



## CITY OF WORCESTER, MASSACHUSETTS

Michael V. O'Brien  
City Manager

cm2009mar13160455

Attachment for Item #

8.34 A

March 17, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

My Administration and I continue to build an 18-month budget recommendation that spans from January 1, 2009 through June 30, 2010. As of this writing, we expect to submit this balanced budget recommendation to City Council on March 27, 2009 for your review and deliberation. This comprehensive budget document will outline our priorities, the line item by line item costs and our known revenues that will fund these priorities. This community process will require prioritization and choices, more so than ever in our recent history, due to a global economic crisis.

It is widely accepted that the downward economic trends are expected to continue for the foreseeable future, potentially until FY2012. As reported in a *Boston Globe* article this week (see attached), the State's revenues continue to plummet well below adjusted expectations and recent estimates pegged that decline to be as much as \$1.1 billion less than the previous projections. The Commonwealth is a key strategic partner with the City, funding 25% of City-side services and over 75% of the Worcester Public Schools through local aid distributions. This precipitous decline in the State's revenues could very well translate into further reductions to local aid to cities and towns, far below the Governor's recommendations contained in his FY 2010 Budget submission. This reality is just one of many bright "red flags" we must recognize in all our efforts and deliberations. This is an unprecedented, multi-year crisis where educated budget assumptions made just months ago now no longer apply. We will need to continue to adapt, mitigate and persevere through.

It had been recently reported that there remains a belief that both the Federal and State governments will step up and fully address this multi-year crisis here in Worcester. This myth forges a desire to "wait and see". We know they will do all they can to assist, but you can see by the previous example, their own fiscal limitations and strife will limit those options. We must be honest and candid and recognize that it will be our timely actions locally that will bring about the lion share of real solutions. It will be our actions that will set the foundation for any Federal and State assistance. The following is an update of our ongoing efforts:



## FY 2010 Updated Projections – As of March 17, 2009

### DEFICIT:

• <u>Governor’s Proposed FY 2010 Local Aid Reductions &amp; Other Cuts</u>	(\$16,800,000)
• <u>City’s FY 2010 Adjusted Exp./Rev. Projection (Non-State Aid)</u>	(\$ 7,000,000)
• <u>FY 2009 Snow and Ice Removal Carry-Over to FY 2010</u>	(\$ 3,300,000)
○ <i>This reflects an \$800,000 increase due to recent storms.</i>	
<b>Subtotal City-Side Projected FY 2010 Deficit</b>	<b>(\$27,100,000)</b>
• <u>FY 2010 City-Side Required Pension Deposit</u>	(\$ 4,500,000)
<b>Total City-Side Projected FY 2010 Deficit as of 3/17/09</b>	<b>(\$31,600,000)</b>

### NEW REVENUE/ REFORM/ RESTORATION:

• <u>Extension of Pension Schedule and Early Retirement Incentive</u>	\$ 6,500,000
• <u>One Time Revenues/ One Time Costs – Snow Removal Carryover</u>	\$ 2,500,000
• <u>One Time Revenues for Recurring Costs to Stabilize Services</u>	\$ 1,500,000
• <u>Seventy Current/ Projected Open - Frozen Positions</u>	\$ 2,500,000
○ <i>The additional \$500,000 factors the health care cost savings associated with the 50 Current Open Positions (as presented at a recent City Council Meeting). These savings are based on the average employee health plan cost per position (opt out, individual and family average).</i>	
• <u>Non-Union Employees Wage &amp; Benefit Changes</u>	\$ 850,000
○ <i>Non-represented (non-union) employees will transition to a 25% health care contribution rate (majority currently at 20% contribution rate) and will have a 0% wage increase factored for FY 2010. This action will reduce the number of non-represented employee layoffs by 15.</i>	
• <u>Increase in Administrative Fee for Grants</u>	\$ 1,000,000
○ <i>The Administration will increase the administrative service fee cross-charged to all grants, to include CBDG and capital projects, from 1% to 3% for all City services and personnel hours dedicated to their implementation. The City cross-charges all Federal and State grants for the services and personnel hours directly associated with the macro-management of these activities such as payroll, procurement, auditing, legal, collections and much more. The administrative service fee percentage has not changed since the 1990’s and this 2% increase properly reflects our actual costs to perform this work. These new revenues must be applied to the Departments/ Divisions that perform this work – this will restore 17 positions.</i>	
• <u>911 Communications – Grant Funding</u>	\$ 627,138
○ <i>The City will receive \$627,138 in a Support Grant from the Massachusetts State 911 Department. These funds are generated from phone surcharges and are typically applied to equipment upgrades and modernizing communications centers. David Clemons, Director of Communications, successfully advocated that these FY 2010 support grant dollars be allocated to retain existing 911 Communications personnel. His successful efforts will reduce the projected number of layoffs within our 911 Communications Division by approximately 15</i>	

employees. I have attached a detailed memo from David Clemons. I also extend my appreciation to him for the thoughtful and diligent work.

- Federal Edward Byrne Justice Assistance Grant – WPD \$ 791,673
  - The City is eligible for \$791,673. These funds can be used to support the preservation of police officer positions and will be applied to mitigate layoffs within the Worcester Police Department. These funds will be applied to stabilize existing filled positions.

**Subtotal FY 2010 City-Side Revenue/Reform/Restoration as of 3/17/09** **\$16,268,811**

- These actions above reduce our projected layoff total from approximately 400 employees to approximately 320 employees.

**Total City-Side Projected FY 2010 Deficit as of 3/17/09** **(\$15,331,189)**

**STATE LEGISLATIVE ACTIONS:**

- Emergency Recovery Bill - State Estimated Net New City-Side Revenues \$11,276,707
  - ERI and Pension Extension Home Rule Legislation noted earlier are also dependent on State Legislative Action.

**OTHER ITEMS UNDER CONSIDERATION:**

- Impact Bargaining with City-Side Collective Bargaining Units \$ 5,850,500

- Impact bargaining continues with City-Side Collective Bargaining Units to preserve their respective memberships' jobs and avert as many layoffs as possible. I have committed to preserving jobs/ membership in each respective Union willing to work with the City on these reasonable reforms. Below is a summary of options that have been presented to all employees to generate potential savings:

<u>Public Safety</u>	<u>\$\$ Saved</u>	<u>Jobs Saved</u>
Health Insurance 75/25 w/ Plan Design	\$1,200,000	16
Wage Proposals	\$2,600,000	36
<u>Other Unions</u>		
Health Insurance 75/25 w/ Plan Design	\$ 720,500	16
Furlough for One Week/5 Days	\$ 527,000	10
Wage Proposals	\$ 403,000	10
<u>Non-Represented Employees</u>		
Furlough for One Week/5 Days	\$ 400,000	7
<b>Total:</b>	<b>\$5,850,500</b>	<b>95</b>

I intend to request the furlough days on July 3<sup>rd</sup>, September 4<sup>th</sup> and November 27<sup>th</sup>. It would be my recommendation to close City Hall and non-Public Safety City offices on these three days if agreements are reached with the respective unions. Over 15% of non-public safety employees take off those days based on historical data. The remaining two days would be at the discretion and direction of Departmental management in an effort to minimize disruption of City government.

- City Street Light Acquisition and Maintenance \$ 900,000
  - The current City street light budget is \$2.9M and is comprised of annual costs for leasing of the light poles and luminaires from National Grid (approx. \$2.0M) and annual cost for electricity (approx. \$900,000). In the early 1990s, similar budget

challenges required the City to shut-off 1,065 street lights in order to reduce the pending deficit. These lights were left off until the mid-1990s and served as visible reminder of the City's budget strife. A similar approach to our current budget challenge would result in the shut-off of nearly half of the City's street lights.

Commissioner Moylan has thoroughly researched and negotiated the possibility of purchasing the street light system from National Grid at a price that is significantly less than the several millions of dollars proposed in the early 1990's. Our purchase price of the system, combined with an annual comprehensive all-inclusive maintenance contract and the annual cost of electricity, would total \$2M, resulting in a net savings to the City of \$900,000. This proposal requires further analysis to ensure that these savings factor all long-term maintenance and capital expenses. I intend to present a final recommendation next week. It will be my recommendation to apply these savings to mitigate the service cuts within the Department of Public Works and Parks.

- Pay as You Throw – Trash Bag Fee Increase of 50 Cents Per Bag \$1,000,000
- Fee Increases – Departmental (Parking, Inspectional Services, etc.) \$ 500,000
  - Recommendations to be part of the FY 2010 Budget
- Employee Health Insurance – Third Party Administrator \$ 1,500,000
  - We continue to analyze new products, plan designs and other alternatives to reduce the skyrocketing costs of employee health insurance. We are currently reviewing the prospects of engaging a Third Party Administrator (TPA) that could potentially reduce our administrative costs by more than \$1.5M annually. The use of a TPA is a prevalent practice among large self-funded organizations, such as the City. The TPA acts as the group's administrator of the health plans, supplying access to doctor and hospital networks, performing claims processing and coordinating all aspects of an organization's health care needs.
- Reduce Capital Borrowing Cap \$ 300,000
  - The Five Point Financial Plan allows for an inflation-adjusted borrowing cap of over \$18M for tax-levy supported borrowing for FY 2010. I am evaluating the reduction of our tax-levy supported borrowing by \$3 million to a revised, one-year cap of \$15M to mitigate our debt service exposure in FY 2010 and beyond. This would result in 15% less spending on capital projects.

We cannot be lured into the false sense of security that these projected deficits are fixed and finite and these solutions/ revenues are set in any way. It is quite the opposite. They are all subject to change based on a host of economic variables (most negative) and subject to the cooperation and approval of others. We will need to pursue all recommendations and opportunities for we are in unprecedented, volatile times and it will be a multi-year endeavor to successfully stabilize municipal services and our community.

Respectfully submitted,



Michael V. O'Brien  
City Manager



## CITY OF WORCESTER, MASSACHUSETTS

Department of Police  
Communications Department

Gary J. Gemme  
Chief of Police

David W. Clemons  
Director of Communications

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**To:** Michael V. O'Brien, City Manager  
**From:** David W. Clemons, Director of Communications  
**Date:** March 10, 2009  
**Re:** Emergency Communications Center Grant for FY'10

Working with the Budget Office, it had become clear that funding to maintain adequate dispatcher staffing levels in FY 2010 would be a struggle, if even possible. To their credit, they are encouraging "outside the box" strategies and revenue streams.

With this in mind, when the State 9-1-1 Department, a division of the Massachusetts Executive Office of Public Safety and Security, announced that the Public Safety Answering Point (PSAP) Support and Incentive Grant will continue through FY 2010, I requested a meeting.

In FY 2009, Worcester received \$547,700 to purchase equipment in support of providing enhanced 9-1-1 services. This will allow us to completely renovate the communications center which is expected to be completed by June 30, 2009. With the scheduled upgrade to our equipment combined with the current budget crisis, I felt it was imperative to apply all potential funds for FY 2010 to personnel.

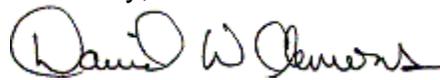
After meeting with the State 9-1-1 Department and Commission to explain our financial outlook for the upcoming fiscal year including the potential staffing impact, I stressed that their commitment to funding personnel for FY 2010 was needed sooner rather than later to avoid the potential layoffs. Based on this meeting, I am pleased to provide you with the attached letter indicating that Worcester will be slated to receive \$627,138 in



Support Grant funds. More importantly these dollars can be applied directly to dispatcher personnel costs. There is no match requirement for this award.

With the funds from this grant, combined with the funding of four dispatchers from UMass Hospital per our ambulance service agreement, almost half of our dispatch staff will be funded from outside sources.

Sincerely,

A handwritten signature in black ink that reads "David W. Clemons". The signature is written in a cursive style with a large initial "D".

David W. Clemons  
Director of Communications



The Commonwealth of Massachusetts  
EXECUTIVE OFFICE OF PUBLIC SAFETY AND SECURITY  
**STATE 911 DEPARTMENT**  
1380 Bay Street, Building C ~ Taunton, MA 02780-1088  
Tel: 508-828-2911 ~ TTY: 508-828-4572 ~ Fax: 508-828-2585  
[www.mass.gov/e911](http://www.mass.gov/e911)



**DEVAL L. PATRICK**  
Governor

**TIMOTHY P. MURRAY**  
Lieutenant Governor

**KEVIN M. BURKE**  
Secretary of Public Safety  
and Security

**FRANK POZNIAK**  
Executive Director

March 6, 2009

David W. Clemons, ENP  
Director of Emergency Communications  
City of Worcester  
9-11 Lincoln Square  
Worcester, MA 01608

Dear Director Clemons,

The Massachusetts State 911 Department ("Department") Support Grant program is authorized by Mass General Laws Chapter 6A Section 18B (i)(2) as amended by Chapter 223 of the Acts of 2008. The statute states in relevant part that "Funds shall be disbursed according to a formula that weighs both population served and 911 call volume, unless a different formula is approved by the commission. Twenty-five per cent of the total surcharge revenues of the previous fiscal year shall be allocated to this grant, unless such percentage is otherwise increased by the approval of the commission for the purposes of this grant."

This and all other grant programs authorized by Chapter 18B are administered by the Department based on Guidelines approved by the State 911 Commission ("Commission"). The guidelines and funding levels of the Support Grant are reviewed annually by the Department and Commission and are subject to change with each funding cycle consistent with the parameters set forth in the statute. The 2008 call volume figures that will be used to calculate the FY2010 allocation have not been finalized yet and the FY 2010 Grant Guidelines have not been formulated.

The Support Grant program will continue in FY 2010. The Department anticipates that the FY 2010 Grant guidelines and application will be available this spring with the funding cycle beginning July 1, 2009 and ending June 30, 2010. Based on the current call volume figures for the City of Worcester and the current Department Grant Guidelines, Worcester will be slated to receive \$627,138 in Support Grant funds. This figure includes an additional \$3,165 for dispatching police, fire and EMS under one roof. Enhanced 911 telecommunicator personnel costs including salary will continue to be an eligible use of Support Grant funds.

If you have any questions, please contact me at 508-828-2911.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Pozniak". The signature is written in a cursive style with a large initial "F" and a long, sweeping underline.

Frank Pozniak, Executive Director

**boston.com**

THIS STORY HAS BEEN FORMATTED FOR EASY PRINTING

## State deficit may hit \$1b again

The Boston Globe

### Senate budget leader, fiscal group sound alarm

By Frank Phillips, Globe Staff | March 12, 2009

As tax revenue continues to dwindle, Beacon Hill leaders are confronting an additional budget gap of as much as \$1 billion this year, forcing lawmakers to choose between deep spending cuts and broad-based tax increases.

The new estimate by a Senate budget leader, which was confirmed by a state fiscal watchdog group, is the latest in a cascading series of grim revenue forecasts, which has already compelled Governor Deval Patrick to close a \$1.4 billion shortfall in the state's \$28 billion budget in October and an additional \$1.1 billion little more than a month ago.

Senator Steven C. Panagiotakos, chairman of the Ways and Means Committee, said that tax revenues have fallen well below expectations for the first few months of the year and that the fall-off could be a harbinger of a major slump between now and June 30, the end of the state's fiscal year.

"We have a potential \$700 million to \$800 million deficit facing us," said the Lowell Democrat. "It's a real possibility. It has the potential to come close to \$1 billion."

His estimate is nearly twice as high as the current figure circulating around the State House. It also augurs for an almost unmanageable deficit in the next three years that can only be closed with a combination of painful spending reductions and new sources of revenue, primarily from broad-based taxes such as income and sales levies, said legislative leaders and budget specialists. The local aid account, which Patrick has already trimmed, could face even deeper cuts next year than proposed as part of his budget.

Panagiotakos said he was prompted to revise his estimate of the deficit because he was alarmed over the February slump in revenue, which came in \$86 million lower than predicted. He said he feared it could foreshadow an equally poor showing for March and April, when the state depends on a large influx of tax revenue.

Outside budget analysts agreed.

"It's a free fall," said Michael Widmer, the president of the Massachusetts Taxpayers Foundation. "The world economy is tanking faster than we can comprehend."

Both he and Panagiotakos said that the Legislature's only option at this point is to pull more money out of the stabilization fund to deal with the deficit in the current budget because most state accounts are close to depletion as the fiscal year draws to a close.

That fund, which held \$2.62 billion eight months ago, will probably be less than \$1 billion by the end of June if the decline in state tax revenue continues. In addition, Massachusetts is expected to get another \$247 million in federal stimulus money that can be used to help cover the gap. Already \$533 million in stimulus funds has been factored into the budget plans.

Panagiotakos and other legislative leaders are also predicting that the gap between expenses and revenues in the next fiscal year could exceed \$4 billion, a level that can only be dealt with by finding new revenues sources and use of the state's dwindling rainy day fund if Draconian cutbacks in state service are to be avoided.

"The Legislature faces a huge dilemma," Widmer said. "With no new taxes, they would have to decimate state

programs. Even with a major tax increase, there will be major cuts."

Patrick's fiscal aides, while acknowledging that the fiscal outlook is becoming increasingly dire, said they are undertaking a mid-year budget review and will not come to any firm conclusions until the end of this month..

"We know already that we have some deficiencies that will likely require additional budget solutions this year, thanks in part to faster-than-expected deterioration of the economy," said Cyndi Roy, a spokeswoman for Patrick's budget office.

Representative Charles A. Murphy, chairman of the House Ways and Means Committee, cautioned that the predictions coming out of the Senate are just projections and said he is waiting for March and April revenue figures before revising budget estimates.

"It is all about trying to predict the future, and no one can at this point," said Murphy, a Burlington Democrat. "I can't say if it is understated or overstated. We just at this point differ on projections."

Following a caucus where House lawmakers listened to economists and other fiscal specialists outline a bleak fiscal future for the state, House Speaker Robert A. DeLeo, who this week pegged the current budget deficit at \$50 million to \$500 million would not rule out a major tax hike to help balance next year's fiscal plan. He said lawmakers must first cut as much as they can from state programs.

"In light of the situation, I don't think you can consider anything off the table," DeLeo said when asked whether a broad-based tax increase will be necessary.

But it would be extremely difficult to persuade lawmakers to back a tax package, particularly one that includes an income tax hike, he added. "We're caught between a rock and a hard place."

DeLeo said there is little support among House members for an income tax hike, particularly after voters had called for cutting the rate from 5.5 percent to 5 percent in a 2000 referendum. Despite continued pressure from activists, the Legislature has not dropped the rate below 5.3 percent. Some legislators have suggested raising it to 5.4 percent, a hike that could raise \$1.5 billion to \$2 billion annually.

Panagiotakos said that winning political support for an income tax increase would be nearly impossible. He said cutting spending is the first alternative, but was not sure it would be enough to solve the problem without devastating state programs.

He suggested that a one percentage point hike in the 5 percent state sales tax could be preferable to an income tax hike. That would produce about an extra \$750 million in state revenue. ■