assumed utility and energy cost increases, identified operational/funding source/ and/or service level changes.

Fiscal Year 2011 Expenditure Increases Subtotal **\$12.9M Increase**

Fiscal 2011 Projection (Deficit) **(\$13.3M)**

POTENTIAL SOLUTIONS:

The following reforms and solutions are available and may play a role in closing the Fiscal Year 2011 deficit. Most will require support from our partners at the Statehouse:

Pension Schedule Extension **\$1.7M**

Extension of the pension schedule per the City's Home Rule Petition last fiscal year will result in savings to the Fiscal Year 2011 projection of \$1.7M as the City's retirement funding obligation is spread over a greater number of years.

Early Retirement Initiative **\$2.0M**

The City's early retirement initiative proposal from Fiscal Year 2010 was a responsible approach to significant reduction in personnel. By permanently eliminating positions from the City's table of organization, \$2M in savings could be achieved even after

recognizing the increase in pension assessments required to fully fund the additional years added to the retirement system.

Closure of the Telecom Loophole for All Infrastructure

\$1.5M

Transfer of Airport to Massport

\$1.2M

Legislation exists requiring the City and Massport to reach an agreement on the transfer of the airport from City ownership to Massport. Those discussions are underway and are expected to conclude prior to the beginning of the next fiscal year. At that time, we can erase the city's obligation for the Worcester Regional Airport from the budget projection for Fiscal Year 2011, reducing expenditures by \$1.2M

These projections are presented for perspective. Clearly, the City's budget outlook for Fiscal Year 2011 is stark. I am confident that our proactive approach and early action on these challenges will put us in the best position possible but we must recognize the magnitude of the challenges we face. In addition to an FY11 projection, the attached report includes a five year forecast per the City's Five Point Financial Plan. This forecast assumes slow economic improvement over the next few years but continues to exhibit a persistent projected deficit. There is much work ahead.

Respectfully submitted,



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Bulletin

December 10, 2009

State Fiscal Crisis – No End in Sight

Despite the Governor's plan to address a \$1 billion fiscal 2010 deficit, the state still faces a several hundred million dollar shortfall for 2010 and a gaping \$3 billion structural deficit for 2011.

The unprecedented collapse in state tax revenues has put the Governor and Legislature in an extraordinarily difficult position, and Massachusetts has handled its fiscal problems better than many other states. Nevertheless, there are two serious shortcomings with the administration's approach to balancing the 2010 budget.

First, the administration has not addressed the full dimensions of the 2010 deficit which it has estimated to be at least a billion dollars, with the possibility it will grow larger over the course of the year. Even with the Governor's actions, the Foundation projects a \$300 - \$500 million shortfall in the 2010 budget.

Second, the administration's plan relies much too heavily on one-time solutions that further deplete the rapidly disappearing state and federal reserves and create an even larger deficit in fiscal 2011. The heavy dependence on one-time monies results in significant part from the Governor's decision to exclude direct local aid from his principal of "shared sacrifice" in closing the 2010 deficit. The Foundation estimates that the projected fiscal 2011 structural deficit is at least \$3 billion, which will require spending cuts of the magnitude of 2010.

Furthermore, there is a risk that tax revenues could fall below the new benchmark. The administration's revised fiscal 2010 forecast of

\$18.28 billion in tax collections is consistent with the Foundation's latest forecast. Nevertheless, baseline tax collections, which exclude the effects of tax changes such as the increase in the sales tax, are off 10 percent for the first five months of fiscal 2010. In order to meet the new target, collections for the last seven months of fiscal 2010 will have to equal baseline revenues for the same period of fiscal 2009, even while the Massachusetts economy continues to shed jobs.¹

The administration's estimate of the fiscal 2010 budget deficit is \$1.175 billion (Information Statement of October 29, 2009). This includes two parts – a \$600 million shortfall in tax revenues and \$575 million in underfunded accounts. Because \$300 - \$350 million of the underfunding is for Medicaid which is eligible for federal reimbursements, the net deficiency is in the range of \$400 million.

On October 29, the administration proposed spending cuts and one-time revenues to deal with the \$600 million problem. However, the administration believes that it can manage the \$575 million in underfunded accounts through a combination of squeezing spending across state government, using surpluses in some accounts to cover expenses in deficient accounts, and making cuts in programs such as Medicaid and the Group Insurance Commission.

¹ October and November tax collections were a combined \$37 million above the revised benchmark, an infinitesimal sum in the context of the \$11.1 billion the state needs to collect over the next seven months to meet the 2010 benchmark.

There are several reasons why it is unlikely that the administration can close a \$575 million shortfall without a deficiency budget of several hundred million dollars later this year.

A key element in the administration's budget-balancing plan, as it was in fiscal 2009, is the ability to cover deficiencies in some accounts by transferring surpluses from other accounts (limited to 5 percent of an appropriation within a secretariat). The Legislature granted this power to the Governor last year but has denied his request this time.

A second problem is the large Medicaid shortfall which is driven by increased costs for a range of services as well as higher estimates of utilization and enrollment. The administration's plan addresses only \$70 million of the deficit of at least \$300 million, after reversing its proposal to curtail some benefits including adult dental and day habitation programs and to increase co-pays for a range of services.

The administration has limited ability to change Medicaid eligibility because of "maintenance of effort" requirements accompanying the federal stimulus dollars. Two-thirds of the \$70 million in "savings" is achieved by delaying pay for performance payments to acute hospitals and physicians until fiscal 2011. Providers have already borne a heavy burden of Medicaid cuts during the fiscal crisis. Hospitals alone have had to absorb more than \$150 million of reductions in Medicaid rates and delayed payments in 2009 and 2010. In addition, a more than \$50 million shortfall in the Health Safety Net Trust Fund in fiscal 2010 will have to be picked up by hospitals, many of which are in difficult financial straits.

As a result, even under the best of circumstances, there will need to be a Medicaid supplemental budget of approximately \$240 million (\$100 million in state spending) this year.

The Group Insurance Commission is also struggling with an estimated deficit of \$35 million. In response, the GIC raised co-pays for a range of services and set higher deductibles of \$250 for individual plans and \$750 for families to take effect February 1, 2010. Nevertheless, even with these changes there will be at least a \$15 million deficit this year and an expected increase

of 10 to 15 percent in premiums next year, adding over \$100 million to 2011 expenditures.

The administration estimates that other underfunded accounts total \$200 million, ranging from emergency shelters for veterans and families and other caseload-driven accounts to compensation for private counsel services (public defenders). The latter is funded at \$125 million in 2010 compared to an average of \$160 million for the past three years. Given the severity of the recession and the demand on public services, the \$200 million estimate will likely turn out to be understated.

Governor's Plan

The Governor's October 29 plan combined \$250 million of one-time funds with \$237 million in executive branch spending cuts and \$115 million in other cuts requiring legislative approval. The plan also included \$30 million in additional spending for the Medical Security Trust Fund, reducing total savings from cuts to \$320 million (Table 1).

The \$237 million in executive branch spending reductions includes \$202 million in direct cuts and \$35 million in estimated savings from layoffs of roughly 1,500 state workers. Of the \$200 million, cuts in human services programs account for approximately \$80 million, including cash assistance for children whose parents are disabled and receive Social Security (\$23.8 million), programs for family stabilization, foster care and adoption (\$5.8 million), closing access to child care services for 20,000 wait-listed children of homeless families (\$11.6 million), aid for the homeless (\$2.7 million), residential services for adults with developmental disabilities (\$4.9 million), and adult mental health services (\$7.1 million).

As part of his plan, the Governor requested authority to cut \$75 million from the budgets of the Legislature, constitutional offices, the judiciary, sheriffs and district attorneys. The Governor also sought legislative approval to cut targeted local aid payments by \$16 million and reduce \$24 million in funding for short-term borrowing costs that are substantially lower than had been projected.

The administration decided not to include cuts in direct categorical aid to cities and towns in its request for expanded 9C authority, instead cutting accounts like special education reimbursements and regional school transportation. The Governor's approach places an inequitable burden on a minority of local communities and will require deeper local aid cuts in fiscal 2011. It also necessitates further cuts in an array of human services programs that are already experiencing a disproportionate share of several rounds of budget cuts.

**Table 1 – Governor's Spending Cuts
(\$ Millions)**

Executive Branch 9C Cuts and Layoffs	237
Legislative Authorization Required	
Expanded 9C Authority	75
Short-Term Debt Service	24
Quinn / PILOT	16
Sub-Total	352
Transfer to Medical Security Trust Fund	-30
Total Reduction in Spending	322

Legislative Response

The Legislature's response to the Governor's proposal has created an even larger hole in the 2010 budget. In addition to denying the Governor the authority to transfer monies within secretariats, the Legislature's actions reduced the administration's proposal by approximately \$120 million (Table 2).

Specifically, the Legislature rejected the Governor's request for 9C authority to cut spending by \$75 million as well as \$11 million for PILOT (payments in lieu of taxes) and \$5 million for the Quinn bill. The Legislature also overrode \$24 million in gubernatorial vetoes, including \$18 million in funding for the Legislature, thereby reducing by \$24 million the amount to be transferred from the state stabilization fund.

The Legislature did approve the Governor's request to transfer \$30 million to the Medical Security Trust Fund as part of a broader plan to address the large deficit in this program which provides health insurance for unemployed workers. While appropriate, this transfer adds another \$30 million to the 2010 deficit.

In sum, the combination of gubernatorial and legislative actions has reduced the 2010 deficit by approximately \$450 million, leaving a gap of several hundred million dollars.

**Table 2 – Legislative Supplemental Bill
Adds \$120 Million to the Deficit
(\$ Millions)**

	Governor	Legislature	Difference
Executive Branch 9C Cuts and Layoffs	237		
Legislative Authorization Required			
Expanded 9C Authority	75	0	-75
Short-Term Debt Service	24	24	
Quinn / PILOT	16	0	-16
Subtotal	352	261	-91
Transfer to Medical Security Trust Fund	-30	-30	
Total Reduction in Spending	322	231	-91
Executive Branch One-Time Solutions			
ARRA Funds to Replace Higher Ed Cuts	62		
DOR Tax Settlements	50		
Reduced Payments to SBA	27		
Surplus Land	9		
Legislative Authorization Required			
State Stabilization Fund	60	36	-24
Tax Amnesty	20	20	
Smart Growth Trust Fund	15	11	-4
DOR Tax Changes and Other Revenue	10	7	-3
Total One-Time Solutions	253	222	-31
Total Plan	575	453	-122

The Governor's initial response to the Legislature's actions was to say that the administration would have to identify an additional \$120 million in cuts in the executive branch. However, in a surprise Friday afternoon announcement on December 4 the Governor said the \$120 million gap would be closed through the combination of an \$82 million one-time tax settlement and the \$37 million in tax collections in October and November that exceeded the revised lower benchmark.

He also announced he was filing a supplemental \$42 million budget for homeless shelters and backed off changes in the Medicaid program which would have saved approximately \$30 million. The Governor did not identify the source of the \$70 million for the shelters and Medicaid.

There are several problems with the Governor's actions:

- Enhanced spending will add to the large deficit still facing the state in 2010.
- The additional use of one-time money will increase the already enormous fiscal 2011 structural deficit and require larger cuts in the 2011 budget.
- Counting on an additional \$37 million in over-benchmark tax collections – in the wake of a total of \$5.2 billion in reduced tax estimates through fiscal 2009 and 2010 – is fiscally shortsighted.

Use of One-Time Solutions

A major flaw in the Governor's original plan, exacerbated by his subsequent actions, is its heavy dependence on one-time solutions, which leaves the state with fewer options later this fiscal year and results in an even larger budget deficit for fiscal 2011.

The Governor initially proposed the use of \$250 million in one-time funds but the Legislature reduced that amount by \$30 million. The administration's subsequent announcement that it would rely on a one-time tax settlement of \$82 million raises the use of additional one-time funds to \$300 million (Table 3). This adds, dollar-for-dollar, to the 2011 structural deficit.

Of particular concern is the dependence on another \$36 million in state stabilization ("rainy day") reserves and \$62 million in federal stimulus dollars. The \$36 million – an end of year fiscal 2009 "surplus" – needs to be placed in the context of the fact that the state drew down its reserves by an astonishing \$1.4 billion in 2009.

The use of \$62 million of federal stimulus aid to replace \$62 million of state funds for higher education in 2010 will produce even larger cuts in higher education in 2011. Higher education appropriations of \$960 million in fiscal 2010 were already propped up by \$162 million in federal stimulus aid which will disappear in fiscal 2011, setting the stage for potential cuts of \$200 million or more.

Table 3 – Half of Governor's Plan Uses One-Time Funds (\$ Millions)

State Stabilization Fund	36
ARRA Funds	62
DOR Tax Settlements	132
DOR Tax Changes and Other Revenues	7
Reduced Payments to SBA	27
Tax Amnesty	20
Smart Growth Funds	11
Surplus Land	9
Total	304

The additional reliance on one-time solutions so early in the fiscal year (the 2010 budget already counted on \$2 billion in federal stimulus dollars and state reserves) places the state in a vulnerable position when it confronts a likely deficit later in the year. At that point, the state will have nowhere to turn except one-time revenues, setting the stage for even deeper cuts in fiscal 2011.

Fiscal 2011 Structural Deficit

Even assuming the beginning of an economic recovery in 2010, the state faces a structural deficit of approximately \$3 billion in fiscal 2011, as shown in Table 4. Estimated increased revenues of \$700 million are offset by \$2.25 billion in one-time sources in the fiscal 2010 budget plus \$1.5 billion of additional spending required for increases in largely non-discretionary accounts and a small allowance for inflation. Any further use of one-time funds in fiscal 2010 will simply add to the \$3 billion deficit while leaving less money available to close that deficit.

Table 4 – Fiscal 2011 Structural Deficit (\$ Millions)

One-Time Funds in FY 10	-2,250
Maintenance Budget	-1,500
Growth in Revenues at 3%	550
Additional Sales Tax Revenues - Full Year	150
Structural Deficit	-3,050

Revenues should begin growing again in fiscal 2011, albeit at a modest rate.² Factoring in a full year of the sales tax increase and an estimated 3 percent growth in baseline revenues, state tax collections would increase by roughly \$700 million.

A “maintenance budget” would require an estimated \$1.5 billion in additional spending in fiscal 2011, driven largely by non-discretionary increases for Medicaid, pensions, Chapter 70 education aid, debt service, the Group Insurance Commission, human services caseloads, and wage increases for state workers.

Even if the state avoids further use of one-time funds in fiscal 2010 – an unlikely scenario – lawmakers have a maximum of \$1 billion available to close the \$3 billion gap (Table 5). Using any more than \$300 million from the balance of \$575 million in the state’s stabilization fund would risk the Commonwealth’s credit rating and drive up the costs of borrowing.

The state will receive its last installments of federal stimulus funds in fiscal 2011 – \$611 million of FMAP funds and \$100 million of federal fiscal stabilization aid for education. The \$100 million, like the state’s stabilization reserves, could be used in 2010.

Table 5 – Use of State Reserves and Federal Stimulus Dollars

	Available	FY 09	FY 10	Remaining
FMAP	2,760	-869	-1,280	611
Federal Fiscal Stabilization	994	-484	-410	100
State Stabilization Fund	2,188	-1,389	-274	575
Total	5,942	-2,742	-1,964	1,286
Cumulative Usage		-46%	-79%	21%

With limited revenue growth and reserves nearly exhausted, the state will need to depend heavily on further spending reductions to balance the fiscal 2011 budget. The cuts are likely to be on a scale of those included in the 2010 budget. However, the consequences will be more serious because for many programs this will be the third, fourth, or even fifth round of cuts since the onset of the fiscal crisis.

² The Foundation will release a new revenue forecast for fiscal 2011 on December 16, 2009.

BUDGET SUMMARY¹

(\$ Millions)	FY07 Spending	FY08 Spending	FY09 GAA	FY09 Estimate	FY 10 GAA	FY 10 Post 9C Cuts
Investment in Children	6,580.4	6,885.7	7,234.3	7,151.4	7,013.4	6,952.4
Education Local Aid ⁴	4,023.5	4,278.2	4,546.8	4,505.4	4,471.1	4,440.3
Higher Education ⁴	1,110.1	1,081.6	1,090.5	1,085.6	1,067.6	1,066.3
Services to Children	785.6	817.2	842.3	832.1	785.3	777.2
Youth Services	154.1	158.4	164.6	160.9	152.1	147.7
Child Care Services	507.1	550.3	590.1	567.3	537.3	520.8
Criminal Justice and Law						
Enforcement	2,165.4	2,324.0	2,316.3	2,318.5	2,031.9	2,241.5
Corrections ⁶	950.8	1,060.5	1,047.2	1,060.1	881.5	1,093.8
Judiciary	789.7	822.9	824.6	818.9	752.9	756.1
Police	295.5	298.3	298.7	297.4	265.6	259.4
DAs	93.2	101.5	102.2	99.2	92.6	92.6
Attorney General	36.3	40.8	43.6	43.1	39.3	39.5
Local Government	1,515.3	1,517.2	1,523.2	1,370.6	1,052.7	1,051.8
Assistance to the Poor	9,832.0	10,896.7	11,501.0	11,389.9	11,347.3	11,347.3
Medicaid/Other Health Care ²	8,698.8	9,711.2	10,274.0	10,179.5	10,160.3	10,191.4
Cash/Housing Asst.	856.6	893.7	930.9	922.1	925.9	901.9
Elderly	276.7	291.9	296.1	288.3	261.1	254.0
Assistance to the Sick and Disabled	2,359.5	2,450.9	2,543.0	2,505.7	2,407.5	2,382.7
Mental Retardation	1,191.4	1,235.9	1,271.9	1,265.9	1,262.6	1,254.8
Mental Health	657.1	671.5	685.4	667.4	644.1	634.0
Public Health	511.0	543.4	585.7	572.5	500.8	493.8
Transportation	306.3	281.4	185.5	288.2	214.4	202.1
Regional Transit ⁵	51.7	58.3	57.9	57.9	59.2	59.2
Highways	193.9	161.7	61.0	166.9	98.6	91.3
Registry	60.7	61.4	66.6	63.4	56.6	51.5
Economic Development	519.4	519.5	435.9	369.0	319.3	296.0
Business and Labor	285.2	295.3	198.7	148.5	118.7	106.4
Environment	234.2	224.2	237.3	220.5	200.6	189.7
Central Costs	4,658.7	4,670.0	4,888.7	4,759.6	4,921.3	4,896.4
Employee Benefits ³	2,380.0	2,630.8	2,789.7	2,663.0	2,823.2	2,822.5
Debt Service	2,278.7	2,039.2	2,099.1	2,096.6	2,098.1	2,073.9
Other	985.8	1,063.0	1,072.8	1,023.1	867.5	842.0
Total	\$28,922.9	\$30,608.4	\$31,700.8	\$31,176.1	\$30,175.3	\$30,212.1

¹ Amounts are adjusted to include certain "off-budget" authorizations, primarily for health care and pensions, and to exclude MBTA, school building assistance, convention center, mosquito control and certain other expenditures moved off-budget in recent years.

² Combines MassHealth accounts with related "off-budget" funds, such as the Commonwealth Care Trust Fund (including the Health Safety Net Trust Fund) and the Essential Community Provider Trust.

³ Does not include workers' compensation and unemployment insurance which are budgeted in agency accounts. Includes \$52 million pension reconciliation and \$100 million extension of pension payments in FY 09.

⁴ Includes \$330 million of federal stimulus funds in FY 10.

⁵ Includes \$15 million earmarked from sales tax revenues in FY 10.

⁶ Includes \$217 million for county sheriffs passed into law after the FY 10 GAA.



CITY OF WORCESTER, MASSACHUSETTS

Department of Public Works and Parks

Robert L. Moylan Jr., P.E.
Commissioner of Public
Works and Parks

To: Michael V. O'Brien, City Manager
From: Robert L. Moylan Jr., P.E., Commissioner of Public Works and Parks
Date: January 7, 2010
Re: Communication Relative to Snow and Ice Cost Summary

Attached is DPW&P Snow and Ice Cost Summary to date. There have been 8 storms representing a total snow fall of 28.7 inches.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Moylan Jr.", written in a cursive style.

Robert L. Moylan Jr., P.E.
Commissioner of Public Works and Parks
[#1518 Snow & Ice Cost Summary]

Attachment



WINTER STORMS - D.P.W. COST SUMMARY - FISCAL YEAR 2009/2010

STORM # DATES/DESCR.	LABOR		SALT \$ 70.00 per ton Tons Cost	SAND \$ 10.50 per yd Yards Cost	HIRED EQUIPMENT PCS Cost	EQUIPMENT City Equip Grand Total	TAGS & TOWS WPD TAGS WPD TOWS PCO TAGS	TOTAL		LAST YEAR FY 08/09 SNOW COST
	REGULAR HRS	COST						OVERTIME HRS	COST	
Storm # 1 Dec 5 & 6 / 3.7"	424.0	\$9,585.36	469.5	\$15,818.37	24	15	15		\$116,925	\$116,925
Storm # 2 Dec 9 / 7.5"	1,028.0	\$23,831.80	532.0	\$18,442.65	333	32	32	411	\$312,682	\$429,608
Storm # 3 Dec 14 / 2"	760.0	\$18,107.20	131.0	\$4,643.91	26	10	10		\$71,188	\$500,796
Storm # 4 Dec 19 & 20 / 5.7"	1,030.5	\$29,504.52	2,142.5	\$87,773.55	380	36	36	580	\$561,949	\$1,062,744
Storm # 5 Dec 29 / 9"	280.0	\$6,344.72	25.5	\$802.73	35	10	10		\$59,326	\$1,122,071
Storm # 6 Dec 31 / 2.7"	160.0	\$3,563.36	556.0	\$19,622.93	330	29	29	85	\$203,351	\$1,325,422
Storm # 7 Jan 2 / 5.5"	24.0	\$642.80	1,172.5	\$41,275.98	352	26	26		\$328,427	\$1,653,848
Storm # 8 Jan 3 / 2.5" ESTIMATE					\$210,000				\$271,250	\$1,925,098
ACCCUM TOTALS TO DATE	3,706.5	\$91,499.76	5,029.0	\$188,380.12	1,460			1,076		\$1,925,098
SNOW = 28.7 inches					\$425,320			696		\$1,925,098

11 Storms / 32.5"
\$1,855,039

8 Storms / 21"
\$1,364,168

F.M.S. SNOW O/M ACCOUNTS ONLY	Personal Services OT 411/9/201	Nextel 411	O/M ONLY 411001	SALT 411002	SAND 411003	HIRED 411004	TOTAL F.M.S. ACCOUNTS
ORIGINAL APPROPRIATIONS	\$356,252.00	\$26,000.00	\$16,762.00	\$512,117.00	\$106,646.00	\$1,465,250.00	\$2,128,775.00
ACCOUNTS PAYABLE EXPENDITURES TO DATE	\$188,380.12	\$5,083.95	\$5,179.35	\$250,672.35	\$13,917.46	\$1,179,557.50	\$1,454,410.61
Police Expenditures thru 12/20 Water & Sewer Expenditures thru 12/26						\$7,110 \$37,373	
Current Unexpended Balance	\$167,871.88	\$20,916.05	\$11,582.65	\$261,444.65	\$94,728.54	\$241,209.69	\$629,881.58
OPEN ENCUMBRANCES	\$0.00	\$14,916.05	\$6,217.39	\$559,327.65	\$63,802.54		\$644,263.63
Current Balance Includes Enc.	\$167,871.88	\$6,000.00	\$5,366.26	(\$297,883.00)	\$30,926.00	\$241,209.69	(\$14,382.05)
% BUDGET EXPENDITURE	52.88%	19.55%	30.90%	48.95%	12.81%	80.50%	68.32%

Financial Summary	
Expenditures to Date	\$1,454,410.61
Expenditures - Police/ Water/ Sewer	\$44,483
Total Expenditures to Date	\$1,498,893.42
Encumbrances - Commitments	\$644,263.63
Total Expenditures & Commitments to Date	\$2,143,157.05
Fiscal Year 2010 Budget	\$2,128,775.00
Current Balance (Deficit)	(\$14,382.05)

City of Worcester Five Year Budget Forecast

REVENUES		FY09	FY10	FY11	%	FY12	FY13	FY14	FY15
1	Property Tax Levy	197.5	204.8	211.5	3.3%	219.2	227.6	236.0	244.8
2	State Aid General City	53.3	41.6	41.6	0.0%	42.3	42.9	43.2	43.8
3	State Aid Education	161.5	176.9	176.9	0.0%	176.9	176.9	176.9	176.9
4	State Aid Charter Schools	5.4	4.6	4.6	0.0%	4.6	4.6	4.6	4.6
5	State MSBA	17.8	19.1	15.7	-17.8%	15.7	15.2	15.2	4.9
6	Local Receipts	39.8	41.9	38.2	-8.9%	37.8	38.4	39.1	39.6
7	Other Available Funds	4.8	1.3	1.3	0.0%	1.3	1.3	1.3	1.3
8	Free Cash	-	-	-	0.0%	-	-	-	-
9	Total Revenues	480.1	490.1	489.7	-0.1%	497.7	506.8	516.3	515.9
EXPENDITURES		FY09	FY10	FY11	%	FY12	FY13	FY14	FY15
Fixed Costs									
10	Pensions (and POB)	25.5	27.8	30.5	9.7%	31.7	32.7	34.1	35.7
11	Health Insurance (City)	25.8	24.0	28.7	19.6%	29.9	32.2	34.3	36.3
12	Unemployment	0.5	1.4	1.1	-23.4%	0.8	0.7	0.5	0.5
13	Debt	28.9	29.9	30.5	2.2%	30.4	31.0	31.0	31.5
14	Intergovernmental	3.2	3.2	3.2	2.0%	3.3	3.4	3.4	3.5
15	Streetlights	3.1	1.9	2.0	5.0%	2.1	2.2	2.3	2.4
16	Snow Removal	7.0	2.5	2.7	10.0%	3.0	3.3	3.6	4.0
17	Snow Carryover	-	3.1	1.0	-67.7%	-	-	-	-
18	Five Point Plan	12.1	12.0	14.8	22.8%	14.7	14.7	14.7	14.7
19	Total Fixed Costs	106.1	105.6	114.4	8.3%	115.9	120.1	124.1	128.7

City of Worcester Five Year Budget Forecast

Education Expenditures									
20	Worcester Public Schools	237.6	248.5	251.4	1.2%	254.3	257.3	260.7	264.4
21	Charter Schools	22.9	23.7	23.7	0.0%	23.7	23.7	23.7	23.7
22	Total Education	260.6	272.1	275.0	1.1%	277.9	281.0	284.4	288.0
City Operations									
		FY09	FY10	FY11	%	FY12	FY13	FY14	FY15
23	Legislative Offices	2.2	2.0	2.1	5.4%	2.1	2.1	2.2	2.2
24	City Manager	8.3	6.8	6.9	1.4%	6.9	7.3	7.6	8.0
25	Contingency	-	1.0	-	-100.0%	1.0	1.0	1.0	1.0
26	Human Resources	1.0	1.0	1.0	2.0%	1.0	1.0	1.0	1.1
27	Economic Development	2.2	1.2	1.3	7.8%	1.3	1.3	1.3	1.3
28	Law	1.6	1.4	1.4	1.7%	1.4	1.5	1.5	1.6
29	Fire	33.5	32.2	32.6	1.1%	34.1	34.7	35.4	36.0
30	Police	40.3	39.0	39.2	0.5%	40.3	41.0	41.8	42.7
31	Emergency Comm.	2.6	2.1	2.7	32.6%	2.7	2.8	2.8	2.9
32	Inspectional Services	3.2	2.9	3.0	4.3%	3.0	3.0	3.1	3.2
33	Public Works and Parks	16.3	16.0	16.5	3.0%	17.1	17.4	17.7	18.0
34	Finance	6.5	5.5	5.6	1.2%	5.6	5.7	5.8	5.9
35	Enterprise (Airport)	1.2	1.2	1.2	0.0%	-	-	-	-
36	Enterprise (Golf)	0.1	-	-	0.0%	-	-	-	-
37	City Operations Total	119.0	112.3	113.5	1.1%	116.6	118.8	121.2	123.7
38	Total Expenditures	485.7	490.1	503.0	2.6%	510.4	519.9	529.6	540.5
39	Surplus(Deficit)	(5.6)	0.0	(13.3)		(12.7)	(13.1)	(13.3)	(24.5)

All Amounts in Millions of Dollars

City of Worcester Fiscal Year 2011 Projection and Five Year Forecast:

Discussion and Analysis: The City's fiscal predicament for Fiscal Year 2011 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 FY11. The State's anticipated \$3 Billion plus deficit for FY11 will make an increase highly unlikely and may make a state aid reduction inevitable. As a result, this projection includes no increase in that category. Property taxes are increased per the provisions of proposition 2 ½ and an assumption of new growth similar to that of the early nineties, an increase of \$6.7M net of overlay. State reimbursements for school building construction are expected to decrease by \$3.4M due to the conclusion of some repayment schedules and a reduction to others following MSBA audits. Local receipts are reduced due to the anticipated major reduction in Federal Medicaid reimbursements and other local receipt categories that reflect economic and operational realities, for a total reduction of \$3.7M. The net effect of current revenue projections for Fiscal Year 2011 is an anticipated reduction in revenues available for appropriation of \$.78M.

Expenditure summary:

The City's fixed costs are the source of the largest expenditure increases for FY11, representing a total increase of \$8.79M, primarily associated with increases in health insurance and pensions contributions as well as from schedule contributions to dedicated funds for the construction of the new North High.

This projection assumes a zero percent raise for all bargaining units for Fiscal Year 2011 and 2% raises in the out years. Actual salaries will be dependent on the results of collective bargaining. The projection assumes the stabilization of the Police Department and Fire Department with grant funds already allocated to the departments and assumes the reduced staffing structure for both departments as articulated in the Fire Department redeployment plan (including FY10 reductions) and the Police Department restructuring plan submitted by the Police Chief in December of Fiscal Year 2010. Staffing levels are assumed consistent with the Fiscal Year 2010 budget for other operational departments. Some operational expenditures have been increased to reflect the realities of the current operational environment. For instance, the Department of Public Health is reflective of its current organization with a several restored nursing positions and supplemental grant funding for emergency preparedness functions. Inspectional services ordinary maintenance expenditure estimates have been increased to reflect the increased activity in board ups, contracted services, and constable services for the serving of housing court papers. The total increase in operational budgets is \$1.2M

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 increase for Fiscal Year 2011 is projected to be \$2.9M.

Total anticipated expenditure increases from all sources for Fiscal Year 2011 are project to be \$12.9M.

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 factors are known and state decision are made. With the caveat that these forecasts are subject to a greater degree of revision over time, they do take into account the best information available at this time. This projection relies the economic forecasts included in the State Department of Revenue Consensus Revenue Estimate as well as historical data and internal 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 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 health insurance will create a significant increase in costs each year. Federal legislation currently under consideration is not likely to reduce the city’s health insurance costs and may increase them as the city will be required to cover older dependents, eliminate coverage ceilings, and meet other requirements. Energy costs are another area of assumed expenditure increases which could be affected by national legislation. Should emissions restrictions/trading be imposed, the cost of electricity would be expected to increase significantly as a result. These major changes are not assumed in the current financial forecasts, but they are both examples of ways in which outside factors can affect the specifics of a financial 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 Five Year Forecast worksheet. Details on each revenue and expenditure area are including 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 notes on the assumptions included in the current forecast.

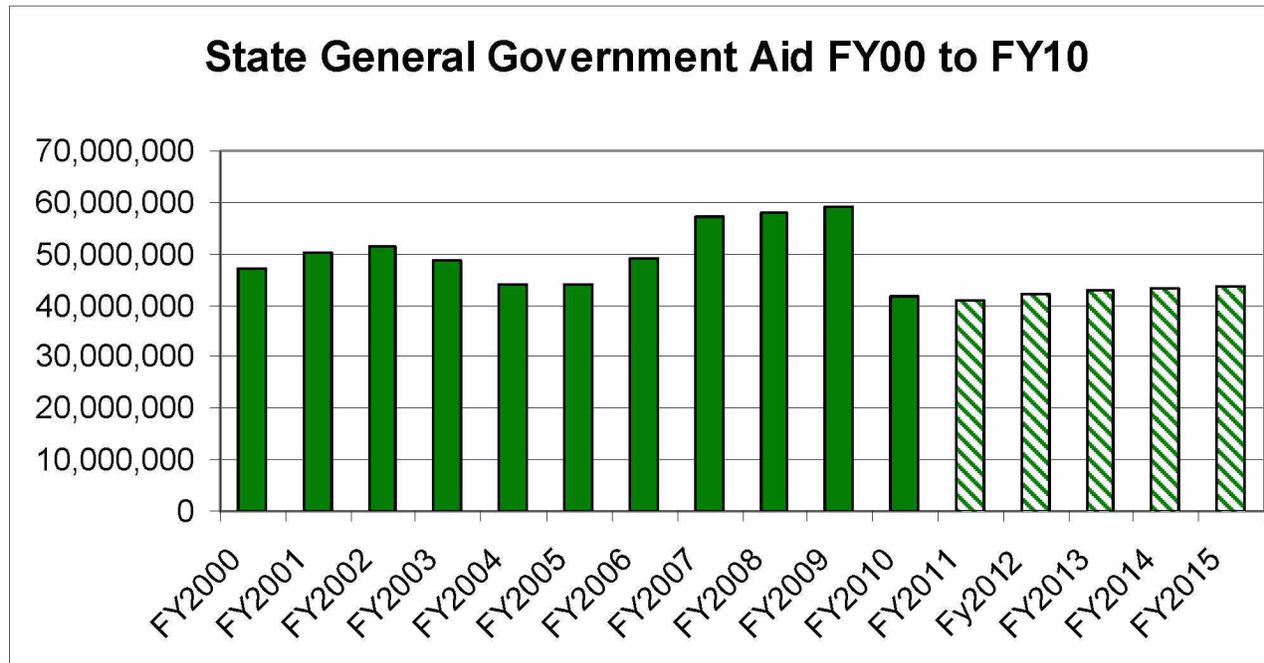
1) Property Tax Levy: The City’s ability to levy and collect property taxes is limited by statute Chapter 59 Section 21C, Proposition 2 ½. The City’s ability to levy property taxes is limited by a “levy ceiling”, an absolute cap on the level of property taxation, set at 2.5% of the overall property tax 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 a taxation level of \$12M 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 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 the 2 year average growth in the fiscal years of the early 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. 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 historical growth amounts and current projections are the following.

Fiscal Year	Actual Growth Amounts	Fiscal Year	New Growth Projection
FY1992	1,681,224	FY2011	1,800,000
FY1993	1,809,700	FY2012	2,200,000
FY1994	2,549,341	FY2013	2,400,000
FY1995	2,253,493	FY2014	2,100,000
FY1996	2,008,807	FY2015	2,300,000
FY1997	2,549,010	FY2016	2,400,000

The following chart shows is 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.

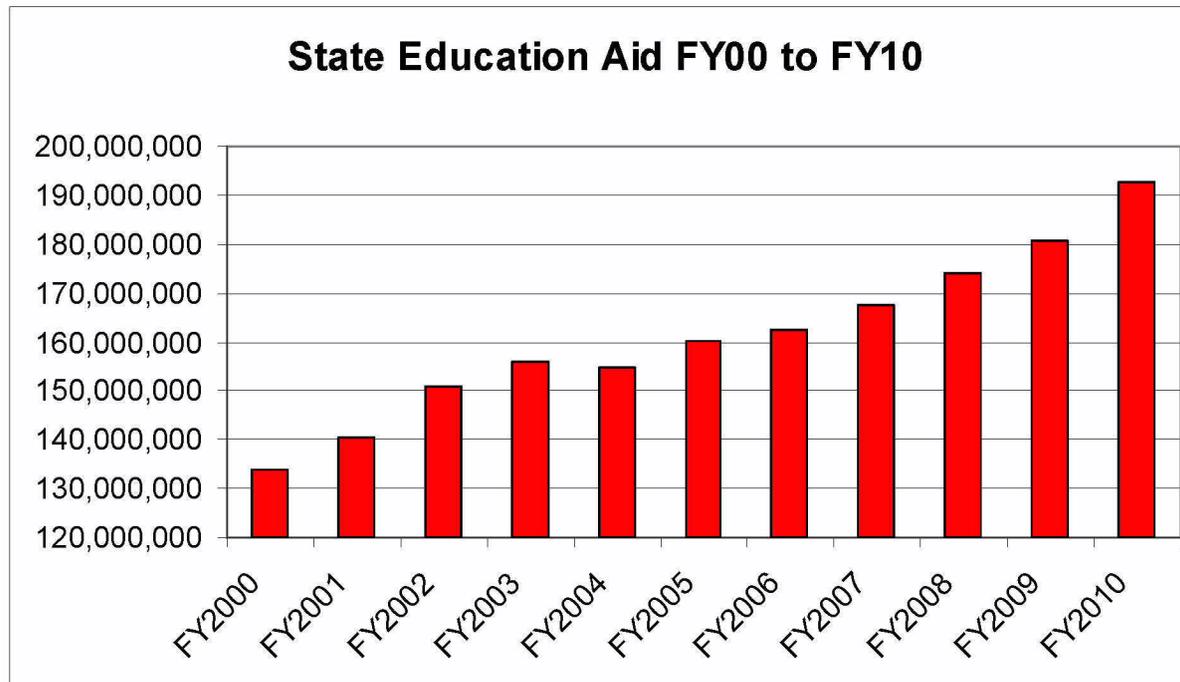
	2011	2012	2013	2014	2015
Prior Year Levy	207,502,880	214,791,243	222,661,815	230,929,152	239,103,171
Amended Growth					
2.5% Increase	5,488,363	5,670,572	5,867,336	6,074,020	6,278,370
New Growth	1,800,000	2,200,000	2,400,000	2,100,000	2,300,000
New Total Levy	214,791,243	222,661,815	230,929,152	239,103,171	247,681,541
	3.5%	3.7%	3.7%	3.5%	3.6%
Less Overlay	(3,300,000)	(3,500,000)	(3,300,000)	(3,100,000)	(2,900,000)
Available Tax Levy	211,491,243	219,161,815	227,629,152	236,003,171	244,781,541

- 2) **State Aid General City Government**—The City’s Revenues from the state are contingent upon the state’s fiscal health. While the current consensus revenue estimate shows projections of 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 state is projecting in the Department of Revenue’s “Consensus Revenue Estimate” a revenue increase of 1.7% to 3.9% over Fiscal Year 2010 for a total revenue estimated range from \$18.5B to 19.3B for the Commonwealth of Massachusetts. The Massachusetts Taxpayers Foundation estimates the FY11 revenues for the state to fall in between these two amounts, at \$18.9B or approximately 3%. The MTF analysis of the state’s structural deficit generates a predicted state deficit of \$3.050B for Fiscal Year 2011, even when including these increases in revenues. This is based on the assumption that the state will not have one time solutions of more than \$2.2B available in Fiscal Year 2011 which were employed in Fiscal Year 2010. As a result, this projection does not include an increase in state aid funding in the projection for Fiscal Year 2011. A more conservative projection would assume a state aid reduction, as the state will have to consider cuts to local aid in order to close this projected \$3B deficit. The forecast allows for 1.5 to 2% increases in state aid revenue estimates in the fiscal years 2012 through 2015 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. Even with this estimated restoration, the level of local aid projected in this forecast is well below the levels from Fiscal Years 2008 and prior as illustrated in the chart below:



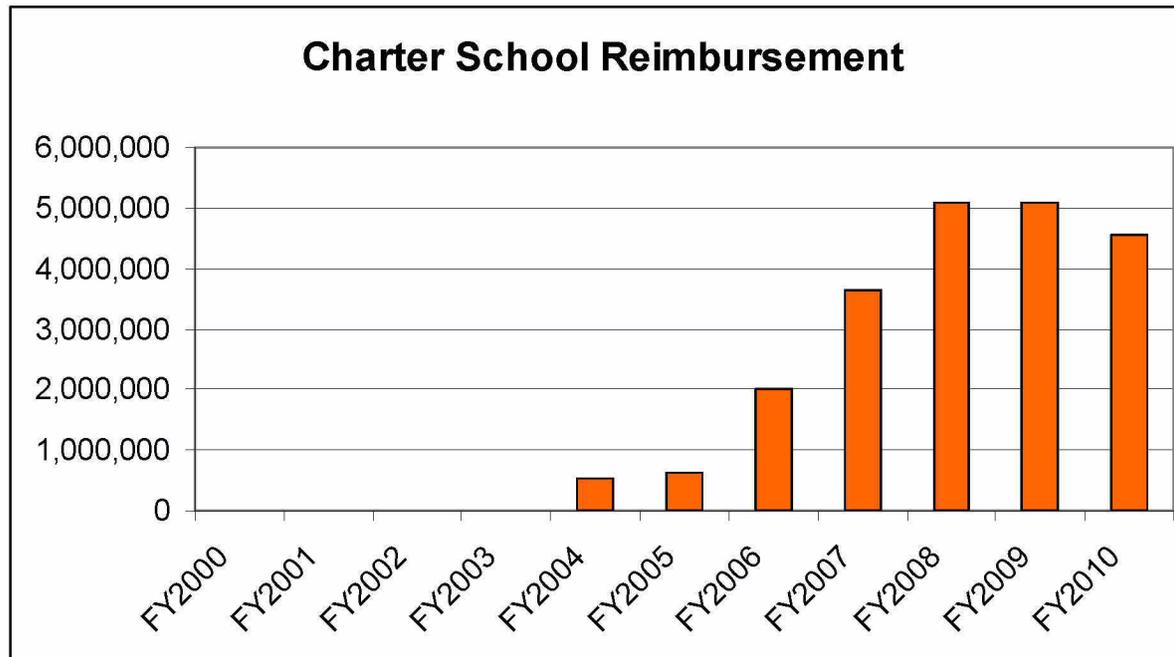
3) State Aid Education (Chapter 70): The Commonwealth arrives at this state aid amount through a calculation that determines the public schools “foundation budget”. The state then calculates the City’s required contribution, the gap between the

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.

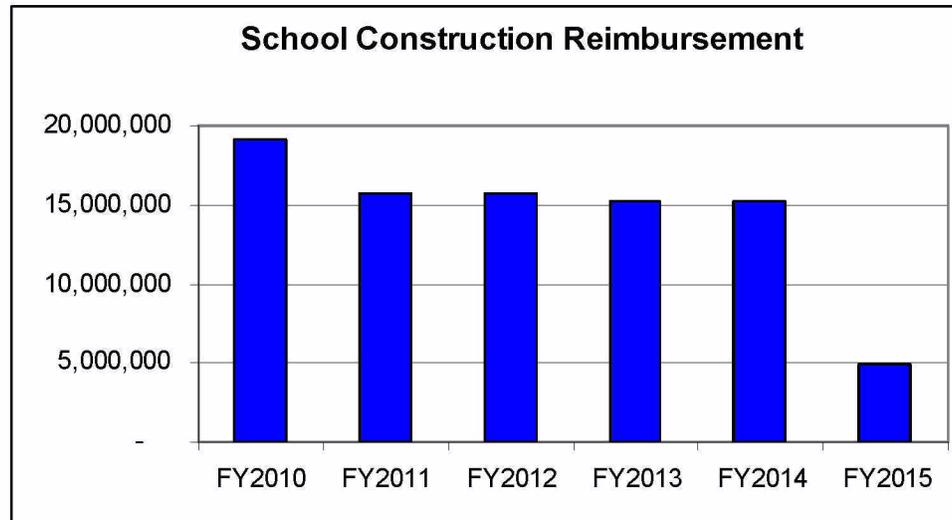


- 4) State Aid Charter Schools:** In addition to the State Aid required to allow the schools to reach the state determined foundation budget, the state also allows for reimbursements to City’s and towns for Charter School students. This formula is based on

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.



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. 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. Fiscal Year 2011 is assumed to show a reduction in local revenues, including a major reduction Federal Reimbursement for School Medicaid services as well as reductions in . Licenses, Permits, Fees, and fines associated with economic activity. The total projected reduction in local receipts is \$3.7M

Category	FY10 Estimate	FY11 Projection	FY12 Projection	FY13 Projection	FY14 Projection	FY15 Projection
Motor Vehicle	12,100,000	12,100,000	12,300,000	12,500,000	12,650,000	12,750,000
Other Excise	2,416,000	2,775,000	2,300,000	2,400,000	2,500,000	2,600,000
Penalties and Interest	2,572,000	2,572,000	2,572,000	2,572,000	2,572,000	2,572,000
In lieu	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Charges Trash	3,750,000	3,750,000	3,800,000	3,900,000	4,100,000	4,100,000
Other Charges	200,000	65,000	65,000	65,000	65,000	65,000
Fees	1,735,420	1,587,920	1,542,420	1,542,420	1,542,420	1,542,420
Dept Rev Schools	5,610,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Dept Rev Cemeteries	230,000	189,500	189,500	189,500	189,500	189,500
Dept Rev Rec.	50,000	50,000	50,000	50,000	50,000	50,000
Other Dept	180,000	180,000	180,000	180,000	180,000	180,000
Licenses and Permits	4,784,580	4,211,410	4,249,410	4,299,410	4,444,410	4,619,410
Special Assessments	395,000	370,000	370,000	370,000	370,000	370,000
Fines and Forfeits	3,400,000	3,350,000	3,090,000	3,115,000	3,165,000	3,215,000
Investment Income	750,000	750,000	850,000	950,000	1,050,000	1,150,000
Misc Recurring	2,328,000	2,328,000	2,328,000	2,328,000	2,328,000	2,328,000
Misc Non	0	0	0	0	0	0
Total	41,901,000	38,178,830	37,786,330	38,361,330	39,106,330	39,631,330

- 7) **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 non-general fund activities, including parking, engineering and administration. Other available outside funding sources that are appropriated in the general fund would be identified in this category.
- 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, 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. More detailed analysis of some volatile expenditure areas is included with this summary report

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, streetlighting and the City's Five Point Plan Funding, much of which is targeted to project related debt service.

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. In Fiscal Year 2010, the City sought Home Rule legislation to allow for the extension of the City's pension schedule that was not granted. This projection does not assume that or any similar legislation passes.

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 2011 and 9.25%, 8.5%, 7.75%, 7.0% respectively in each of the out years of the forecast. These percentages are consistent with the cost escalation assumed by the actuaries who calculate the City's retiree health insurance liability every two years. The projection assumes that all employees and retirees are converted to a 75/25 contribution rate for health insurance. This Fiscal Year 2011 budget increase shows

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.

- 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, and streets. 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 Plan borrowing limits.
- 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 estimate. The forecast includes and assume increases in electricity and maintenance costs of 2%.
- 16) Snow Removal:** The city's budget for snow removal was included in the City's Five Point 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 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.
- 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 projection includes a \$1M assumption for carryover snow deficit in Fiscal Year 2011 based on current state of the Fiscal Year 2010 snow removal budget, and the projection assumes no carryover deficit in out years.
- 18) Five Point 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 Plan and serve to address known debt service obligations or to build the City's reserve levels which is cited annually by bond rating agencies.

19) Total Fixed Costs: The total fixed costs in this projection includes all of the above items, for a total of \$114.4M in Fiscal Year 2011, representing an increase of \$8.79M.

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 Minimum Contribution to the Worcester Public Schools which is included in this forecast, including increases associated with projected 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.

20) Worcester Public Schools: The increases in education expenditures are associated with the increases in the Required minimum 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 sake 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 2015, a 2% wage increase is assumed for all employees. Energy cost escalation of 2% to 5% is also applied to departmental energy costs including fuel and natural gas. Electricity is under contract through Fiscal Year 2012, so an escalator is assumed in that year. 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 of this projection, any assumed salary increases are included in the departmental budgets. Any amount in an out year Contingency fund is to provide a projection for the costs associated with step increases included in existing contracts that may not be captured in the departmental forecast.
- 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 Judgements 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 2011 projection assumes that state 911 funding is not available for operational salaries as it was in Fiscal Year 2010.
- 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 existence of state legislation that requires 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 11 projected deficit is \$13.3M.



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH RECEIVED
DIVISION OF LOCAL MANDATES WORCESTER CITY CLERK

ONE WINTER STREET, 9TH FLOOR
BOSTON, MASSACHUSETTS 02108

2009 NOV 25 P 12: 12

A. JOSEPH DeNUCCI
AUDITOR

TEL: 617-727-0980
1-800-462-COST
FAX: 617-727-0984

MEMORANDUM

TO: City of Worcester Election Officials

FROM: A. Joseph DeNucci, Auditor of the Commonwealth

DATE: November 23, 2009

RE: STATE FUNDING FOR THE UPCOMING U.S. SENATORIAL SPECIAL ELECTION: CHAPTER 236 OF THE ACTS OF 2004

As you may know, in September my Division of Local Mandates (DLM) determined that the entire cost of conducting the December 8, 2009 primary and the January 19, 2010 final election of a United States Senator is a state mandate subject to the state funding provisions of the Local Mandate Law. As explained in the enclosed correspondence, DLM prepared an initial estimate of the amount of the cost imposed on communities statewide of \$7.2 million. This limited estimate was based upon data you and your colleagues recently submitted for certification of state funding to assume the cost of a separate mandate, the Chapter 503 requirement for extended polling hours. As always, I thank you for your cooperation in that effort.

In keeping with past practice, the Legislature recently appropriated money to assume the cost of the extended polling hours segments of the upcoming special primary (3 hours) and election (3 hours), but to date has not allocated funds to assume the remaining cost. From this account, **the City of Worcester will receive \$39,596 for this purpose.** This is the Chapter 503 amount DLM certified for your community for the most recent state elections. Secretary of State Galvin will mail or wire transfer this funding to your municipality shortly prior to the December 8 special primary.

In the meantime, we are continuing to work with affected parties and state leaders to secure full state funding for the mandated costs associated with conducting the U. S. Senate special election. Clearly, this will not be accomplished before the election, but it is my hope that the Legislature may find the means to fund this obligation after the election is final and actual cost experience can be documented. With this in mind, I ask that you closely monitor and document your expenditures in these elections, and keep appropriate records for future use in this calculation.

If you have any questions or concerns, please contact Anthony D'Aiello at the Division of Local Mandates at (800) 462-2678 or (617) 727-0980. Please accept my very best wishes to you and your family for a joyous holiday season and a happy and healthy New Year.

Enclosure



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

A. JOSEPH DENUCCI
AUDITOR

TEL. (617) 727-2075
FAX (617) 727-2383

September 8, 2009

Theodora K. Eaton, President
Massachusetts Town Clerks' Association
Town of Needham
1471 Highland Avenue
Needham, Massachusetts 02492

Dear Ms. Eaton:

This letter is in response to your request on behalf of the Massachusetts Town Clerks' Association and all city and town clerks throughout the Commonwealth regarding the cost of conducting the upcoming special state primary and special state election for United States Senate set for December 8, 2009 and January 19, 2010, respectively. As you know, Proposition 2 ½, passed in 1980, mandated that municipalities must be reimbursed for the costs of new state mandates. My Division of Local Mandates is charged with determining whether a new law is a mandate and the costs of that mandate.

Chapter 236 of the Acts of 2004 repealed prior law that would have avoided the cost of special elections by utilizing the traditional election schedule. In contrast, current law now requires the Governor to call an election within 145 to 160 days from the date a vacancy occurs. After a review of the pertinent statutes and case law, my Division of Local Mandates (DLM) has determined that Chapter 236 of the Acts of 2004 is a state mandate subject to the provisions of the Local Mandate Law. Further, DLM has prepared an *initial* statewide estimate of \$7.2 million in costs imposed on cities and towns pursuant to this mandate. Additional costs will be incurred as discussed below.

At this time, DLM can provide a *limited* statewide estimate of the cost of conducting the upcoming special primary and general elections.. Based on recent election survey work conducted by DLM, my staff has identified \$7.2 million in direct election day costs for election day workers and law enforcement personnel. It is important to note that these costs are in addition to the state costs that Secretary of State Galvin has determined will be required by his office.

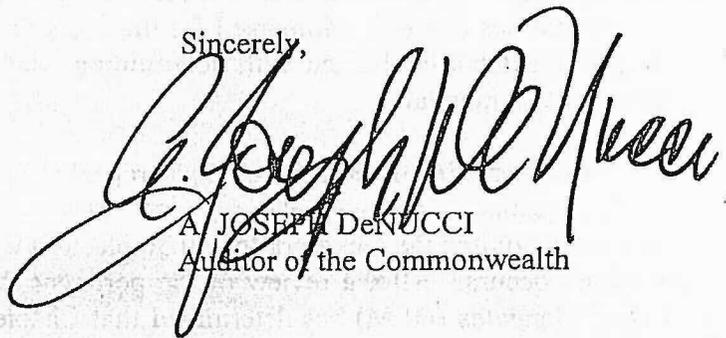
Theodora K. Eaton
Massachusetts Town Clerks' Association
Page Two

However, the final cost to cities and towns will be significantly greater than this initial estimate. This is because cities and towns will also incur costs throughout the election process, including certifying nomination papers, printing voting lists, mailing and processing absentee ballots, programming voting equipment, setting up and breaking down each polling place, renting private facilities, closing the elections process, certifying returns, and counting ballots in those locations that do not use electronic voting equipment.

Thus the \$7.2 million estimate will serve as a minimum level of funding needed to cover these costs. To establish a maximum level of funding, I propose that we use as a basis, the municipal costs associated with the most recent statewide primary and general election. This amount, less the reimbursements received from the state or federal government for certain costs, will serve as a maximum level of funding needed for the upcoming special election. A reserve account established at the Executive Office of Administration and Finance should be funded for the purpose of reimbursing cities and towns for documented costs within this range of costs. My office will work with Secretary of State Galvin and the Massachusetts Town Clerks' Association to identify all mandated final costs to be reimbursed.

I look forward to working with you and our colleagues in government on a satisfactory resolution of these important matters.

Sincerely,



A. JOSEPH DeNUCCI
Auditor of the Commonwealth

cc: His Excellency Deval Patrick, Governor of the Commonwealth
Honorable William Galvin, Secretary of State
Honorable Therese Murray, Senate President
Honorable Robert A. DeLeo, Speaker of the House of Representatives
Honorable Steven C. Panagiotakos, Chair, Senate Ways & Means Committee
Honorable Charles A. Murphy, Chair, House Ways & Means Committee
Leslie Kirwan, Secretary of Administration & Finance