



Michael V. O'Brien
City Manager

CITY OF WORCESTER

cm2010apr27183503

Attachment for Item # SUPPLEMENTAL

May 3, 2011

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

In the last few years, we have been faced with significant financial challenges due to the national and international recession. We have seen our four revenue sources—property taxes (with new construction growth), local receipts (Motor Vehicle Excise, building permits, etc.), State Local Aid, and other available funds—steadily decrease, while our fixed costs (inclusive of employee benefits) continue to rise. State Aid has been cut by nearly 35%, a loss of \$22M in annual, recurring revenue; while, local receipts have fallen nearly 12%, a loss of \$5M in annual, recurring revenue.

In this same time period, we have been required to become a much smaller organization due to these revenue declines and budget-busting employee benefit and other fixed cost growth. Our workforce has been reduced by more than 300 positions through lay-offs and attrition. We have frozen wage increases for three consecutive years. We have restructured, redeployed, reformed, reduced, introduced new technology, and cast new partnerships. Our employees continue to rise to the challenges and we have stabilized services to our community. Through it all, we have also stayed committed to our Five Point Financial Plan – demonstrating strong financial controls and a commitment to long-term stability.

My FY2012 Budget Recommendation before you identifies significant cuts to personnel and City services, reducing department and division budgets by more than 5% on average. It preserves the \$10M in unused tax levy capacity and meets the parameters for fiscal responsibility established by the City's Five Point Financial Plan.

In January, I presented to you revenue and expenditure challenges that would culminate into a \$14.3M projected budget deficit for Fiscal Year 2012. I subsequently identified a number of actions to reduce the projected deficit to \$7M, including freezing all remaining vacancies and early retirement positions. Most of the revenue forecasts have proven accurate, but our revenue growth continues to slow, particularly in the area of State Aid, while fixed costs have risen at a faster pace. The following charts summarize projected revenues and expenditures.



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| Revenue Summary | FY10 Actual | FY2011 Budget | FY2012 Budget | FY12 % |
|---------------------------|--------------------|----------------------|----------------------|---------------|
| Property Tax Levy | 204,640,944 | 215,151,680 | 223,669,013 | 4.0% |
| State Aid City | 41,207,910 | 39,751,245 | 36,658,469 | -7.8% |
| State Aid Education | 176,884,068 | 187,838,166 | 201,135,279 | 7.1% |
| State Aid Charter Schools | 4,807,799 | 4,132,681 | 4,392,162 | 6.3% |
| State MSBA Reimbursement | 19,129,087 | 16,113,046 | 15,203,374 | -5.6% |
| Local Receipts | 41,402,950 | 37,988,830 | 36,236,330 | -4.6% |
| Other Available Funds | 1,295,494 | 1,295,494 | 1,295,494 | 0.0% |
| Free Cash | - | 523,333 | - | |
| Total Revenues | 489,368,252 | 502,794,475 | 518,590,121 | 3.1% |

| Expenditure Summary | FY10 Actual | FY2011 Budget | FY2012 Budget | FY12 % |
|------------------------------|--------------------|----------------------|----------------------|---------------|
| Fixed Costs | | | | |
| Pensions (and POB) | 28,964,635 | 26,548,456 | 29,128,035 | 9.7% |
| Health Insurance (Comp/IOD) | 22,836,443 | 27,027,442 | 28,890,643 | 6.9% |
| Unemployment | 653,311 | 370,000 | 850,000 | 129.7% |
| Debt Service | 29,871,493 | 29,809,384 | 30,760,825 | 3.2% |
| Intergovernmental Charges | 3,160,975 | 3,391,121 | 3,458,944 | 2.0% |
| Streetlights | 1,887,828 | 1,976,828 | 1,987,828 | 0.6% |
| Snow Removal | 4,434,077 | 2,733,529 | 3,156,883 | 15.5% |
| Five Point Plan Funding | 12,030,263 | 14,994,768 | 14,797,112 | -1.3% |
| Total Fixed Costs | 103,839,025 | 106,851,528 | 113,030,270 | 5.8% |
| Education | | | | |
| Worcester Public Schools | 248,455,034 | 260,047,012 | 273,856,413 | 5.3% |
| Charter Schools | 23,660,337 | 25,083,545 | 26,297,661 | 4.8% |
| Total Education | 272,115,371 | 285,130,557 | 300,154,074 | 5.3% |
| City Operations Total | 111,290,858 | 110,812,391 | 105,405,777 | -4.9% |
| Total Expenditures | 487,245,254 | 502,794,475 | 518,590,121 | 3.1% |

My focus remains on identifying reforms that will preserve jobs and services in light of these economic realities. My Administration and I began the thoughtful work of developing reasonable and sustainable reforms in our provision of employee health care (in an effort to address one of the fastest-growing cost centers). This work was further supported by the Governor's and the Legislature's health care reform proposals to give municipalities the authority to develop plan designs/ co-payment structures that the State currently enjoys ("GIC-like" local plans) or to join the State's Group Insurance Commission (GIC).

My Administration moved ahead and developed three "GIC-like" options with our health insurance providers that would provide our employees with high-quality, affordable health benefits and coverage, while generating \$5 million in cost-increase avoidance for the City and \$6-8 million in cost-increase avoidance for the Worcester Public Schools. These reforms will allow for the elimination of the bulk of the FY2012 budget gap and mitigate the need for lay-offs. These health care options were presented to all City-side and Worcester Public School (WPS) employees. As you

know, I implemented these health care changes, with no wage increase, for all non-union employees beginning July 1st, preserving their jobs.

I continue to negotiate in good-faith with City-side collective bargaining unions to reach agreement on these health care changes. To date, I have been unable to reach agreements with the majority of the collective bargaining unions, with the exception of Local 170 (DPW Clerical). As a result, this FY2012 Budget Recommendation identifies 129 layoffs to resolve the \$7M deficit and present a balanced budget to your Honorable Body. I have provided department impact statements (under a separate cover), which demonstrate the degree to which our City services will be affected by the loss of these positions. My hope remains that we can secure common ground in the days ahead and reverse the lay-off processes now underway.

This Budget Recommendation will have a positive impact on the Worcester Public Schools (WPS) for FY2012. The City will provide for an additional \$1.46M to meet minimum required school funding. State Aid (Chapter 70 Education) funding increased by \$13.3M for WPS; however, the loss of Stimulus funding results in a net gain of approximately \$8.2M. As previously mentioned, the employee health insurance changes, as proposed, would generate up to \$8M in cost increase avoidance that could be re-directed to the classrooms.

As always, we will adapt as necessary to the reductions as identified in this Budget Recommendation in the event we are unable to reach accord with our City-side unions. I commit to you that we continue to dedicate ourselves to the highest level of service to our taxpayers within the limited resources available if these deep cuts must materialize. We will then focus our attention on the employee health care reforms currently in the legislative budget processes at Beacon Hill. The final outcome of their work may provide the means to restore jobs and services during FY2012, particularly if the House of Representative's version of these reforms is the final form included in the State Budget and signed into law by the Governor in late June/ early July 2011.

I respectfully recommend your approval of the appropriations shown in the Statement of Amounts included in the attached Annual Budget for Fiscal Year 2012. This recommendation calls for total expenditures of \$580,582,135. The largest item of this total expenditure recommendation is the Operating Budget (General Fund) of \$518,590,121 million. The total expenditure recommendation for all Enterprise Accounts is \$61,992,014. The accompanying budget documentation outlines the amounts and purposes for all recommended appropriations as well as estimated revenues required to support those appropriations.

Respectfully submitted,



Michael V. O'Brien
City Manager