



Michael V. O'Brien
City Manager

CITY OF WORCESTER

Attachment for Item #

March 23, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

On March 12th, Beacon Hill leadership (from the House and Senate) announced that their Fiscal Year 2011 budget recommendations will include a reduction of up to 4% in local aid to cities and towns. This will equate to the loss of approximately \$1.4M dollars in unrestricted, City-side State aid for next fiscal year. This added reduction to City-side local aid will bring us to the annual, recurring loss of nearly \$22 million of local aid for each of the last two fiscal years.

This reduction of \$1.4M dollars of City-side State aid increases the projected FY2011 deficit provided to your Honorable Body on March 2, 2010. As you know, our original projection was predicated on the level funding of City-side State aid as proposed by the Governor.

A brief summary of our status is as follows:

City-Side Projected FY 2011 Deficit as of March 2, 2010	(\$ 14,000,000)
• <u>Additional Local Aid Reduction (March 12, 2010)</u>	(\$1,400,000)
• Effect of State Aid Reduction on Education Funding Formula	\$400,000
 Total Revised FY 2011 Deficit Projection	 (\$ 15,000,000)

I believe there are responsible solutions to apply to this projected FY2011 deficit, the majority of which were previously presented to this City Council. Please see attached March 2, 2010 City Council memorandum for more detail*:

• Pension Schedule Extension Legislation*	\$ 1,700,000
• Early Retirement Incentive Legislation*	\$ 2,000,000
• Full Transfer of Worcester Regional Airport (Annual Savings)*	\$ 1,200,000
• Employee Insurance Reforms and Premium Savings*	\$ 1,100,000
• 10 Additional Open/ Frozen Positions for FY2011*	\$ 500,000
• Unemployment Benefits Savings*	\$ 500,000
• Federal Medicare Reimbursements	\$ 2,500,000

Further Federal revisions to the reimbursement formula will likely restore approximately \$2.5M of the previously expected \$3.5M reduction.

Sub-total Projected City-Side FY 2011 Deficit Factoring Solutions (\$5,500,000)



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Over 85% of our budget is comprised of personnel costs with the remainder fixed costs such as debt service, utilities, etc.. Over the last two years, we have laid off, cut and/ or frozen hundreds of City positions to address the effects of a deepening recession (reductions in State aid, declining revenues, etc.) with the resultant reduction and /or elimination of services. We have credited those direct savings to balance those previous FYs Budgets. We have also included in these budgets the savings realized from freezing most positions that open during the FY to mitigate layoffs and transition more slowly to required, lower staff levels. The compounding effects of these actions are that we are at all-time-low staffing levels.

The impact of these staffing reductions – which have come in the form of the elimination of vacant positions and employee layoffs in both FY09 and 10 – is reflected in the chart below. This chart also identifies the effect of the Early Retirement Incentive (if approved) in FY11. The chart does not include the 110 possible layoffs that would be required to address the projected \$5.5M dollar deficit. It is important to note that the hypothetical departmental staffing levels for FY11 in this chart reflect an even distribution of early retirements and vacancies throughout City government. Actual departmental numbers would need to be adjusted to reflect employee eligibility, vacancies and proposed program/service reductions.

*The additional 10 positions to be held vacant over the course of FY 2011 will reduce the Citywide total to 1399.

Department	FY09	FY10	FY10 Vacant	FY 10 Net of Reduction	Early Retirement	FY11 Possible	Total Change	% Change
Administration and Finance	93	77	5	72	3	69	24	26%
Fire	417	409	15	394	21	373	44	11%
Police	533	491	22	469	25	444	89	17%
Communications	62	63	3	60	3	57	5	8%
Law	15	14	0	14	1	13	2	13%
Inspectional Services	72	59	5	54	3	51	21	29%
DPW & Parks	273	246	13	233	13	220	53	19%
Clerk, Council, and Mayor	36	33	1	32	2	30	6	17%
Auditing	11	9	0	9	0	9	2	18%
City Manager	18	11	0	11	1	10	8	44%
Human Resources	17	15	0	15	1	14	3	18%
Library	86	88	6	82	4	78	8	9%
Elder Affairs	11	8	0	8	0	8	3	27%
Public Health	18	10	0	10	1	9	9	50%
Economic & Neighborhood Development	30	30	4	26	2	24	6	20%
Total	1692	1563	74	1489	80	1409*	283	17%

The reductions of staff positions and resources to date have already negatively impacted the services to our community. We have worked hard and have achieved successes to preserve as much of these as possible through reforms, reorganizations, redeployments and efficiencies. We have also communicated to City Council and to our community in order to match citizen expectations with our limited, available resources.

We must continue the difficult work of reform and thoughtful, systematic reductions over the next two fiscal years to adapt to these leaner and leaner times. I also believe we must do all we can to mitigate the need for significant layoffs and the negative effects (upheaval and the decline) they represent. The math is fairly stark – 283 positions lost due to FY09 layoffs, vacancies, and Early Retirement (as depicted in the chart above), plus an additional 10 positions remaining

vacant in FY11, plus 110 positions due to layoff, would result in an overall staffing reduction of 24% since January 2009. All the adjustments and the gains we have achieved through reforms, reorganizations and redeployments to date would likely be lost. Successful programs with tangible results like true community policing, Keep Worcester Clean and our Problem Properties/ Neighborhood Stabilization Team could no longer be sustained. It is important to note, however, that though it is my intent to mitigate layoffs, that between ERI and vacancies, we will lose over 120 fewer employees minimum, in FY2011.

Our Five Point Financial Plan has provided the framework for that stability – prioritization, “living within our means”, a focus on recurring revenue for recurring costs and reserve building. We have been true to this approach since adoption and have done so in particularly tough times to address steep declines in revenues such as State Aid with only very limited use of one time dollars. This continues day in and day out as we look ahead to FY2011 and beyond. These facts have been recognized by our stable bond ratings over this period in spite of the global economic crisis. In this same time period, states and cities across the Nation have applied significant reserves and other one-time monies to cover recurring costs to delay difficult choices (that we have undertaken) and to wait out this economic downturn.

It is my intention to build a FY 2011 Budget Recommendation that makes modest use of one time monies to address a portion of the remaining, projected \$5.5M dollar deficit. These one time monies would not be derived from the use of our reserves, but instead I would recommend we apply some one-time proceeds from the transfer of the Worcester Regional Airport we expect to transact by June 30, 2010. I have stated at recent City Council Meetings that this deal is in the final stages of negotiations between the City and Massport. I fully understand that there is much work ahead to present details, discuss, debate, vet and hopefully secure the many approvals required for this transaction in the months ahead. That said, one has to make reasonable, risk-managed assumptions and recommendations to build a viable FY11 budget recommendation and stabilize our City. It will be my recommendation to apply up to \$2M of these proceeds for this purpose. The permanent transfer of our Airport operations to Massport, made possible by the Governor, Lieutenant Governor and State Legislature, will be one of the more significant accomplishments, in recent memory, as it pertains to long-term reforms and the reality of redirecting existing revenues to preserve core services. This would certainly be a fulfillment of that goal.

It is also my intention to build a FY2011 Budget Recommendation that freezes an additional 20 vacancies over the course of next FY, in addition to the 10 positions I have already committed to freeze in FY11. This will reduce the projected budget deficit by an additional \$1M dollars. The remaining \$2.5M dollar deficit will be made up in Departmental service and personnel reductions recommended at part of the FY2011 Budget Document.

These actions reduce positions and our ability to provide services, but do so in a manner to buy us slightly more time. The reality is we will be required, over the course of FY11, FY12 and beyond, to be a much smaller organization while continuing our work to preserve core services and our quality of life. All recent economic indicators and analysis point to an extended recession and related impacts through 2013. I will be working internally with the my Administration to continue further reorganizations, redeployments, restructuring and efficiencies for submission to City Council by November 2010 to allow us to achieve smaller and smaller government with potentially fewer and fewer services, but do so in an organized, methodical manner with the full engagement of the community. I must be clear, we are at our limit to sustaining core services by these means. The difficult decisions in the months ahead will be how we deliver our remaining core services and what services can no longer be sustained.

I present all this to the City Council for it is my intent to deliver my FY2011 Budget Recommendation to you on Tuesday, April 27, 2010. The schedule is aggressive and Departments must be given the final guidance now as to how to prepare these documents to reflect staff level reductions and other cuts, as well as how to detail the impacts to the community. We continue to monitor progress of the State Legislature on their reform agenda

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



Michael V. O'Brien
City Manager

CITY OF WORCESTER

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Attachment for Item #

9.31 A

March 2, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

In January, I presented the quarterly Five Year Financial Forecast and identified a \$13.3 million budget deficit for Fiscal Year 2011 based on projected expenditure growth and declining revenues (real estate and motor vehicle excise tax) (previous communication attached). Additional analysis of the Governor's budget proposal and necessary adjustments to City expenditures, specifically in the category of debt service, widened the projected budget gap by \$1.2 million, bringing the total deficit for Fiscal Year 2011 to \$14 million.

The Commonwealth's current fiscal situation remains far from optimistic. While the Governor's budget maintains level-funding for cities and towns, it also relies significantly on Federal Medicaid Assistance, the State's reserve funds, and increased taxes, and is subject to approval by the Legislature. Both House and Senate leadership have publicly expressed concerns as to proposals within the Governor's budget (see attached news articles). This level of discourse at the State level is typical at this juncture. However, it is increasingly likely that there may be further reductions to our State Local Aid and the potentials of reductions to State Chapter 70 Education Aid.

We must work from what is known and recognize that there are specific points along our budget timeline that we will need to adapt to further changes. A full summary of our updated FY2011 deficit, as of this writing, is as follows:

FY 2011 Updated Budget Projections – as of February 26, 2010

Original Deficit Projection per Five Year Financial Plan	(\$ 13,300,000)
• Additional State Aid Cuts Per Governor's Budget	(\$ 350,000)
• City's FY 2011 Adjusted Expenditures/Revenue Projection	(\$ 350,000)
City-Side Projected FY 2011 Deficit	(\$ 14,000,000)



SOLUTIONS TO REDUCE PROJECTED FY 2011 BUDGET

City-Side Projected FY 2011 Deficit	(\$ 14,000,000)
<ul style="list-style-type: none">• <u>Pension Schedule Extension</u> <i>The Governor's FY11 budget includes a proposal to allow cities and towns to extend the funding schedule subject to certain conditions for their retirement systems. The proposal is consistent with the Home Rule Petition filed by the City of Worcester in FY10. This proposal is subject to change and approval by the State Legislature, and at this juncture, it appears likely that it will pass and be signed into law.</i>	\$ 1,700,000
<ul style="list-style-type: none">• <u>Airport Transfer</u> <i>MassPort and the City are working to complete the transfer of Worcester Regional Airport by June 30, 2010. Upon transfer, the City would no longer be responsible for operating costs and debt service for the facility, allowing for the reallocation of \$1.2 million to support core services.</i>	\$ 1,200,000
<ul style="list-style-type: none">• <u>Employee Insurance Rates</u> <i>Our continued efforts to control health care costs will result in additional savings. Preliminary discussions with health insurance providers are indicating that percentage rate increases will be in the single digits.</i>	\$ 1,100,000
<ul style="list-style-type: none">• <u>Additional Open/ Frozen Positions</u> <i>As part of the Fiscal Year 2010 Budget, 70 positions were frozen or remained opened and vacant to secure additional savings and assist in balancing the Budget. A hiring freeze remains in effect. All position requests are addressed on a case by case basis with only critical positions filled. It is my intention to hold another 10 tax levy funded positions vacant for Fiscal Year 2011 to realize additional savings. However, this decision will have a direct impact the delivery of services.</i>	\$ 500,000
<ul style="list-style-type: none">• <u>Unemployment Benefits</u> <i>Unemployment claims based on current benefit extension provisions and timing of unemployment benefits are expected to be lower than as conservatively budgeted.</i>	\$ 500,000
<ul style="list-style-type: none">• <u>Early Retirement Incentive Program</u> <i>The Governor's proposed ERI Program differs slightly from the City's Home Rule Petition filed in FY10. The specifics of the program may be subject to legislative amendment, so we are proceeding with caution before assuming savings within the Fiscal Year 2011 budget. The Governor's budget applies to all tax levied positions; the City's excluded public safety. The vetted savings identified for this action factor in both additional pension obligation due to early retirements and that approximately 20-25% of the positions vacated would need to be refilled on a case-by-case basis. The balance of these positions would be eliminated from the Table of Organization, in addition to the existing and future vacancies. The elimination of an additional 80 employees will have permanent operation impacts on departments and manpower levels.</i>	\$2,000,000
Sub-total City-Side FY 2011 Deficit with Adjustments	(\$7,000,000)

OTHER SOLUTIONS UNDER CONSIDERATIONS

Increased Authority over Health Insurance for Cities and Towns

?

The Massachusetts Municipal Association (MMA) has advanced legislation (House Bill 2509) to give cities and towns the same authority as the Commonwealth in the management of health care costs. As you know, municipalities are currently required to negotiate through collective bargaining in order to implement changes to health insurance plans; the Commonwealth is exempted from this requirement. With additional flexibility to manage plan designs including co-payment levels, the City could reduce premiums. Passage of the bill would give the City flexibility to mirror similar plan design changes offered by the Commonwealth through the GIC and realize significant savings.

Group Insurance Commission (GIC):

\$3,000,000

If the City joined the GIC with all employees at a 75/25 contribution rate, it is estimated that the reduction in premiums resulting from these changes would save \$3 million for the City and \$7 million for the Worcester Public Schools (WPS)

Furloughs – One Week

\$ 2,000,000

A one week furlough for all City employees would generate \$2 million in savings. A furlough would need to be negotiated with our collective bargaining units, including public safety unions, and would be implemented during times that would least impact the taxpayer (day nearest July 4th and Memorial Day, Day after Thanksgiving, and the day before each December holiday).

Pay As You Throw Trash Bag Fee 50 Cent Increase

\$ 750,000

A 50 cent increase would generate \$750,000 in revenue for FY 2011 and would bring our PAYT program closer to self-sustainability.

My Administration must now begin the final efforts to assemble and prepare a balanced Fiscal Year 2011 budget. As you know, I have already made the difficult decision to not include wage increases for our employees. I have requested that all Departments identify recommendations and the related impacts associated with a potential 10 percent reduction to their operational budgets. This is for our internal review to guide all necessary decisions in order to present City Council and this community with a balanced FY2011 Budget recommendation in April. At the same time, we continue to look at a number of possible solutions that may materialize through any number of avenues to address the budget shortfall. We continue to evaluate the State Legislature's FY2010 Municipal Relief Act and other options to mitigate reductions of core services, to preserve jobs and to maintain our community's quality of life.

As stated many times over the last two years, FY2011 will shape up to be one of the most difficult we have faced in decades. We are, however, uniquely positioned to adapt due to our collective work to date and our ability to seek and secure creative, financially sound and sustainable solutions for the long term.

Respectfully submitted,



Michael V. O'Brien
City Manager

'Municipal relief' bill sent to Ways and Means



February 23, 2010

The Joint Committee on Municipalities and Regional Government has sent a "municipal relief" bill to the House Committee on Ways and Means.

The bill (H. 1971) is a continuation of a process over the past three years to enact laws to help cities and towns deliver services as cost-effectively as possible.

The major issue that is not included in the bill is health insurance plan design. The committee could not reach a consensus on what path to take on this issue, which is the top priority of the MMA. The MMA will continue to work for reforms that give cities and towns, at a minimum, the authority to determine health insurance plan design outside of collective bargaining.

The bill, which has 117 sections that would make changes to state laws, is a combination of ideas from Gov. Deval Patrick's Municipal Relief Act II, the work of the Municipal Relief Commission co-chaired by Rep. Paul Donato and Sen. Stanley Rosenberg, and from the Joint Committee on Municipalities and Regional Government, which was co-chaired by Sen. James Eldridge and Rep. Paul Donato. The majority of the initiatives were suggested by the MMA and local officials throughout Massachusetts.

The bill has six general areas of initiatives designed to help cities and towns to deliver services more effectively and save money: employee benefits, financial efficiency, regionalization, school borrowing, elections, and education.

Managing employee benefits

- Municipal employees would be required to enroll in Medicare if they are eligible.
- A new optional early retirement program would feature expanded municipal executive control of eligibility and strict replacement caps.
- Retirement system funding relief would allow cities and towns to extend their pension funding schedules out to 2040.
- Cities and towns would be able to pro-rate health insurance benefits for new hires.

Financial efficiency

- The bill would expand collective purchasing authority for cities and towns.
- Communities would be able to institute electronic billing.

Regionalization

- The bill would allow for expanded mutual aid agreements for police, fire, emergency medical, public works, and other public safety assistance to other municipalities.
- State agencies would be required to give preference in the awarding of state grants to communities

that apply jointly for a grant to regionalize a service.

- Municipal decisions to enter into an interlocal agreement or to join a regional agreement would not be subject to collective bargaining.

Education

- Special education tuition rates could only be set at the beginning of a school year.
- Regional school districts and municipal school districts would be allowed to share a superintendent in order to facilitate regionalization.

Elections

- The bill would reduce the number of election officers required at polling places.

- [Summary of municipal relief bill](#) (112K PDF)
- [Text of municipal relief bill](#) (396K PDF)

Written by MMA Legislative Director David Baier



State aid a goner?

Panagiotakos: Despite gov's proposal, towns could see 3% cut

By Matt Murphy, mmurphy@lowellsun.com

Updated: 02/23/2010 08:45:46 AM EST

LOWELL -- The state Senate's chief budget writer warned yesterday that cities and towns should begin preparing for an eventual cut to local aid next year despite Gov. Deval Patrick's pledge to level-fund state aid for schools and municipalities.

State Sen. Steven Panagiotakos, chairman of the Senate Ways and Means Committee, told The Sun that unrestricted local aid and Chapter 70 funding for schools would likely have to be cut by at least \$150 million, or 3 percent, in the state's fiscal 2011 budget. He said that because unrestricted aid to cities and towns has borne the brunt of cuts in recent years, school aid could no longer be protected.

House and Senate leaders have been discussing a local-aid resolution that could be passed before the end of March to set local-aid levels well before a final budget for next year is approved.

Patrick, in his budget proposal unveiled in January, level-funded local aid and Chapter 70 education funding, but also included several new revenue streams, including sales taxes on soda, candy, cigars and smokeless tobacco.

Panagiotakos said there is "no way" the Legislature will approve increased taxes, adding that he doesn't plan on including that revenue in the Senate budget.

"I don't think that's sustainable," Panagiotakos said. "It's not fair that health and human services, higher education and public safety bear the full brunt of the cuts."

The Lowell Democrat also said he is reluctant to touch the state's dwindling reserves. The fund, once a robust \$2.2 billion, has been reduced to \$625 million since the recession hit in March 2008. Patrick proposed using \$175 million from the "rainy day" account in the fiscal 2011 budget.

The governor, Panagiotakos said, "has some areas of revenue in his budget that either might not be there, or won't be approved by the Legislature."

The Patrick administration did not respond directly to Panagiotakos' prediction, but said it is committed to the principle of preserving local aid as detailed in his budget.

"The governor put forward a balanced, fiscally responsible budget proposal that maintains his commitment to our schoolchildren, health care and cities and towns," said Cyndi Roy, spokeswoman for the Executive Office of Administration and Finance. "That budget reflects the governor's values and makes investments in critical areas that will help strengthen our economy in the near term and position us for growth and prosperity over the long term."

The high cost of health care -- about \$10 billion -- and the state's pension system continue to drive spending, leaving few options outside of local aid and human services to cut back.

The state has also spent a majority of the federal stimulus money made available to stabilize the state budget last year, using much of the federal aid to prop up local aid and higher education to avoid

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immediate deep cuts in those areas.

Panagiotakos identified several areas of concern in the governor's budget that he said are too risky to rely on in next year's budget.

The tax increases Patrick proposed would net about \$91 million. He also proposed saving \$80 million by capping film and life-science tax credits. Panagiotakos said the House and Senate would likely consider the credit caps for savings but not the tax increases.

Heeding the advice of state Treasurer Tim Cahill, Panagiotakos said he is concerned about Patrick's plan to refinance up to \$300 million in debt payments at the same time the state is drawing from its "rainy day" account. He said the state would probably have to pick one avenue or the other in order to preserve the state's strong bond rating that allows it to borrow at relatively low interest rates.

Patrick's budget also relies on \$160 million in Social Security Disability Insurance reimbursements owed from the federal government. States have been fighting for access to that money for more than two years, and Panagiotakos said it's too risky to assume the money would be paid to the state next year.

Local leaders were thrilled, if not surprised, in January when Patrick announced in his State of the State address that he intended to level-fund local aid. Many had expected to see a cut in state assistance and had begun to make preliminary plans to reduce their own budgets through layoffs and service cuts.

The state's municipal leaders, however, are urging the Legislature to take local aid off the table and cut elsewhere, even if that means decimating some health and human-services programs.

"They do need a local-aid resolution so the communities can get a firm number from the state," said Geoffrey Beckwith, executive director of the Massachusetts Municipal Association. "However, cutting local aid at this time would be extraordinarily painful. The governor put forward a budget, and that's what we're calling on the Legislature to do, regardless of how painful it will be on the state."

Beckwith said local aid has been cut by \$724 million since 2009, forcing thousands of layoffs, increased reliance on property taxes and reduced services for residents.

"If there is any year to choose to level-fund local aid, it should be this year," Beckwith said. "We're saying local aid should be a higher priority above other aspects of the budget."

Lowell City Manager Bernie Lynch said it's too early to know how he would address further cuts to local aid.

"It really depends on how big they are," Lynch said. "There's no way we could absorb another cut like we did last year or anywhere near that without really cutting into the services we have."

Lynch said he has been preparing for different scenarios but was optimistic after the governor's announcement that local aid might be spared.

"We haven't counted on anything at this point," Lynch said. "I realize you can't always be looking for revenues, but anything that can be done to help us control health-care costs and other areas will be helpful."

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Michael V. O'Brien
City Manager

CITY OF WORCESTER

Attachment for Item #

January 12, 2010

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

The extended Recession and the related impacts to the regional and local economy have affected all aspects of City government and our ability to provide prioritized, core services to our community. With the support and guidance of City Council, we adapted to these realities. The statistics are compelling over the last 12 months: We have addressed an over \$34 million dollar projected deficit (inclusive of over \$25M of City-side State aid and grant reductions) to address a combined FY09 mid-year State Aid reduction and adopt a balanced FY2010 Budget; we have reduced our workforce by over 300 tax-levy funded positions through layoffs, attrition, proposed Early Retirement, and on-going hiring freeze; we have eliminated programs/ services in their entirety and others have been dramatically reduced. All of our Departments and Divisions are, without question, impacted, and in most cases, are required to do "less with less" and it is safe to say we are below our baseline of core services. That said, we are proud of the efforts throughout the organization, from management through to our line positions that continue to rise to the challenges as presented. We are also grateful to our employees and our unions that have come forward and agreed to take on more of their health care costs and accept zero percent wage increases to preserve jobs and City services.

We have instituted reforms, reductions, redeployments, reorganizations, and new revenues all as a means to stabilize and preserve our municipal services that our taxpayers and our citizens expect. We have accomplished these difficult tasks and actions with the full engagement of the City Council and the community. Our Five Point Financial Plan (FPFP) continues to be our blueprint to manage, monitor and report all short term and long term budget trends. It provides us the format to address and adapt to these trends, as necessary, to maintain our stability and position us for the better days ahead. Our work to date on the FPFP clearly demonstrates that early indications of where our fiscal challenges will lie provide the valuable time required to adjust and adapt.

As you are aware, we closed the remaining \$3.2 million budget gap for the FY 2010 Budget in November of 2009 (prior to Tax Classification). This was accomplished with a series of solutions to include the Redeployment Plan for the Worcester Police Department and on-going employee health care reforms (Local 911 Agreement) that were the result of strong management, tough decisions and good-faith collective bargaining. It is imperative we continue to focus on the current FY, FY2010, and ensure



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we are preparing for snow removal costs that could reach between \$5-\$7M and any other potential year-end liabilities. Please see attached memo on Year to Date Snow and Ice Removal Costs. We must reduce spending, wherever possible, and we must preserve contingencies to close out this fiscal year with the expressed goal of mitigating any FY2010 snow removal cost “carry-over” (into FY2011) and rebuilding our reserves. These actions are key for we are all aware FY2011 will be one of our most difficult fiscal years in decades with the real potential for further State Aid reductions (to possibly include Chapter 70 Education Aid) and other budgetary pressures.

In step with this expressed goal, the following is a YTD recap of unanticipated reimbursements and contingencies we expect to apply to this effort, as well unanticipated year end liabilities:

REVENUES AND CONTINGENCIES

- **State Reimbursement for 09 Ice Storm Expenses** **\$227,000**
 - *State funding has been received to cover costs incurred during the storm clean-up effort.*

- **Federal Reimbursements – Eradication/ Restoration ALB** **\$150,000**
 - *To date, the City has received \$36,000 in reimbursements from the USDA to cover the costs of staff dedicated to the tree replanting effort in the impacted area. It is anticipated that we will receive an additional \$114,000 for FY 2010 as negotiated for the replanting effort that is expected to begin in April.*

- **Hiring Freeze** **\$500,000**
 - *A hiring freeze continues to be in effect. All position requests are addressed on a case-by-case basis with only critical positions filled to fulfill core mission. The FY 2010 Budget already assumes the savings generated from 20 vacancies. It is my intention to hold another 10 tax levy funded positions vacant through the balance of this FY. Please note this will further reduce all Departments’ abilities to meet service expectations.*

- **FY10 “Reserve for 9C Cuts”** **\$1,000,000**
 - *To date, we have preserved this necessary buffer in the event the Commonwealth was forced to make mid-year FY2010 State Aid cuts. The Governor and State Administration has held cities and towns harmless from State Aid reductions as of this writing and State revenue trends continue to be positive both provide a measure of optimism that this can be applied to close out this FY at current State aid levels.*

YTD YEAR END LIABILITIES

- **Snow Removal** **(\$???)**
 - *The Fiscal Year budget for snow removal has been expended and deficits are building with each additional storm. This will be a year end liability for the City. The extent of that liability will be determined by the weather over the next few months. Please See Commissioner Moylan’s detailed report on the Fiscal 2010 snow removal YTD expenditure budget.*

- **Special Elections** **(\$ 210,000)**

- *Per the attached letter from the State Auditor, the expense of the two special elections held this year must be borne by the Commonwealth. It is estimated that the special elections will cost the City approximately \$250,000. The State has yet to release guidelines relative to reimbursements, but as cited in the attached memo, the State has identified \$39,596 for Worcester for this purpose. In the meantime, the State will continue to work with affected parties and the Legislature to secure full funding for the mandated costs associated with special elections.*
- **City Street Light Acquisition and Maintenance** **(\$ 600,000)**
 - *The FY 2010 Budget assumes savings of \$1.2 million generated by the acquisition of the street light network from National Grid. The complex negotiations with National Grid are nearing completion and a transfer is anticipated for March 1, 2010.*

This is presented for your information and your perspective as to work underway to continue to provide core services and to balance the FY2010 Budget at year-end. There are a host of variables that could and may change this forecast, to include State aid, local receipts, weather and others. We are still experiencing declines in collections in key revenue categories such as Building Permits and Motor Vehicle Excise Taxes. **The year to date FY2010 revenue report, per the FPDF, will be presented to City Council as a supplemental for the meeting of January 12, 2009 as these were just available for compilation as of late this week.** This will likely result in some further adjustment to these projections through the second quarter of 2010.

Per the Five Point Financial Plan, it is also key we look forward now to FY2011 and beyond. We continue to monitor State revenue trends for the Commonwealth funds nearly 25% of the City's Budget and nearly 75% of the Worcester Public School's Budget. December 2009 collections for the Commonwealth of Massachusetts were above adjusted benchmarks. This marks the third consecutive month of above-benchmark collections. All in all, these signs of recovery are positive but the State still faces a \$3 billion structural deficit for FY 2011 due to the extensive use of one-time funding sources in FY 2010. Attached please find a memorandum from Michael Widmer of the Massachusetts Taxpayers Association. This is a cause for serious concern as we look ahead. Please note, we have factored "level funding" of the current FY2010 State aid in our following FPDF projections.

FISCAL YEAR 2011 AND FIVE YEAR FISCAL FORECAST:

The following is a detailed update to the FY2011 projection I provided to City Council in November 2009. At that time, I indicated a minimum of a \$10M - FY2011 deficit factoring level funding of the State's City-side local aid. You will note this revised update indicates a projected deficit of **\$13.3M**, an increase due primarily to unanticipated changes in Federal Medicare reimbursements to the City (to be calculated by fee for services vs. "bundled").

Revenue Changes for FY2011:

Property Taxes (Less Overlay)	\$6.7M
State Aid	(0.00)
State MSBA Reimbursements	(\$3.4M)
Local Receipts (Schools Medicaid Reduction - \$3.1)	(\$3.7M)

Total Revenue Changes for FY2011 Subtotal:

(\$400,000)

Property taxes are projected increase per Proposition 2 ½. All other major revenue categories are expected to fall or remain level for Fiscal Year 2011. The property tax projection assumes Proposition 2 ½ increase of \$5.5, New Growth of \$1.8M, an overlay contribution of \$3.3M (reducing the available tax levy), and the preservation of the city's \$12M in unused tax levy capacity. As previously noted, this projection assumes State Aid is level funded from Fiscal Year 2010 and recognizes the State's reimbursement for the Quinn Bill program at \$400,000.

State School Building Authority reimbursement reductions are due to the conclusion of state repayments for some projects and the revision to some reimbursement levels due to the completion of audits on school construction projects. This revenue stream is reduced by \$3.4M as a result.

Local receipt reductions are due primarily to an unanticipated change in the reimbursement structure for Federal Medicaid reimbursements which are expected to fall from \$5.6M to \$2.5M. Additional local receipt line items have been reduced in anticipation of continued softness in the local economy for a total reduction in local receipts of \$3.7M.

Expenditure Changes for FY2011:

While revenues are projected to fall from Fiscal Year 2010 to 2011, expenditures are projected to increase, particularly in the area of the City's fixed costs and State mandated expenditures.

The following summary provides our assumptions regarding the increase in expenditures for Fiscal Year 2011.

Fixed Costs

\$8.8M Increase

The City's fixed costs are projected to increase by \$8.8M comprised primarily of the following:

Tax levy pension obligations are anticipated to increase by \$2.7M per the current city valuation on PERAC approved funding schedule. This does not assume an extension of the pension schedule proposed last fiscal year.

Health insurance premiums are expected to increase 10% for Fiscal Year 2011. The City applied surpluses in the Health Insurance Trust Fund to reduce premiums for Fiscal Year 2010. The overall health insurance increase for the City is projected to be \$4.7M since these surpluses will not be available to reduce premiums in Fiscal Year 2011.

Unemployment costs are projected to fall by \$300,000 as benefits will not be paid for the entire fiscal year. However, benefit extensions mandated by the Federal or State government could increase this liability without city input or control. This estimate assumes current conditions persist for the next fiscal year.

Debt Service expenditures are projected to increase by \$650,000 based on current projections.

The City's Budget for Snow Removal increases 10% to \$2.7M per the Five Point Plan which requires that the city increase this appropriation each year until a sufficient funding for an average annual snowfall has been reached. An allocation of \$1M for snow deficit carryover is included as a projection based on the current status of the FY2010 snow removal budget.

City contributions to the Five Point Financial Plan reserve funds were level funded in Fiscal Year 2010. These contributions must increase per the original schedule in Fiscal Year 2011 (as per the FPPF). The funds supported by this increase of \$2.74M include the North High Construction Fund; the City Manager's Capital Campaign (which pays current debt service obligations for following completed projects: Worcester Technical High School, The Public Library Renovation, Worcester Senior Center, and Forest Grove Middle School Projects); and the Bond Rating Stabilization Fund intend to build general fund reserves to an acceptable level and maintain the city's bond rating

Worcester Public Schools **\$2.9M Increase**

The City's contribution to the Worcester Public Schools is determined through a State mandated revenue formula. The increase in our contribution for Fiscal Year 2011 is projected to be \$2.9M based on known factors. The FY2011 \$26M budget deficit projected for the Worcester Public Schools includes this increased contribution.

City Operations **\$1.2M Increase**

The City operational budget assumes a zero percent raise for all bargaining units in FY2011. Budgets have been adjusted to reflect contracts settled through June 30, 2010, identified step increases, assumed utility and energy cost increases, identified operational/funding source/ and/or service level changes.

Fiscal Year 2011 Expenditure Increases Subtotal **\$12.9M Increase**

Fiscal 2011 Projection (Deficit) **(\$13.3M)**

POTENTIAL SOLUTIONS:

The following reforms and solutions are available and may play a role in closing the Fiscal Year 2011 deficit. Most will require support from our partners at the Statehouse:

Pension Schedule Extension **\$1.7M**

Extension of the pension schedule per the City's Home Rule Petition last fiscal year will result in savings to the Fiscal Year 2011 projection of \$1.7M as the City's retirement funding obligation is spread over a greater number of years.

Early Retirement Initiative **\$2.0M**

The City's early retirement initiative proposal from Fiscal Year 2010 was a responsible approach to significant reduction in personnel. By permanently eliminating positions from the City's table of organization, \$2M in savings could be achieved even after

recognizing the increase in pension assessments required to fully fund the additional years added to the retirement system.

Closure of the Telecom Loophole for All Infrastructure

\$1.5M

Transfer of Airport to Massport

\$1.2M

Legislation exists requiring the City and Massport to reach an agreement on the transfer of the airport from City ownership to Massport. Those discussions are underway and are expected to conclude prior to the beginning of the next fiscal year. At that time, we can erase the city's obligation for the Worcester Regional Airport from the budget projection for Fiscal Year 2011, reducing expenditures by \$1.2M

These projections are presented for perspective. Clearly, the City's budget outlook for Fiscal Year 2011 is stark. I am confident that our proactive approach and early action on these challenges will put us in the best position possible but we must recognize the magnitude of the challenges we face. In addition to an FY11 projection, the attached report includes a five year forecast per the City's Five Point Financial Plan. This forecast assumes slow economic improvement over the next few years but continues to exhibit a persistent projected deficit. There is much work ahead.

Respectfully submitted,



Michael V. O'Brien
City Manager