



CITY OF WORCESTER

JANUARY 27, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

Governor Patrick announced a mid-year Local Aid reduction of approximately \$128 million, or 9.75%, to cities and towns for FY 2009. He also announced a proposed reduction of \$375 million in Local Aid for FY2010 to be included as part of his House One Budget which is set to be released on January 28, 2009. He presented a series of proposed initiatives that he stated would be embodied in an "Emergency Relief Bill," as well as within House One, and may provide for new revenues to offset these deep cuts in Local Aid. These initiatives include: the Telecommunications Loophole Tax, Hotel and Meal Taxes, Reforms to the GIC, changes to the State's Education Aid Foundation Formula and others. He also presented that State Aid (or Chapter 70) education funding would be "held harmless" (or not reduced) in FY 2009 and would be level-funded within House One for FY 2010.

Twenty five percent (25%) of the City-side Annual Budget is funded by the State through Local Aid. An annual reduction of 9.75% in FY 2009 equates to a little over \$5 million. The practical effect of this is an \$11 million reduction for there is less than six months to effect these changes and realize the savings. However, it is too soon to draw any conclusions from the Governor's announcement and we await the published 9-C reductions to determine the reality of its effect on City government. It is also important to note that there could be further 9-C reductions that are not embodied in the referenced direct percentage cut, such as the elimination of grants and earmarks. These would cause further detriment to the current FY Budget. All of these remain as unknowns as of this writing.

Further compounding the FY 2009 challenge is the reality of what we can expect for FY 2010 Local Aid. The impact of a \$375 million proposed State-wide reduction in Local Aid in the Governor's FY2010 Budget could triple or quadruple that of the FY09 9C cut. This proposed State cut would be compounded further by declining City revenues, increasing fixed costs and snow removal deficits that I identified in previous memorandum.

The Governor's House One Budget and his Emergency Relief Bill are the beginning of the State's FY budget process and the final versions of these will be determined by the Legislature. It is for this reason a key milestone for us is the FY 2010 Joint Resolution on Local Aid from the Legislature. This is the definitive answer on State Aid levels from which we can build a FY 2010 Budget. For the last two years, we have been given this information in early March.

It is also important to note that each of the Governor's local options and initiatives presented, if there were ever quick legislative action on his Emergency Relief Bill, would buffer the need to reduce our Budget dramatically to meet these deep cuts to the City-side for FY09 and FY10. These are all variables with a range of potentials, both positive and

negative, that require more due diligence and reconnaissance in the weeks ahead prior to decisions to balance both the FY09 and FY10 Budgets.

Our citizens and our loyal employees deserve the respect of the right information and the right decisions for the long term. We must work from reality and undertake new, sound financial and operational reductions, reforms, reorganizations and revenues. First, my Administration will secure the State's written summary of the 9-C cuts in their totality and analyze these for all that pertain to Worcester. Second, we will secure the proposed Governor's House One FY 2010 Budget on Wednesday, January 28th and will evaluate and analyze this document for all line items that pertain to Worcester. Third, we will evaluate the other revenue options the Governor presented and will determine, with proper and thoughtful analysis and risk management principles, which initiatives we may be able to include as reduction buffers (with dollar estimates). Fourth, I will then seek to determine from our State House Delegation when we may see the Joint Resolution on Local Aid for FY 2010 as well as insights on prospects for the passage of the Emergency Relief Bill (which are both keys to shaping the City's FY2010 Budget Recommendation).

With all this information gathered, I believe it will be prudent to build an 18-month FY Budget – to include a Revised FY2009 Budget/ an Immediate FY2010 Budget - to properly transition to these reductions and to address all required changes and adaptations - and to do this once – inclusive of this period from January 1, 2009 through June 30, 2010. All involved in this process – citizens, employees and those that depend on City services will benefit from one difficult but seamless approach. This will require immediate and short-term actions on multiple fronts: City Collective Bargaining, Administration Recommendations, City Council Actions, State Legislative Actions, School Committee Actions, etc. I have begun the preparations of a much more comprehensive and detailed memorandum and schedule that identifies and clarifies all of these variables, milestones and timelines for the City Council Meeting on February 3, 2009.

This will be an evolving process and will involve very difficult decisions in the days, weeks and months ahead affecting City services, livelihoods and our quality of life. What you can expect without question from my Administration and me throughout this process is thorough planning, fiscal prudence, candor, transparency, communication, creativity and partnership – all to stabilize our community through this difficult period. I humbly and respectfully submit that our community will be best served through this crisis by leadership, straight talk as to the facts/realities, focus and unity – for it is, for all intents and purposes, “emergency ops” from today though the foreseeable future.

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