

Cures to Cuts & Steps to Long Term Fiscal Health FY2012

WRRB Forum – Cuts /How Sharp are the Scissors?

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City Fiscal Health...Pre-Recession

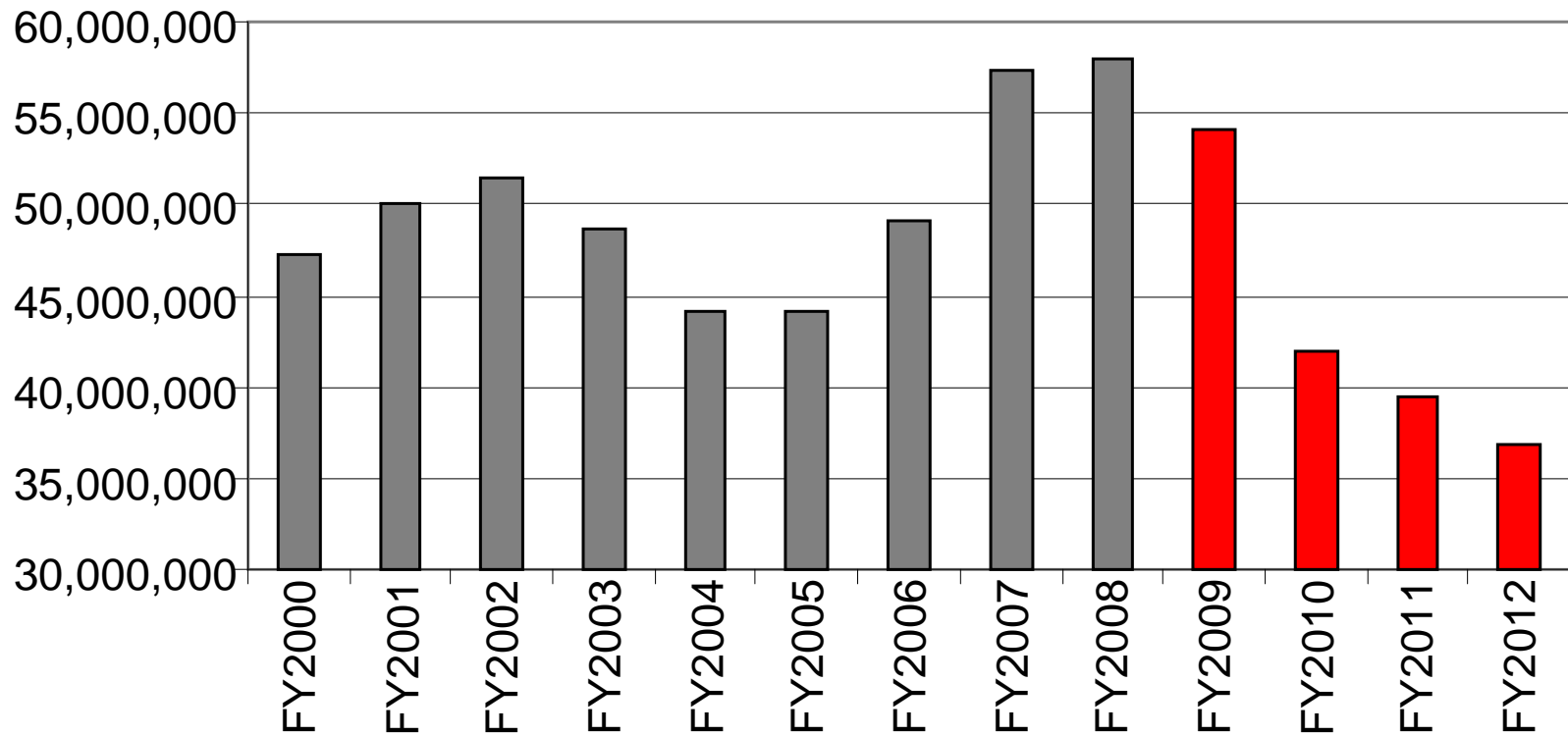
- **Strong Vitals -Five Point Financial Plan Adopted - 2006**
 - Educate and Engage Community in Their City Budget, Operations & Priorities. Five Year Fiscal Forecasts.
 - Live Within Our Means, Adapt, Adjust and Manage with a Plan/ Direction. Build Reserves.
 - Identify Budget Concerns Early and Address Prior to Crisis. Forgo the Quick Fix and Focus on Long Term. One Time Money – One Time Expenses. New Dawn.
- **Signs of Defined Progress...**
 - 50% of Annual Free Cash Deposited to Reserves!
 - Key Capital Projects Funded & Able to Begin (North High), City Reserves are Rebuilding and Bond Ratings Stabilize and Improve
 - Key Reforms Initiated -
 - Employee Health Care Changes Negotiated with City-Side Unions
 - Section 18 Adopted by City Council in 2007. Difficult Vote.
 - Municipal Services Stabilized – Economic Development Push

Recession's Fiscal Symptoms/ Impacts

- **Global Meltdown/ Code Red - FY08 until Now**
 - **City Revenues (4 Sources, Non-Diversified) Plummet**
 - **State Aid Declines** – Mid Year Cuts FY2008, Cuts in FY09, FY10 and FY11 (Chart) – Now a Loss Of \$22M Annually
 - **New Construction Declines** From FY06 \$4.7M to FY11 \$3.2M
 - **Motor Veh Ex Taxes Decline** FY06 12.5M to FY11 10.5M
 - **Real Estate Tax Revenues Stable**
- **Dramatic Rev. Declines – Nimble Changes**

Life Line / Unrestricted Local Aid Reduced 40% Since FY08

State General Government Aid FY00 to FY12



Funding Pattern a Challenge for Cities and Towns



Recession – Fiscal Triage

- **Stabilize - Manage Per the Five Point Financial Plan**
 - **City-Side: Prioritize, Reform, Reduce, Restructure, Realign Core Services - Professionally...**
 - **Layoffs/ Vacant Positions “Frozen” (Hiring Freeze) ERI Program**
 - **Loss of 225+ Positions in 3 FYs, 15%+ of the Workforce Eliminated.**
 - **Deep Cuts. WPD/ WFD Redeployments, All Departments Restructure. Rise to Challenges. Measure of Pride.**
 - **Signed Zero’s (FY09 + Few in FY10) and Employee Health Care Changes Negotiated With Most City-side Unions (75/25 - Copays).**
 - **Direct Employee Rx Management (Redirects \$2M to City Services)**
 - **Transfer Airport to Massport, Purchase Street Lights and Maintain (Redirects \$2M and \$3M to City Services Respectively)**
 - **Emer. Funds Set for FY11 (\$2M Airport Proceeds)... Stability**

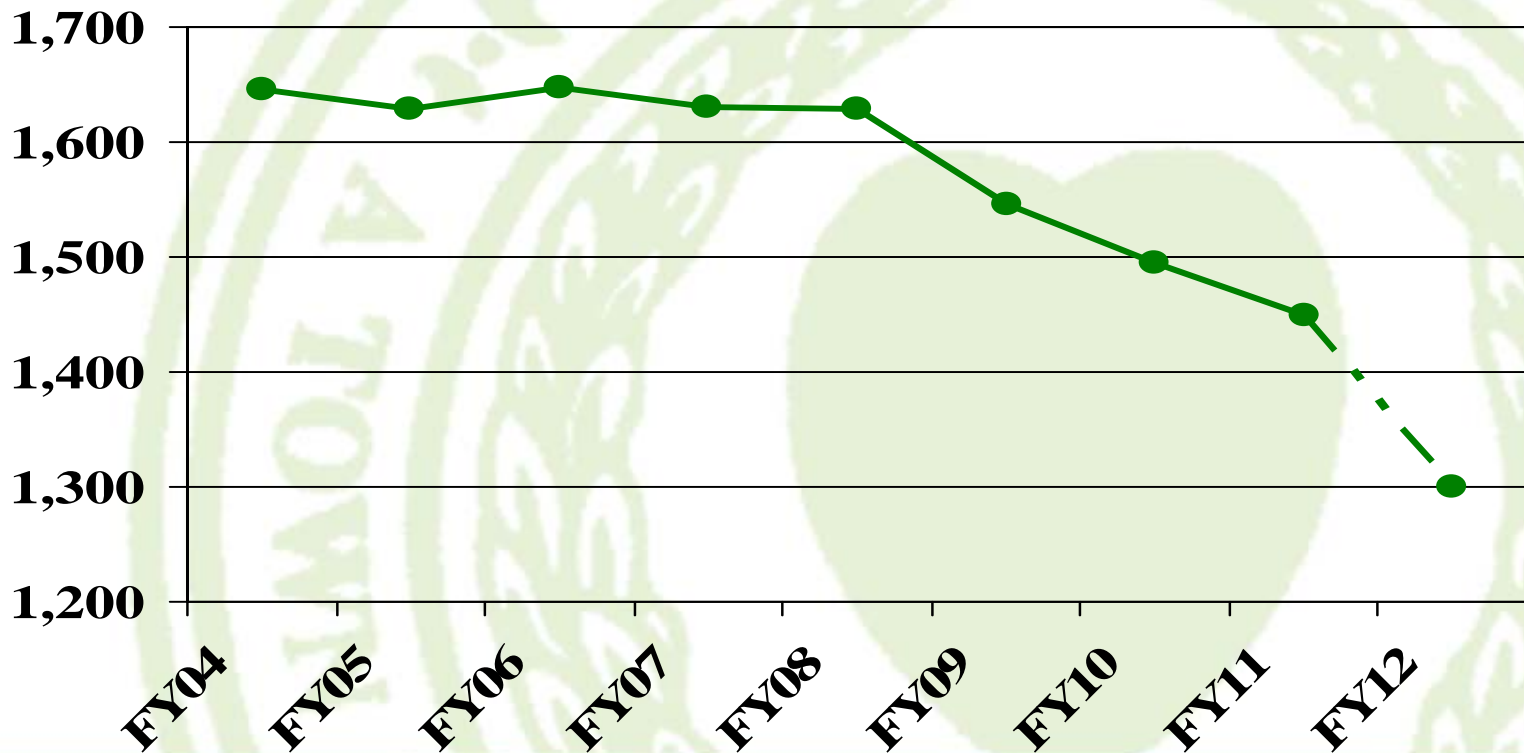


Fiscal Vital Signs for 2012

- **Troubling Fiscal Health Trends Continue...**
 - Governor's Budget - \$2.7M Additional Unrestricted Local Aid Cut (Reduction of \$22M in Annual City-Side Revenue)
 - Fixed Costs Devouring All New City-Side Revenues (HC)
 - \$1.5M Increase City Contribution to WPS (State Formula)
- **Fiscal Vitals for 2012**
 - **What Are Cures to Cuts & Steps To Long Term Fiscal Health?**
 - How Do We Balance our Budget, Preserve Core Services, Meet Community Expectations, and Grow City's Economic Base? Is there a Doctor in the House?

Diagnostic - Workforce

City is Service Organization – 85% of Our Municipal Budget is Wages & Benefits. Diagnostic - Steep Job Loss Trends Due to Revenue Declines & Budget Busting Employee Benefit Cost Growth. Limit to Overcoming Personnel Losses with Efficiencies & Tech



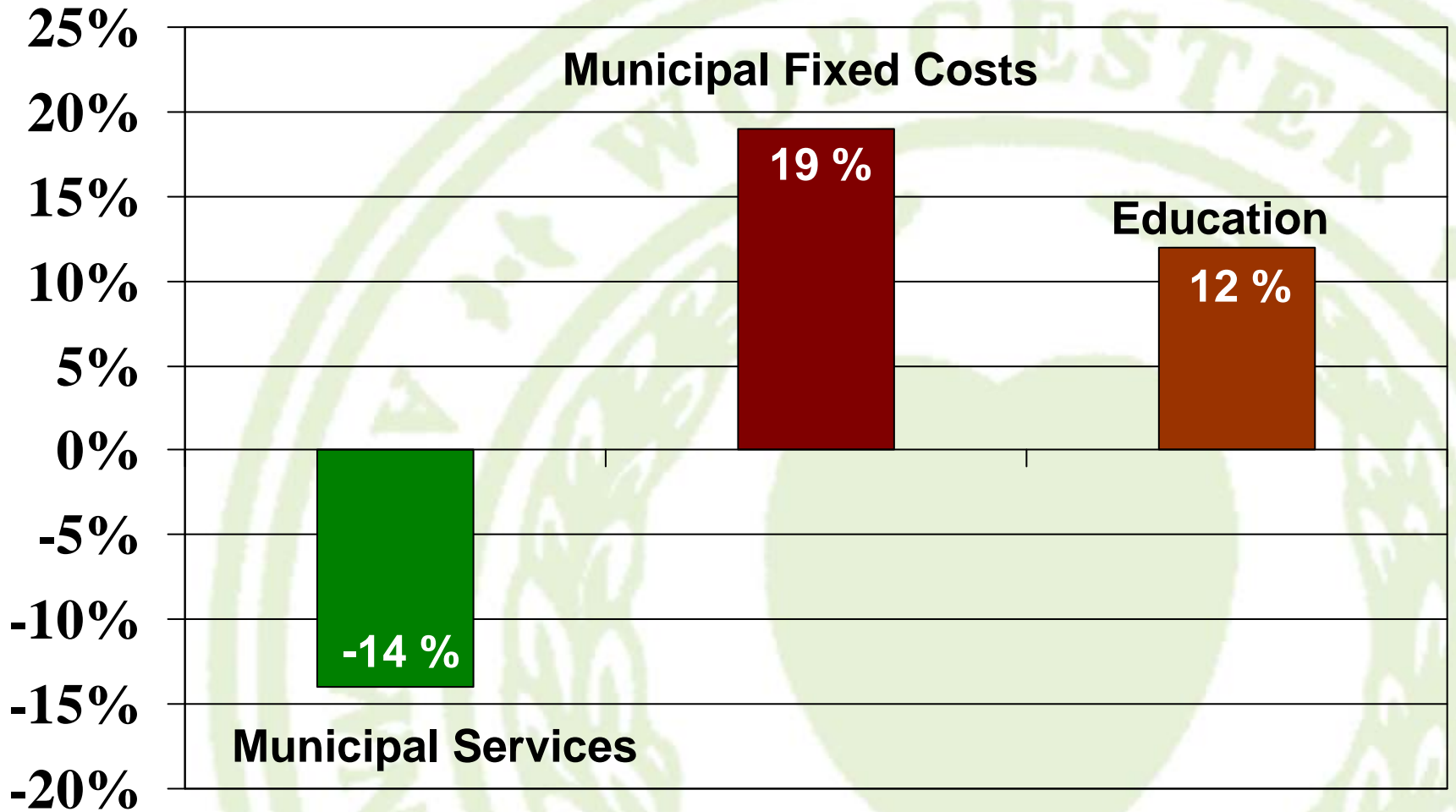


Diagnostic - Revenues Available for Core Municipal Services In Decline

	FY08	FY09	FY10	FY11	FY12
Total Revenue Sources	475.7	499.1	506.0	502.8	517.8
Less Skyrocketing Muni Fixed Costs	(92.7)	(106.1)	(105.6)	(106.9)	(117.1)
Less Education Costs (W Charter)	(265.8)	(279.6)	(288.0)	(285.1)	(300.0)
Balance for City Departments	117.2	113.4	112.3	110.8	100.7

- New City Revenues Consumed by Skyrocketing Fixed Costs and Statutory Education Funding Formulas – CitySide Cycle of Attrition, Layoffs, Cuts and Service Reductions
- Skyrocketing Fixed Costs Driven By Employee/ Retiree Health Insurance Costs and Pension Costs...Also includes Debt Service, Reserve Deposits per FPDF...
- Good News: Funding for Education Continues to Increase Annually. Amount Shown Include State Fiscal Stabilization Funds.

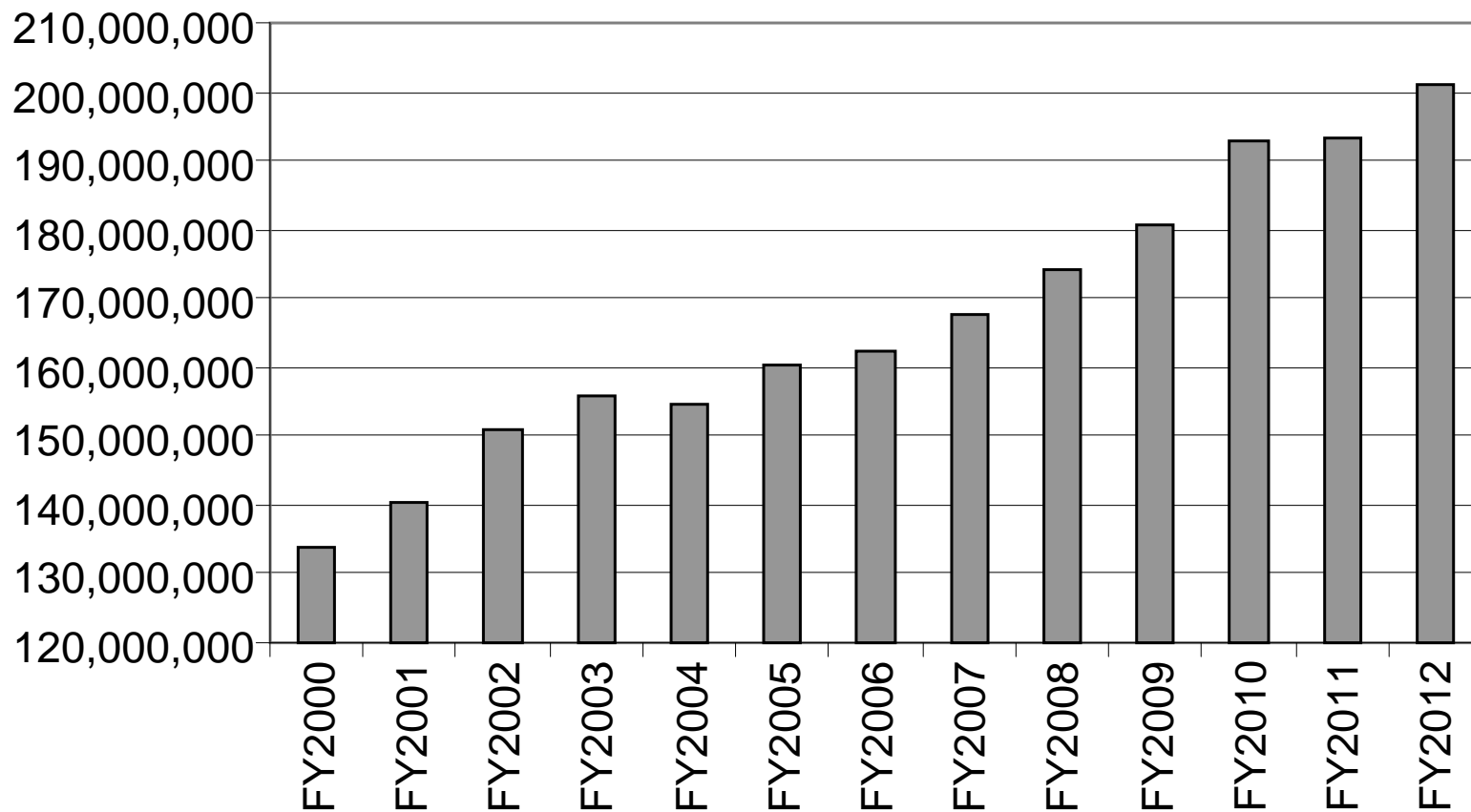
Diagnositics: % Change in Revenues FY08 to FY12





Diagnostic - State Aid for Education Increased 50% FY00-FY2012

State Aid for Education FY00 to FY12





Doc, Give It To Me Straight, I Can Take It – FY2012

- **Bad News First - Five Point Financial Plan Deficit Forecast for FY12 (10/2010) – Projected **\$13.7M Deficit**. Gov. Budget Cut (1/2011) – Adjusted FY12 **\$14.3M Deficit****
- **Now Some Good News... Revenue/Expenditure Updates 2/2011 Exhibits Promise – Business Decisions Provide Some Relief:**
 - Health Care Provider Neg. Premiums Below Double Digit Projections (13% Antic. Due to Fed Health Care Changes)
 - Revenues Plateaued/Slight Inc. Growth (New Const./MVE)
 - No Snow Removal Deficits/ Carryover – Emerg Fund Assists FY11
 - These Combine to Save/ Generate **\$4.3M** Toward Proj. Deficit
 - Tough Business Decisions , \$1.0 Twenty Vacant Positions “Frozen”/ Wage Inc for FY12 Eliminated (3 Yrs of Zeros)
- **\$7.0M Adjusted Deficit for FY12**



Radical Reduction (Last Resort) – Cut 150 Additional City Positions

- **Previous Chart – Reduces our Organization to an All Time Low of 1300 Employees. Less with Less.**
- **Likely Service Reductions –**
 - **Police—Community Policing – Strictly 911. Impact Units.**
 - **Fire—Additional Closure of Fire Companies and Stations.**
 - **Public Works--Reduction of Basic Functions—Snow Removal, Park Maintenance, Curb-side Pick Up, Etc.**
 - **Community Expectations Would Need to Adjust to New Service Levels... TB Goes Up – Services Levels Down...**



MASSACHUSETTS

What Could We Look Like When Done?

- **\$7.0M in Position Reductions/ Layoffs Equates To:**
 - 45 Fewer Police Officers (Total Reduction Since 08 -100)
 - 45 Fewer Firefighters (Total Reduction – 100+)
 - 35 Fewer DPWP (Total Reduction Since 08 – 100+)
 - 25 Fewer Admin Top - Line (Total Reduct. Since 08- 75)
 - *Keep in Mind the “Frozen” Vacant Positions
- **Must Submit Balanced FY12 Budget Rec. in April**
 - Recommendation – Open Book/ Transparent...FPFP



Best Medicine: Long Term Structural Fixes

- **All Must Recognize Economy is in Reset Mode, Globally. Cracked Crystal Ball – Decade of Reset.**
- **Must Adapt in Ways that Recognize These Realities & As Well as the Means that are SUSTAINABLE Over Long Term**
- **Skyrocketing Fixed Costs (Employee/ Retiree Health Care, Pensions, etc.) Are Eroding Our Ability to Provide the Basics of Services. Clear Trends Unchecked – What will Be Left?**
- **Mass Taxpayers – Unfunded Retiree Health Care and Pension Liability of \$1,000,000,000... ?**
- **We Have A Collective Responsibility...**

Cure to Cuts for FY12

- 1. Thoughtful, Sustainable Reforms to Our Provision of Employee / Retiree Health Care. It is Achievable for FY12...**
- 2. Seven Year Effort 75/25 & Co Pays. Seven Years the World Has Changed Rapidly – We Have Adjusted Glacially. All Unions Have Not Settled for These Changes.**
- 3. It is Currently All Subject to Collective Bargaining. Providers, Contribution Rates, Co-Pays and Deductibles.**
- 4. It is Clear We Must Be Able to Adapt/ Adjust – Each Year - Year to Year – With Balance and Fairness, to Provide Our Employees With Ease of Access to Quality Health Care, to Control Expenditures (Taxpayer Footing Bill) & to Preserve Core Muni Services.**
- 5. The Commonwealth/ Beacon Hill Recognizes the Need To Assist Cities and Towns in This Endeavor – What Form Will It Take?**



Cures to Cuts – Three Methods of HC Reform

- **3 Methods of HC Reforms Under Consideration - All Save the City Between \$4-6M Dollars. WPS \$6-8M**
 1. City, Employee Unions & Employee Work Together & Craft a Local Solution That Mirrors State Group Insurance Plans.
 2. Governor's Employee Health Care Bill – Require Cities & Towns & their Unions/ Employees to develop GIC-Like Changes to be Benchmarked against GIC. Agreement in a Defined Time Period & Date Certain – If Not. Require the City or Town to Join theGIC.
 3. Mass Municipal Bill – Cities & Towns Granted Universal Authority To Modify Plan Designs (Co-Pays & Deductibles)



Cures to Cuts – Specs of HC Reform Methods

Option 1 Local & Option 2 Gov's Bill (GIC Like):

- Retain Local Authority Over Options
- GIC Plan Design Benchmarks—Deductibles/ Co-Pays
- Tiered Co-Payments—Consumer Driven Decisions to Higher Quality, Lower Cost Physicians & Hospitals to Reduce Costs
- Likely Require Replacement of BC Blue Choice Plan w/ Lower Cost BCBS or Alternative Provider Plan
- Allows For Creative Alternatives – Such as Building a Local Network Plan (IAC)
- Lower Premiums—Savings for Employees & City

OPTION 2 – No Agreement – CITY MOVES TO GIC

Cures to Cuts – Specs of HC Reform Methods Part II

GIC

- State GIC Managed – Their Providers/ Plans - No BC
 - City No Longer To Administer HI Plans
 - GIC Makes Unilateral Plan Design Changes - Co-pays, Deductibles, Plans, Etc. – Even Mid-Year (FY10)
 - Deductibles - Higher Co-pays -Tiered Co-pay
 - Lower Premiums Up Front
 - State’s Risk Pool Unknown
- *Option 3, MMA Bill seeks the Same Authorities as GIC



Cures to Cuts - What Could It Mean To Me (Employees)?

COMPARISON OF CURRENT GIC-LIKE & CITY PLAN DESIGNS

Plan Design Components	GIC	Current City
Deductible	\$250/750	\$0
PCP Office Visit	\$20	\$10
Specialist OV	\$20/35/45	\$20
Retail Clinic	\$20	\$0
Inpatient Hospital	\$250/750	\$250
Outpatient Surgery	\$150	\$150
ER	\$100	\$75
High Tech Imaging	\$100	\$0
Prescriptions	\$10/25/50	\$10/20/35



Prognosis and Next Steps to Long Term Fiscal Health

- **Realistic and Reasonable Solutions Are Before Us - HC Changes are a Structural and Long Term Budget Fix.**
- **It Preserves Jobs, Services and Quality of Life**
- **The Layoff Option is the Option of Last Resort – But Necessary – and the Layoff Process will Have to Begin with Presentation of My Budget Recommendation in April 2011.**
- **Law of Diminishing Returns. This Cycle Will Continue Year to Year without Structural Fixes**
- **Work With Health Care Providers and IAC to Lock in GIC-like Proposals for a FY12 Solution**



Prognosis and Next Steps to Long Term Fiscal Health

- **Active Participation in the Legislative Effort at the Statehouse on these Potential HC Changes. Secure Changes in Law.**
- **Push our Economic Development Agenda, Gateway Cities Initiatives, and Tax Base Expansion. PROGRESS!**
- **Further Refine and Enhance City Muni Services**
- **Regionalism 911, Public Health, Veterans, Cultural**
- **Pension and OPEB... The Next Frontier**

REMAIN OPTIMISTIC – WE ARE MAKING GREAT THINGS HAPPEN - TOGETHER