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City Manager

CITY OF WORCESTER

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Attachment for Item #

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January 31, 2012

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

On Wednesday, January 25, 2012, Governor Patrick released his Fiscal Year 2013 Budget Recommendation. The following is a preliminary review of FY13 State Local Aid categories for Worcester based on information available at this time.

### **Unrestricted Local Aid (City)**

- The Governor's Budget level-funds State Unrestricted Local Aid to the City at \$32.6 million. This amount does not include the "one-time" amount of \$2.6 million allocated in FY12 and released in October 2011, when State revenue benchmarks were achieved. The Governor did, however, present the potential of another "one-time" allocation of approximately \$2.6 million in this aid category if State revenue benchmarks are hit in FY13. I must prepare my FY13 Budget Recommendation based on the proposed \$32.6 million in State Unrestricted Local Aid, and unfortunately, cannot include the \$2.6 million potential allocation due to lack of certainty.

### **Chapter 70 Education Aid (Schools)**

- The Governor proposed an increase of \$9.3 million in Chapter 70 (Education Aid) to the Worcester Public Schools (WPS). Per the WPS, this increase would meet their FY13 foundation budget as defined by the Chapter 70 formula and summarily would eliminate any projected structural deficit for the Worcester Public Schools for FY13. It is important to note that the City will also contribute an estimated, additional \$2.8 million to the WPS in FY13 based on the Chapter 70 formula.

The State's Unrestricted Local Aid assists to fund City-side municipal services. I am pleased by the Governor's announcement to level-fund Unrestricted Local Aid at FY12 levels given the poor performance of the national economy. We were bracing for the potential of further cuts to Unrestricted Local Aid. Below provides some historical context of funding for the State's Unrestricted Local Aid to the City and Chapter 70 (Education) Aid to WPS since Fiscal Year 2008:



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	FY08	FY09	FY10	FY11	FY12	FY13	% Change
<b>Unrestricted Local Aid</b>	\$51.7	\$46.7	\$36.9	\$35.1	\$32.6	\$32.6	-37.3%
<b>One Time Local Aid</b>					\$2.6		
<b>Chapter 70 Education Aid</b>	\$174.0	\$180.5	\$192.8	\$193.4	\$201.1	\$210.4	21%

We have clearly experienced significant reductions in Unrestricted Local Aid over the last five years. Unrestricted Local Aid is now at levels equivalent to what the City received in Fiscal Year 1986 and equates to a loss of \$20 million in annual revenue, all due to this economic meltdown. These dramatic losses and our escalating fixed costs have created annual, FY budget deficits as high as \$32 million in the last several years—deficits that had to be addressed prior to my submission of balanced FY budget recommendations.

As you know, these realities have forced us to adapt quickly to close these budgetary gaps, while concurrently stabilizing services to our residents and businesses. We have had to make very difficult choices, as all have had to do, in these tough times. We have shed hundreds of employees through lay-offs, attrition and early retirement, and departments are now at all-time staffing lows. We have offset these staffing reductions by re-organizing and redeploying entire Departments and all are feeling the strain operationally. We have initiated and enacted significant employee and retiree health care reforms that have resulted in both short- and long-term savings. We have stayed true to our Five Point Financial Plan since adoption, with a focus on recurring revenue for recurring costs and reserve-building. This has been consistently recognized by our strong and stable bond ratings, as other municipalities have applied reserves and other one-time monies to cover recurring costs and have delayed difficult decisions. Our approach and our most recent collective actions, to include the implementation of GIC-like health care reforms and settled labor contracts, have positioned the City well.

This is evidenced by the fact that our current FY13 budget deficit (the deficit that must be addressed prior to my submission of a balanced FY13 Budget Recommendation in April 2012) is approximately \$8 million after “plugging-in” the Governor’s Unrestricted Local Aid recommendation for the City. This is obviously far less than the aforementioned FY budget deficits ranging as high as \$32 million that we have had to solve prior to our balanced budget recommendations in the recent past due to this double dip recession.

The estimated \$8 million gap for FY13 is derived from the same set of circumstances as in the past: growth of fixed costs, inclusive of employee health insurance, pension, debt service; nominal wage increases for all employees (net 2.5% after two successive fiscal years with 0% wage increases); required reserve-building deposits; and flat and/ or slight growth in revenue categories. Clearly, our work on reforms have reined in the growth of fixed costs, such as employee/ retiree health care and energy, and brought such expenditure items closer in line with these revenue realities. I must once again thank our employees/ retirees and our municipal unions for their understanding of the difficult circumstances we find ourselves in and their willingness to work with us on reforms.

It is the start of the State’s budget process, and there will likely be many changes along the way. It is a good start, all things considered, and we are grateful for the State

Administration's efforts to stabilize these critical aid categories. We have much work ahead to submit a balanced budget recommendation to City Council by April. As mentioned, the estimated FY13 budget gap is far less dramatic than what we have been faced with in the years since this economic meltdown began but nonetheless a daunting task. I remain optimistic that we can get there and stabilize and maintain all current service levels. I have attached for your information the Massachusetts Municipal Association's review of the Governor's FY13 Budget Recommendation.

Respectfully submitted,

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

Michael V. O'Brien  
City Manager

## Governor Releases Fiscal 2013 Budget and Local Aid Plan



*January 25, 2012*

### **GOVERNOR'S FISCAL 2013 BUDGET PLAN INCREASES STATE REVENUES AND SPENDING BUT MOST CITIES AND TOWNS LEVEL-FUNDED**

As outlined last week by Lt. Gov. Murray at the MMA's Annual Meeting, Gov. Deval Patrick this morning submitted a fiscal 2013 state budget proposal (House 2) to the Legislature that looks much like the final budget for the current year, at least in its treatment of municipal aid accounts.

Other than a \$146 million increase in Chapter 70 education aid, the major local aid accounts for fiscal 2013 were presented exactly as they appear in the fiscal 2012 budget act that was signed into law last July.

The \$32.3 billion state budget recommendation filed by Gov. Patrick for fiscal 2013 counts on an improving state economy to generate higher tax collections as well proposals for new taxes but mainly to keep up with continued high levels of growth in state health care and safety net programs. Most cities, town and school districts face level-funding next year under the Governor's plan.

Link to the Governor's budget website:

<http://www.mass.gov/bb/h1/fy13h1/index.html>

The main municipal aid account on the Cherry Sheet, Unrestricted General Government Aid (UGGA), would be level-funded at \$834 million, the original Cherry Sheet amount for fiscal 2012. This amount does not include the supplemental \$65 million from the year-end fiscal 2011 surplus that was distributed last October. The Governor's budget bill does include language (in outside section 17) that would distribute as early as next October up to \$65 million in any year-end fiscal 2012 surplus.

The MMA has been calling on the Governor and state leaders to include the \$65 million in the base local aid amount for fiscal 2013. The governor's fiscal 2013 budget contains \$1.2 billion in revenue growth and proposed new taxes, but spends none of it on municipal aid accounts. Further, state Lottery revenues are projected to grow by at least \$20 million, but those funds are not allocated to the vital UGGA account, a major disappointment to the MMA.

Link to the Division of Local Services Cherry Sheets for Fiscal 2013:

<http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/cherry-sheets/>

Link to the Section 3 local aid numbers:

[http://www.mass.gov/bb/h1/fy13h1/os\\_13/h32.htm](http://www.mass.gov/bb/h1/fy13h1/os_13/h32.htm)

Chapter 70 school aid would be funded at \$4.136 billion, an increase of \$146 million to ensure that all

school districts can maintain at least a "foundation" level of school spending. Largely due to declining enrollment, only 114 cities, towns and school districts would receive any new aid. Two-thirds of cities, towns and school districts [213] would receive the same amount of school aid as in fiscal 2012. The Chapter 70 formula would be administered for fiscal 2013 the same as last year, except that some cities and towns with local contributions above the target amount would see the above-target amount reduced less than expected. Potentially, this could result in smaller increases for some districts.

Link to the DESE's website explaining the Governor's fiscal 2013 Chapter 70 proposal, including specific numbers for each district:

[http://finance1.doe.mass.edu/chapter70/chapter\\_13p.html](http://finance1.doe.mass.edu/chapter70/chapter_13p.html)

For municipal Cherry Sheet accounts, the Governor proposed to level fund the Payment-in-Lieu-of-taxes program at \$26.3 million and the two main library aid programs at \$16 million. The budget recommendation would increase funding for the gang prevention grant program from \$5.5 million to \$8.0 million.

For school accounts, the Governor's budget would level fund student transportation reimbursements to regional school districts at \$43.5 million, the special education "circuit breaker" account at \$213.2 million and payments to school districts losing school aid due to tuition paid to charter schools at \$71.5 million.

Because the number of charter schools is increasing this year, level-funding the charter school reimbursement account would clearly shortchange the formula, resulting in lower payments to communities than called for in the law passed just two years ago, in January 2010. Because of normal cost increases for transporting students and providing special education services, those two accounts would also represent an effective reduction in the percentage of costs reimbursed by the state, and state funding would continue to be far below the statutory aid level called for in state law.

Gov. Patrick also announced that he will file a transportation bond bill later this month that will include \$200 million for the Chapter 90 local road and bridge program. This would match the disbursement for the current year and is \$45 million more than two years ago. However, at the MMA's Annual Meeting on Saturday, January 21, the MMA members endorsed a \$300 million target for Chapter 90, because the current distribution is insufficient to meet the actual need in cities and towns.

The Governor did include a number of law changes in his budget recommendation including a provision supported by the MMA that would clarify that the state and local room occupancy excise applies to Internet room re-sellers. This would allow communities to collect the tax on the actual rate collected by merchants.

The next stop for the fiscal 2013 budget is the House Ways and Means Committee, which typically releases its version of the budget in mid-April.

Written by MMA Executive Director Geoff Beckwith