



FY2008

The Crossroads of Our City's Bright Future
The Decision On the Path To Be Traveled

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City Manager

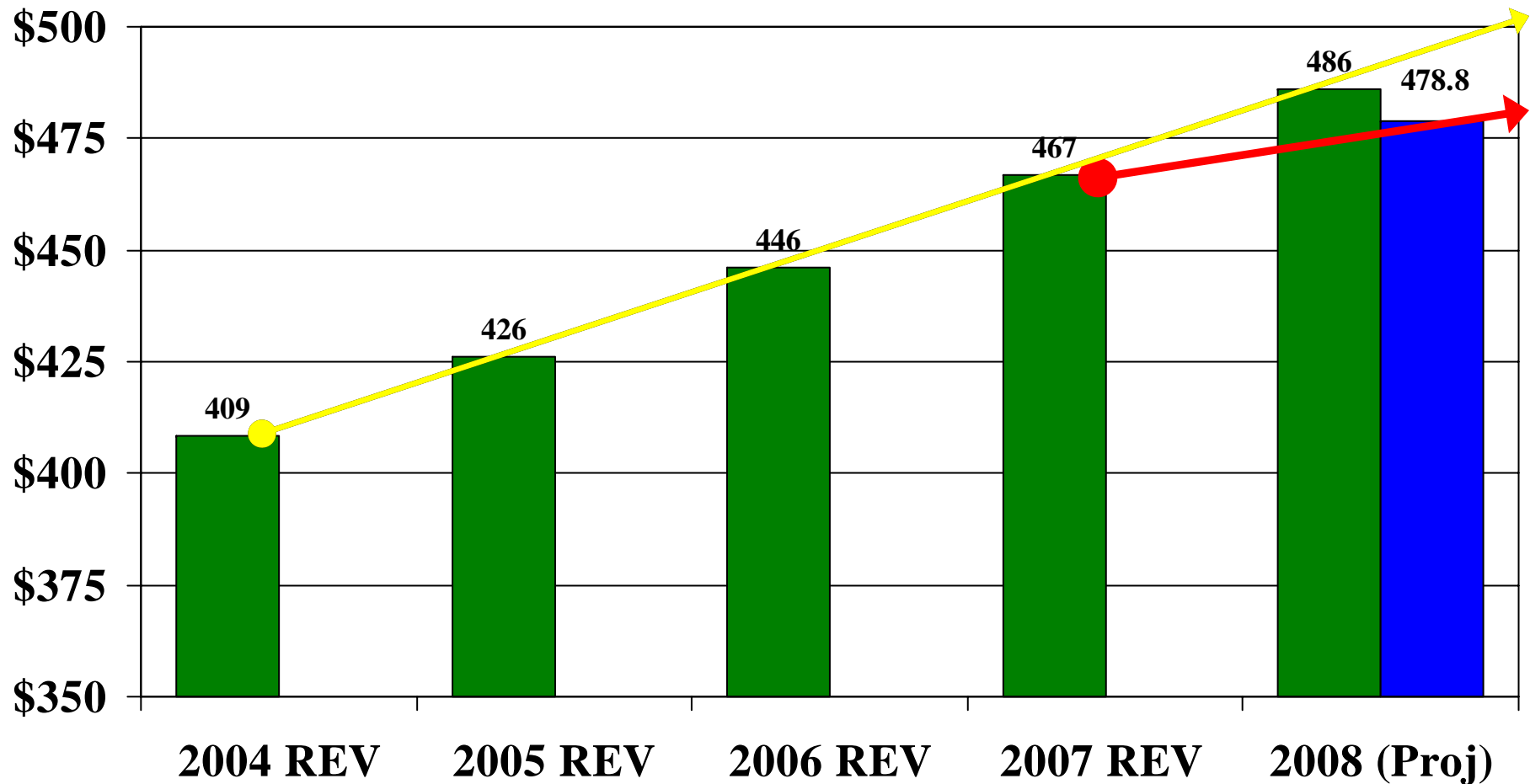
The Journey Here... The Road Less Traveled

- Discipline:
 1. Over 80% of Our Budget is Personnel Costs... Effective, Good Faith Collective Bargaining... Wages and Benefits Negotiated Together... Outside Labor Counsel.
 2. Major Reforms in Cost Centers Driving our Budget such as Employee Health Care Costs.
 3. Reduction of Tax Levy by \$1M in FY05 (\$2M Reserve to Buffer Effects Over Two Fiscal Years)
 4. Technologies Applied to Increase Productivity and Efficiencies. Changes for the Better...
 5. Expansion of our Tax Base.
 6. Reinvestments in our Infrastructure
 7. Additional \$4M in Cash Investment From City Budget to WPS
 8. Maintaining and Strengthening Our Bond Rating... Arms Length Transactions
 9. Rethinking Government to Best Serve Our Citizens While Living Within Our Means
 10. Recurring Revenues for Recurring Costs... Eliminating the Cycle of One Time Fixes...

The Journey Here... The Road Less Traveled

- Focus: Five Point Plan to Secure Worcester's Fiscal Future
 1. Five Year Financial Forecast
 2. Prudent Borrowing Caps
 3. Reserve Policies to Build the Bond Rating Stabilization Fund
 4. Approval of a Free Cash Policy
 5. Monthly/Quarterly Reporting to Measure and Monitor Progress
- Reality... The Crossroads of FY2008...

Cooling Rates of Growth: Historical 4% Growth Will Slow to 2.5% in Fiscal 2008



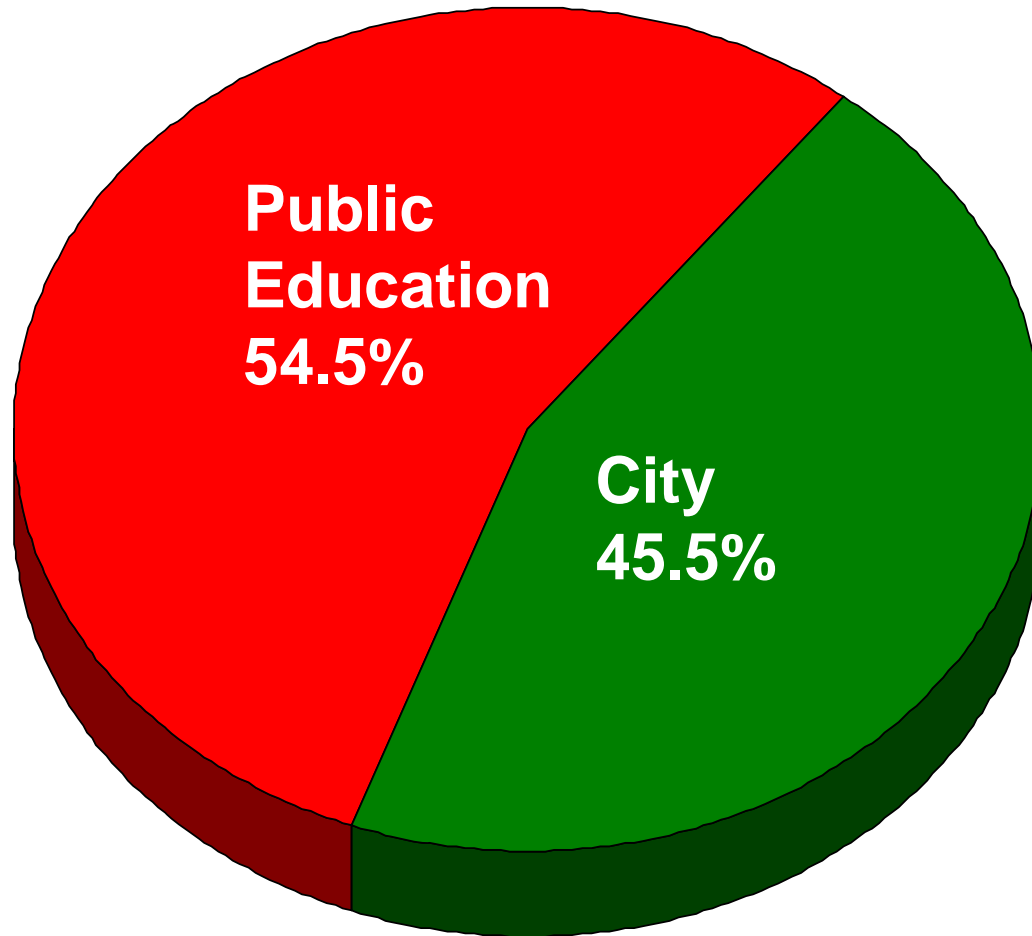
At Historical 4% Growth, Revenues Would Equate to \$18.7M

TOTAL CITY REVENUE		2007	2008	Change	%
State Education Aid	\$	171.1	177.4	6.3	3.7%
Property Taxes (To Schools)		84.9	88.1	3.2	3.8%
Federal Reimbursement		0.5	0.0	-0.5	-100%
Free Cash		2.0	0.0	-2.0	-100%
Reserve Revenues		0.6	0.0	-0.6	-100%
City Revenues for Schools	\$	259.2	265.5	6.4	2.5%
State Local Aid to City		71.6	72.1	0.4	0.6%
Property Taxes		96.9	102.4	5.5	5.7%
Local Receipts		39.4	38.8	-0.5	-1.4%
Free Cash		0.1	0.0	0.0	0.0%
City Revenues	\$	208.0	213.3	5.4	2.5%
Total Revenues	\$	467.1	478.8	11.8	2.5%

In Millions

FY08 Growth of 11.8M, Net Loss of Revenue Growth \$6.9M

Projected FY 2008 Combined Expenditure Budget:
\$487.4M



Worcester Public Schools Face \$12.5M Gap

REVENUE		2007	2008	Change
City Revenue To Schools*	\$	258.5	265.5	7.0
State and Federal Grant		35.7	29.9	-5.8
TOTAL SCHOOL REVENUE	\$	294.2	295.4	1.2
EXPENDITURE		2007	2008	Change
Salaries and Benefits	\$	231.9	242.1	10.2
Special Education Tuition		12.2	12.6	0.4
Charter School/Choice Tuition		17.4	19.9	2.5
Grant Assessments		7.1	7.1	0.0
Transportation, Supplies, Other Maintenance		25.6	26.3	0.4
TOTAL EXPENDITURES	\$	294.2	307.9	13.4
WPS BUDGET GAP	\$	0.0	-12.5	-12.5

In Millions

*Includes Chapter 70 and Charter School Reimbursement

Worcester Public Schools - Deficit Solutions

Reduce 159 Teacher Positions	\$	7.64
Reduce Instructional Supplies		1.04
Reduce 15 Admin and Support Positions		0.57
Reduce After School/Enrichment Programs		0.32
Restructure Secondary Transportation		0.30
Reduce staff development/other services		2.61
Total Possible Budget Reductions:	\$	12.48

In Millions

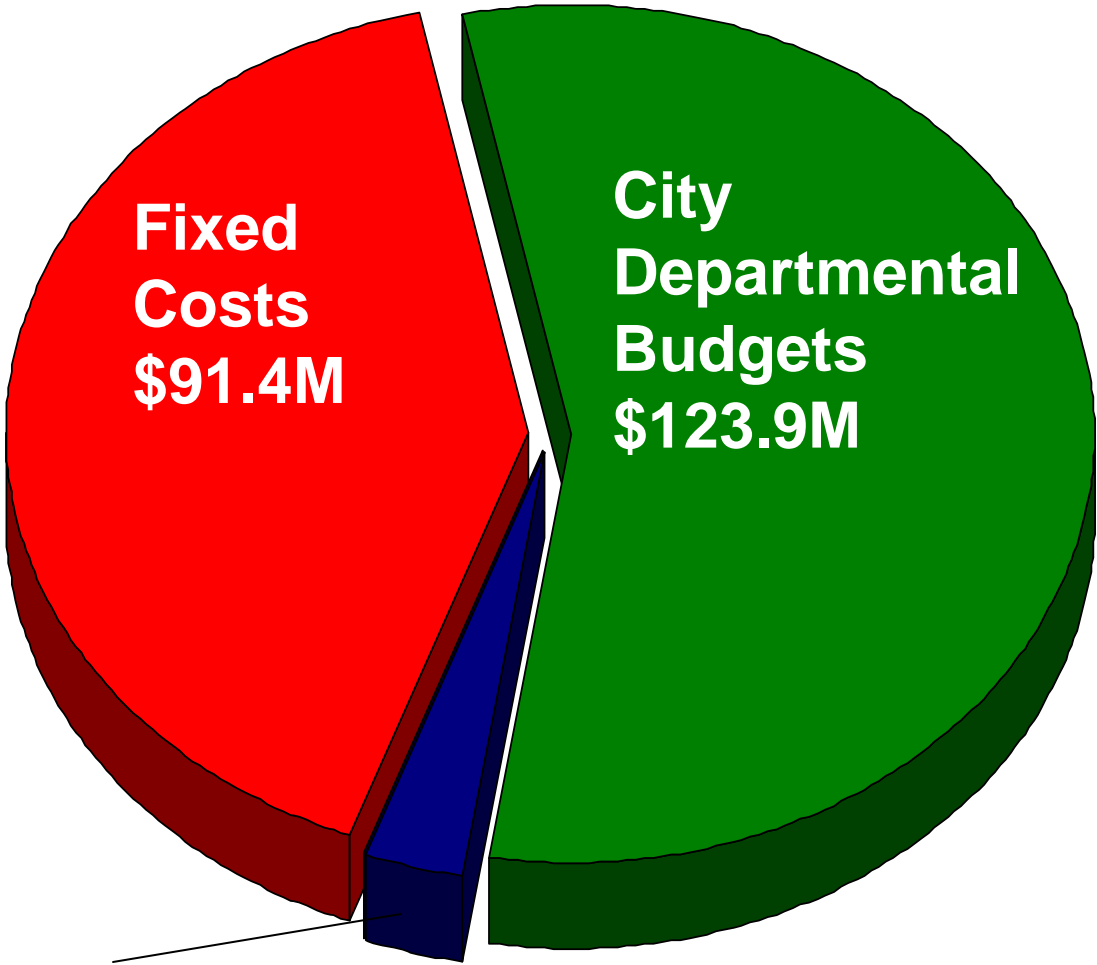
FY2008 City (Non-Schools) Budget: \$222M to Maintain Current Core Services

Category		2007	2008	Change	%
Fixed Costs	\$	83.3	91.41	8.2	9.8%
Departmental Budgets		116.5	123.9	7.4	6.4%
Miscellaneous (Intergov.)		6.4	6.6	0.16	2.4%
Snow Deficit		1.8	0.0	-1.8	-100%
Total City Expenses	\$	208.0	221.9	13.9	6.7%
Total City Revenues	\$	208.0	213.3	5.4	2.5%

In Millions

- **Fiscal 2008 Budget Gap: \$8.5M**

City (Non-School) Projected \$222M Operating Budget Fiscal 2008



**Miscellaneous Non-Municipal
Charges, Intergovernmental
\$6.6M**

Fixed Costs **Increasing \$8.1M**

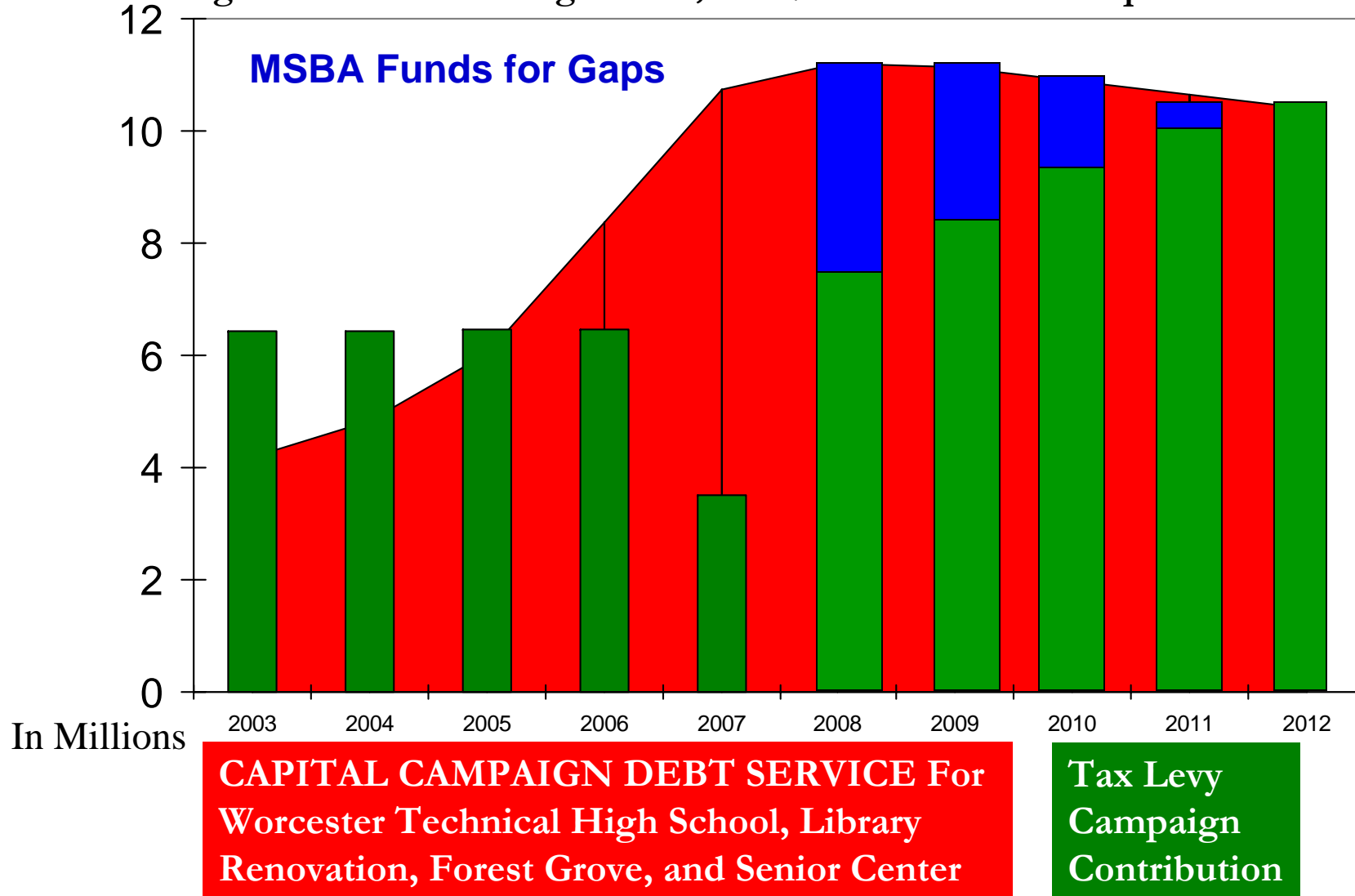
CAPITAL/DEBT SERVICE		2007	2008	Change	%
Cap. Campaign/North High Bond Fund	\$	3.5	7.8	4.3	123.1%
Debt Service Obligation		29.0	28.1	-1.0	-3.3%
TOTAL CAPITAL/DEBT	\$	32.6	35.9	3.4	10.3%
BENEFITS (CITY PORTION)					
Health Costs	\$	26.5	29.0	2.6	9.7%
OPEB Liability		0.0	1.5	1.5	100.0%
Retirement Contribution		24.1	24.7	0.6	2.6%
Other Fixed		0.16	0.21	0.04	27.4%
TOTAL BENEFITS	\$	50.7	55.5	4.7	9.2%
TOTAL FIXED COSTS	\$	83.3	91.4	8.1	9.7%

In Millions

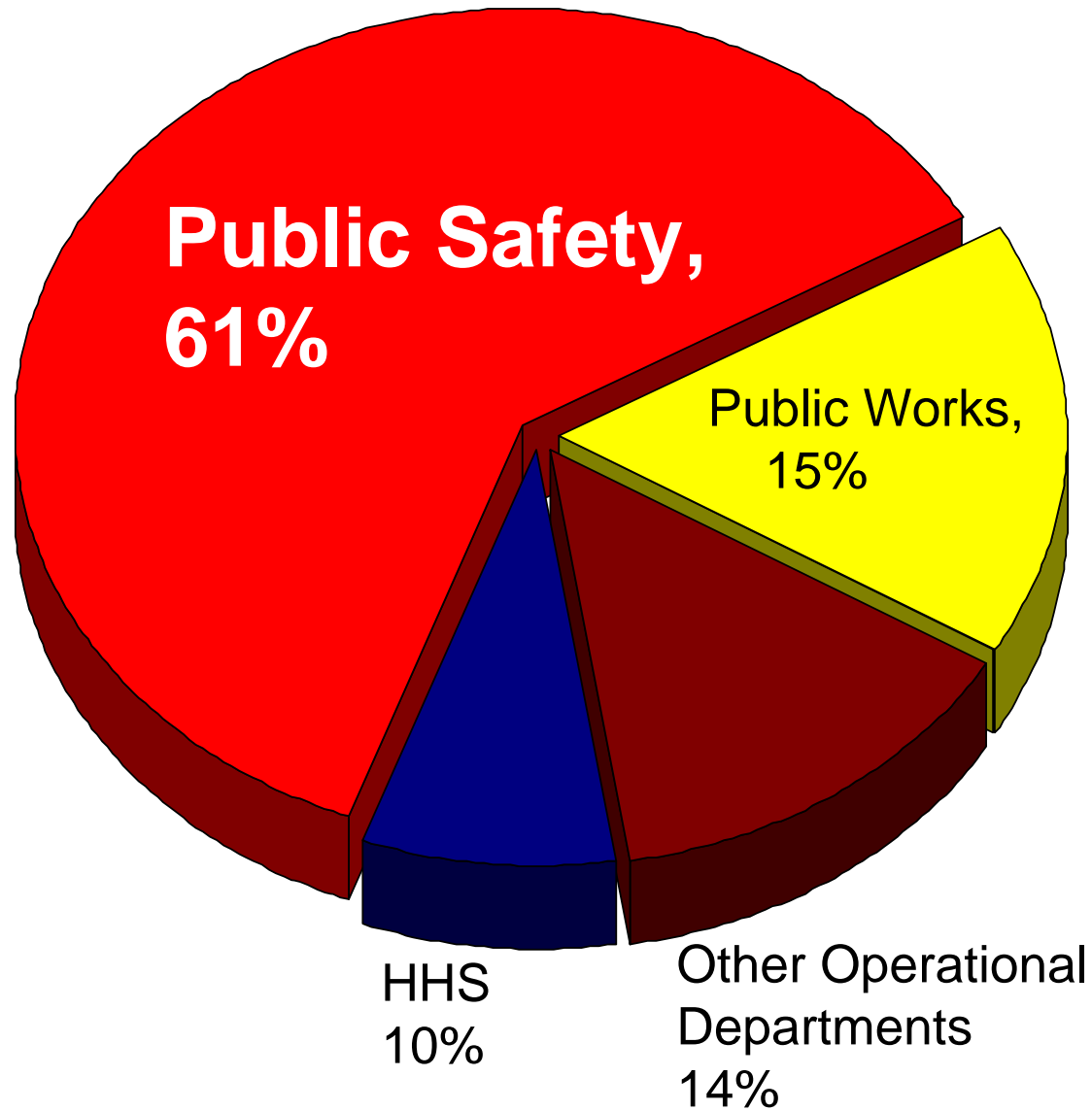
- Over 40% of City (Non Schools) Budget Dedicated to Fixed Costs

Capital Campaign Debt Service Payments Now Recognize Technical High School

Contributions to Capital Campaign Built Reserve which will be depleted in Fiscal 2008. Mitigation Plan Including MSBA, and \$1M Increments Required



City (Non-School) Departmental Budgets 2008



Departmental Budget Increases: \$7.4M

- \$1.9M FY08 Collective Bargaining Agreements (Most Contracts Expire 6/30/07).
- \$1.8M Firefighter Arbitration Award – 6/30/07
- \$1.1M Energy Costs (Electricity Rates Doubled)
- \$600K Solid Waste/Recycling
- \$600K Public Safety Overtime Adjustment
- \$600K for DCU Center, Union Station, Golf Course Operating Deficits
- \$300K Snow Removal Budget Increase...
- \$500K Other Departmental Accounts

Recap: Why Are We At The Crossroads?

- Citywide Revenue Growth Cooling to 2.5% in Fiscal 2008
 - Unrestricted Local Aid Revenue is Flat, Permits, Penalties and Excise Tax Revenue is Declining, Real Estate Taxes in Line with Expectations
- Certain Expenditure Line Items Increasing at Atypical Growth Rates Resulting in an Overall 6.0% Increase in Expenses
 - Arbitration Award 6/30/07, Energy Costs Spiraling Upwards, Waste Disposal and Recycling Cost Increases, Operating Deficits in City-Owned Buildings/Facilities Increasing, Reality of OPEB Funding Stream for Retiree Health Benefits
- Capital Reinvestment Decisions Made Long Ago – Mortgage Payments Now Due...

Decision Point... Which direction do we choose to proceed?
Define our future? Leave our legacy?

The Path of Decline

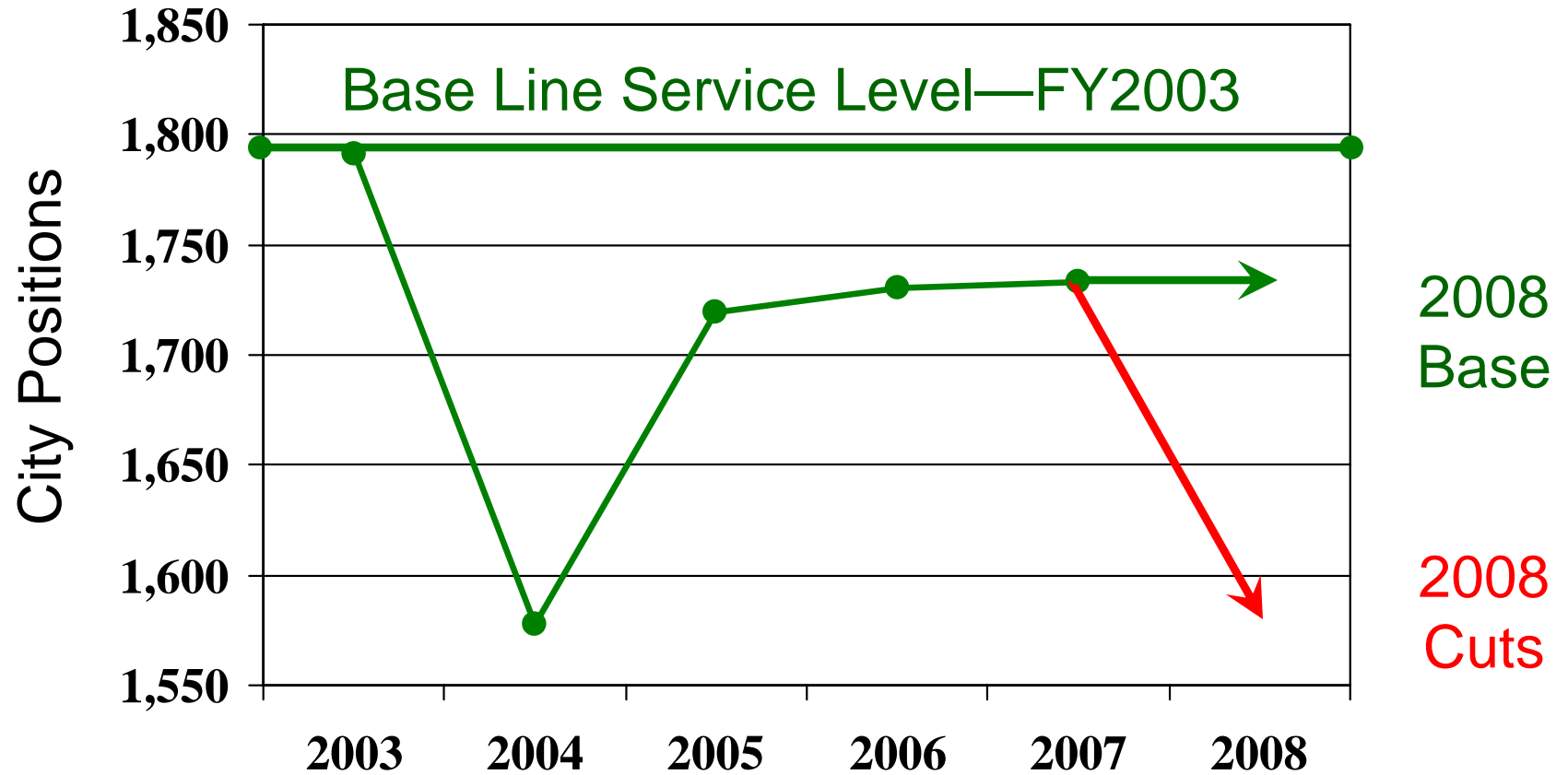
\$8.5M in Budget Reductions

Wholesale Department Budget Reductions:

- The elimination of 130 positions, or 7% of City-side workforce, reducing total number of employees from 1,730 down to 1,600 in both Public Safety and Non-Public Safety departments.
- Reduce Overtime by \$1.0 million, or about 20% of all overtime dollars used and eliminate all non-essential service performed through overtime.
- Reduce by 20%, or \$500,000 funding provided for Street and Sidewalk Repairs, Summer Pool closings, Animal Shelters, and other city services provided to the community.

Is this the path that we choose? Is this what we expect of our future?

Departmental Reductions: City Has Not Recovered from 9C Cuts in FY2004



The Continued Path of Progress...

Investments in Our Bright Future

1. Targeted Departmental Budget Reductions and Efficiencies
2. Core Mission
3. Reign in Skyrocketing Fixed Costs... Focus on Employee Prescription Drug Program Management and “Other Post Employment Benefits”.
4. Diversify Sustainable Revenues - City Fee Structure for Fee for City Services, Municipal Partnership Act, Unlevied Tax Capacity and Partnerships...
5. Potential to Postpone Worcester’s First Payment Towards Worcester’s \$1.3 Billion Unfunded Post Employment Benefit Liability.

The Continued Path of Progress...

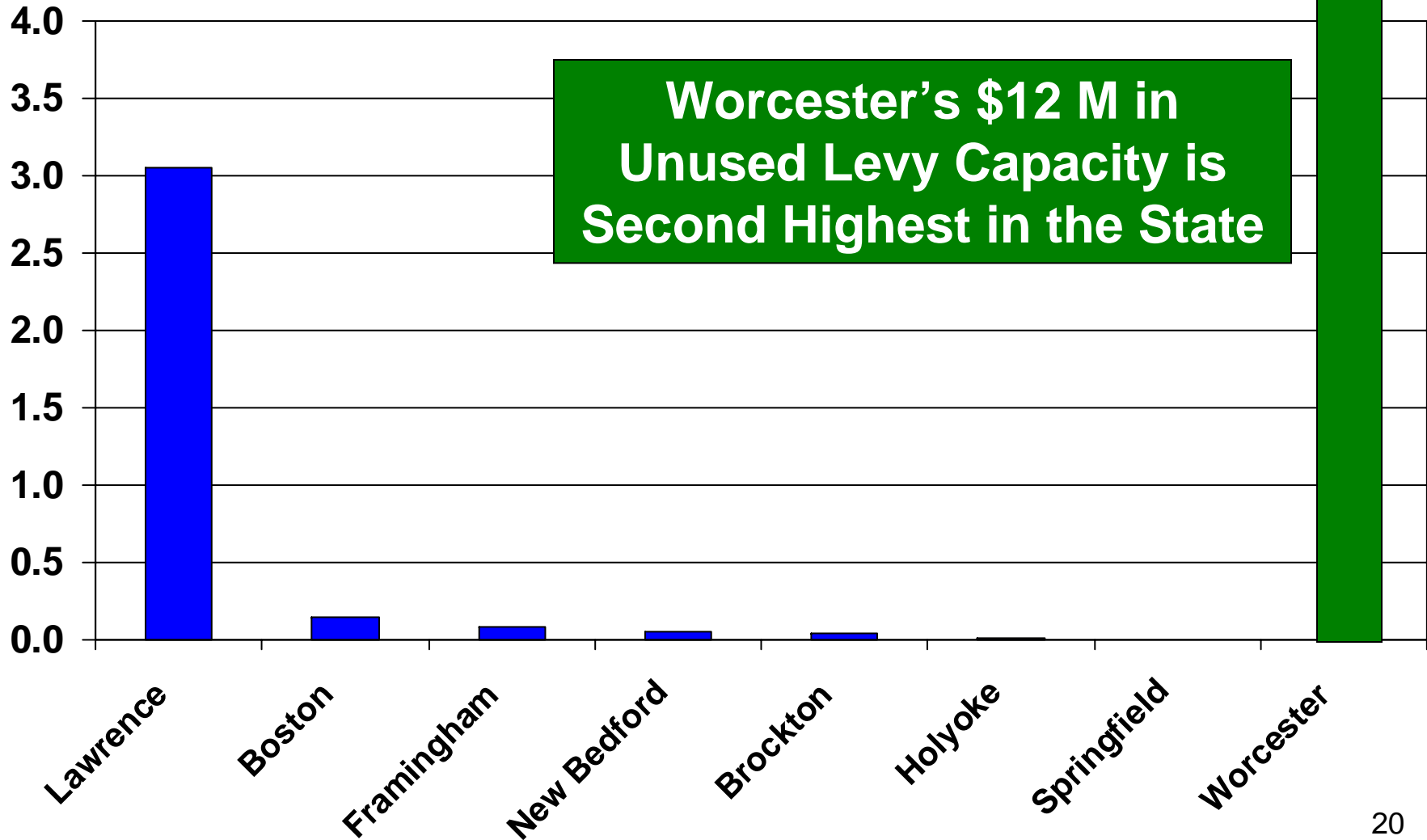
Investments in Our Future

The “T” Word...

- Avoids Wholesale Service Reductions in City and WPS
- Reduces City Dependence on State Aid and Allows City to Define and to Control Our Destiny
- Achieves Structural Balance by Providing Recurring Revenues for Baseline Core Services
- Demonstrates Fiscal Responsibility - Required to Maintain Worcester’s Favorable Bond Rating

Excess Levy Capacity

In Millions



The MPA - Local Options Alternative

- Close Telecom Loophole—Potential for \$2M in Revenues
- Local Option Meals/Hotel Taxes—Potential for \$2.2M in Revenues

These revenues preserve teaching positions in our children's classrooms, preserve community policing, preserve staff levels at the WFD and key services of the DPW, HHS and QOL Departments.

The Continued Path of Progress...

All Solutions Are on the Table

- I intend to submit a FY08 Budget in April 2007 Identifying Solutions to Close this \$8.5M Budget GAP and Restore Over \$4M to the Worcester Public Schools... My solutions will...
 1. Maintain our Baseline of Key Public Services
 2. Balance our Budget Structurally—for the Long Term—Recurring Revenue for Recurring Costs.
 3. Keep Focus on the City's Core Mission
- Concurrently, I will be prepared to effectuate \$8.5M in BUDGET CUTS, and impact bargain the employee layoffs, if my recommendations do not prevail.
- Difficult, Disciplined, and Thoughtful Decisions Will Allow Us to Achieve Structural Budget Balance for the Long Term, Avoid Cycle of Decline, and Preserve the Quality of Life for our Great City.