

# **Budget Update for Fiscal Years 2010 and 2011**

*City Manager Michael V. O'Brien*

*November 10, 2009*



# FY2010 Budget Recap

- Adopted Budget in May 2009 - Addressed a \$31.4M Deficit to Balance FY10. Reductions, Reforms & Net New Revenues. Five Point Financial Plan.
- **Final State FY10 Budget Actions July 2009 (Further Reductions to Local Aid, Quinn Bill Reimbursements, Home Rules on Hold). Subtotal FY10 City Deficit in July 2009 Generated as a Result of these Actions = \$8,200,000**
- Gained a One-Year Reprieve on Pension Liabilities (Due to Market Losses), Savings of \$4,500,000
- City Council Adopted Local Option in August 2009/ New Revenues = \$1,700,000
- **Subtotal City Deficit of August 2009 = \$2,000,000**
- **October 2009 State Aid 9C Cuts = \$400,000 (Quinn Bill Reimbursements & State Owned Land PILOT)**
- **Must Adjust FY10 Revenue Targets Downward Based on Trends & Projections to 6/30/10 (Interest Income, Trash Bags, Fees/Permits) = \$800,000 Were Already Adjusted Dramatically Downward in Adopted Budget**
- **Subtotal FY2010 Budget Deficit = \$3,200,000**



# FY2010 Deficit Solutions

**Subtotal FY2010 Budget Deficit = \$3,200,000**

- Unemployment Claims Lower Than Conservative Budget \$500,000
- Hiring Freeze of 10 Additional Positions  
(Above the 20+ Committed in Budget) \$500,000

**Subtotal FY2010 Budget Deficit w/ Credits = \$2,200,000**

- Solution to the Remaining Deficit is Within Reach
- Must Be Pursued Through Good Faith Collective Bargaining.
- Will Also Be Mitigated Through My Work with Chief Gemme and WPD on Departmental Structure – Plan Forthcoming in Weeks Ahead

***FY10 “Reserve for 9C Cuts” PRESERVED at \$1M to be Prepared for Additional Revenue Declines, Additional 9c Cuts and/or Expected Snow Removal Overages. MUST PLAN FOR THE WORST AND HOPE FOR THE BEST.***



# Projected FY11 Revenues

- Real Possibility of Further State Aid Reductions
- Valuations Expected to Decline Again
- New Construction Growth Projected to \$1.5M. Reduced from \$2.5 M in FY10. Perspective – New Growth in FY07 was \$4.5M
- Local Receipts Adjusted Downward
  - Interest Income Revenues Down By \$350,000 (\$2M in FY08 v. Projected \$850,000 in FY11)
  - Trash Bag Revenues Down By \$350,000 to just under \$4M
  - Permits, Fees, and Fines Adjusted Down By \$100,000 to \$1.7M
- FY11 Projected \$1M Net Increase in Revenues (Debits and Credits)

# Revenue for City Operations

Category	FY09	FY10	FY11 (Proj)
<b>Revenues</b>	<b>\$ 505</b>	<b>\$ 490</b>	<b>\$ 491</b>
Schools (Formula)	\$ 256	\$ 252	\$ 255
Charter (Cherry Sheet)	\$ 23	\$ 21	\$ 24
Fixed Costs (Benefits, Debt, Pension)	\$ 96	\$ 98	\$ 104
Snow	\$ 3	\$ 5	\$ 3
<b>Revenues Remaining for City Operations</b>	<b>\$ 127</b>	<b>\$ 114</b>	<b>\$ 105</b>
<b>FY11 Estimated Operational Cost</b>			<b>\$ 115</b>
<b>FY11 Estimated Operational Deficit</b>			<b>\$ (10)</b>



# Projected FY11 Expenditures Growth Centers

- Health Insurance (Premium Increase of 10%) \$4.4M
  - Pension Schedule Deposits for Losses \$3.1M  
*Market Changes + Actuarial Review Adjusted from \$4.5*
  - Increase in Five Point Plan Fund Deposits \$2.6M  
*North High Construction and Bond Rating Stabilization Fund*
  - Increase Snow Removal Budget \$300,000  
*By 10% per Five Point Plan*
  - Increased Contribution to WPS \$2.3M  
*Per State Formula and DOR Growth Rate*
  - Projected Cost Increases/ Obligations (Energy, Debt Service, Workers Compensation) \$300,000
- Subtotal FY11 Expenditure Increases \$13M
- Anticipated Settlements, Reorg, & Reforms \$2M
  - Net New Estimated FY11 Revenues \$1M

# Projected FY2011 Deficit

- Continued Cooling Economy
- Realistic Budgeting for Known Growth Centers
  - Adjustments to Local Revenues, Reflect Economy
  - Health Care Costs Premium Growth of 10%
  - Education Funding Growth Factor of 2.2%
  - Pension Liabilities
  - Snow Removal Budget Increases Per Five Point Financial Plan
- Assuming State Aid is Level-Funded
- Assuming No Snow Carryover from FY10
- Assuming 0% Wage Increases for FY11 Unsettled Contracts
- **At a MINIMUM, FY11 Projected Deficit is \$10M**



# Potential FY11 Solutions

- Airport Transfer to MassPort \$1,500,000

## Legislative Actions:

- Pension Schedule Extension \$3,100,000
- Early Retirement Option \$2,000,000
- Full Closure of Telecom Loophole \$1,500,000
- Other Legislative Actions...MMA

# The Year Ahead

- Five Point Plan In Action. Reductions, Reforms and New Revenues. Live Within Our Means. We Are At the Juncture of Less with Less...
- State Partnership – Reforms in Lieu of Reduced Revenue. Self Determination.
  - Home Rule Petitions for Pension Schedule Extension and ERI
  - MMA’s Legislative Reforms
  - Full Closure of the Telecom Loophole
  - Chapter 70 Funding Formula Reform and Others
  - Gateway Cities Legislative Agenda for Urban Centers
- Fiscal Management is Sound—Difficult Prudent Decisions and Reforms Have Helped Maintain Bond Ratings
- Partnership with Worcester Public Schools Is Key to Our City’s Future... Through the Difficult Times and the Better Days Ahead...



# City/WPS Partnership

- Preserved and Exceeded Minimum Education Funding
- Allocated \$2.1M in FY10 Health Trust Surplus to Provide Funding Above the Minimum Contribution in the Absence of School-Side Collective Bargaining Reforms
- Governor Stabilized FY10 Budget with Education Stimulus Funding. City Maintained 1% Grant Cross Charge on These Funds
- City Prepared to Maintain FY10 Education Funding (Above Required Minimum Contribution)—Despite Further 9C Cuts
- Reforms—Health and Pensions Savings—Allow for Funds to be Redirected to the Classroom, When Enacted