



Michael V. O'Brien
City Manager

CITY OF WORCESTER

June 23, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

The State Legislature (both the House and Senate) adopted their Conference Committee's FY2010 Budget recommendations, respectively, on Friday, June 19, 2009. The Legislature's Conference Committee's recommendations were a clear reflection of the precipitous drop, and continuing decline, of overall State revenues and the necessary - across the board - expenditure reductions required to balance their FY2010 Budget.

Our preliminary analysis of their FY2010 Budget indicates that our City-side State local assistance, reimbursements and grants have been reduced by approximately \$18.8 million from our FY09 levels, or approximately 31%. We began FY09 with \$60.4 million in overall City-side State support. The Legislature's FY2010 Budget, as adopted, reduces our State local assistance, reimbursements and grants to a revised FY10 total of \$41.53 million dollars.

As you know, the City's adopted FY10 Budget was built upon the Governor's proposed FY2010 Budget. The Legislature's adopted FY2010 Budget further reduces the Governor's proposed levels by just over \$2 million dollars. This is comprised of additional reductions to City-side State local assistance of \$340,000; an additional \$1.3 million dollar reduction in the State's annual Quinn Bill reimbursement (for their 50% share of the Quinn Bill costs); and a factored minimum \$425,000 reduction in previous levels of Shannon Grant support (State's line item is funded at 50%).

The Legislature's adopted Budget reduces our annual State reimbursement for the Quinn Bill by \$2.4 million dollars (an additional \$1.3 million dollars less than the \$1.1 million dollars the Governor's FY2010 proposal had cut from our Quinn Bill reimbursements). The total cost to the City of this benefit is approximately \$5.6 million annually, of which 50%, or \$2.75 million, was to be reimbursed by the State in FY09. The Legislature's Budget, as adopted, does provide language that the Commonwealth will no longer reimburse (at any percentage rate) for the Quinn Bill benefit for any police officer hired or rehired after July 1, 2009. Their final Budget, however, does not provide any language to relieve the City's of its obligation to pay the State's 50% share of the Quinn Bill benefit. Any change to this benefit will require bargaining with the police unions. As noted, their FY2010 Budget also reduces the Shannon Grant line item by 50%, which had previously provided the City with \$850,000 to support community policing strategies through overtime and programs. This funding supported street



OFFICE OF THE CITY MANAGER, CITY HALL, WORCESTER, MA 01608
TELEPHONE (508) 799-1175 | FAX (508) 799-1208
EMAIL: citymanager@ci.worcester.ma.us



violence programs, gang violence prevention, and youth intervention programs. Additionally, I must also note that the City's \$800,000 allocation of State community policing dollars has also been cut.

This \$2.065 million dollar reduction is over and above the \$31.4 million dollars of budget reforms, revenues and reductions that have balanced the FY10 Budget Recommendation as adopted by City Council on May 12, 2009. This additional potential \$2.065 million dollar cut could represent the elimination of an additional 40 positions from the FY10 Budget, bringing the total number of eliminated positions from the FY10 Budget to over 330.

The Legislature's Conference Committee had difficult choices to make to balance the State's FY2010 Budget. However, there is recognition of the needs of the City to be able to independently raise required revenues to support municipal services. Their adopted FY2010 Budget closes the "telecom loophole" on Verizon's poles and wires and provides the local options for cities and towns to increase the taxes on hotel occupancy by 2% and on meals by .75%. These reforms were introduced over two years ago by the Patrick Murray Administration though the Legislature has modified their final form and format. The telecom loophole closure factors poles and wires only (switchgears, transformers and other physical plant were not included). This fact, and the continued central valuation by the State of these telecommunication assets, will result in a much lower revenue estimates than previously presented by the Commonwealth. The Budget also notes the effective dates of August 1, 2009 and October 1, 2009 for the hotel occupancy tax and the meals tax local options respectively, conditioned of course on the recommendation and the adoption of these local options by the City. State estimates indicate that these could result in \$2 million dollars of net new revenues to the City depending on a host of factors (central valuation of poles and wires, adoption of local options, timing of adoption, economic activity, etc.). Analysis is underway to determine the potential of all these new revenue sources given current market conditions and the timing of implementation.

The Early Retirement and Pension Schedule Extension Home Rule Petitions are still before the Legislature. These two local reforms are inclusive of all necessary financial checks and balances. If these responsible local reforms are not approved, we will then be forced to reduce our FY10 expenditures by an additional \$6.5 million, requiring further draconian cuts in personnel and services. This would bring our total number layoffs and position eliminations to almost 460 if all these scenarios were to materialize. This equates to a 27% reduction in the City-side workforce.

Clearly, any health care reforms agreed to with our bargaining units, in step with the Worcester Clerks, Local 170, Local 1009 and implemented for Local 495, would assist in our ability to buffer these cuts and any further cuts. Their willingness to adjust to a 25% contribution rate (from the current 20%) and to industry aligned co-pays (\$10 Office, \$20 specialty, \$75 ER, \$150 outpatient, \$250 inpatient) for their employee health care could allow over \$700,000 taxpayer dollars to be redirected to preserve their membership's jobs and to preserve the City services. These actions, combined with a willingness to sign for a zero percent wage increase next year (as budgeted for FY2010), are part and parcel of our work together to stabilize our community through these turbulent economic times.

The Governor has ten calendar days to evaluate and to act on the State Legislature's FY2010 Budget. This ten day timeline would equate to his necessary actions on the

Legislature's Budget by the first part of next week. Any potential line-item vetoes by the Governor would then require the Legislature to reconvene to over-ride these actions if there is consensus to do so. This could result in further delays on a final State Budget. Like so many, I intend to monitor this process, as well as the status/ actions on our Home Rule Petitions, very closely and steward as required.

I will keep the City Council informed of this entire process and any and all progress as it evolves and will brief all, as well as the community, on potential actions and recommendations based on the State's FY2010 Budget, as adopted, and our Home Rule Petitions. I anticipate it to be a "work in progress/ resolutions defined once extent of challenges are known" for the first few weeks of July 2009, our FY10, as State information becomes available. I will prepare a comprehensive report for the City Council's July 21, 2009 Meeting that will reflect the final State Budget and actions, our final analysis of potential new revenues, further State direction, additional Departmental reviews with Cabinet Heads and input/responses from ongoing briefings. These will come together as a series of actions and recommendations that will need to take place to balance our FY2010 Budget. We will be under pressure to adapt as soon as possible within the new FY, with and upon clear direction from the State, to minimize the depth of reductions required to concurrently preserve municipal services and balance our budget.

Respectfully submitted,

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

Michael V. O'Brien
City Manager