



Edward M. Augustus, Jr.
City Manager

CITY OF WORCESTER

cm2017nov22010323

Attachment for Item # 9.33 E

November 28, 2017

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

I respectfully recommend City Council's approval of the attached adjustments required to finalize the FY18 budget, as received from Thomas F. Zidelis, Chief Financial Officer, and forwarded for the consideration of your Honorable Body.

The City's annual budget is developed and predicated on assumptions of revenue estimates by both the Commonwealth and the City based upon the best information at the time. After the budget is formulated and adopted by City Council, revenues are refined and adjustments are required to finalize the annual City budget. To complete the budget for submission of the City's annual tax recapitulation (Tax Recap) to the Department of Revenue, the adjustments are required to be recommended and voted by the City Council.

The required adjustments include the recognition of changes in the Cherry Sheet revenues and expenses, which have occurred between the adoption of the City's FY18 Budget and the adoption of the Commonwealth's FY18 Budget. The financial submission also appropriates the FY18 certified free cash in accordance with the City's revised financial plan adopted by the City Council. The following recommendation not only utilizes the new growth in excess of budget to reduce the FY18 2 ½% increase, it also includes my recommendation for an additional \$250,000 of the City's free cash appropriation. Combined with the reduction from new growth, this will bring the total amount of tax relief in FY18 to approximately \$2,000,000. Other budgetary adjustments included provide support for the Worcester Public Schools and limited operational and capital projects for a balanced FY18 budget.



OFFICE OF THE CITY MANAGER, CITY HALL, WORCESTER, MA 01608

TELEPHONE (508) 799-1175 | FAX (508) 799-1208

EMAIL: citymanager@worcesterma.gov



I respectfully request approval of the following recommended adjustments:

Revenues:

Account	Description	Amount
35920	Free Cash - FY17	\$9,207,742
466305	Charter School Reimbursement	(118,099)
4122018	Additional New Growth	1,701,616
4122018	Tax Relief -2 1/2 % Growth	(1,701,616)
4122018	Additional Tax Relief - Free Cash	<u>(250,000)</u>
	Total	<u>\$8,839,643</u>

Expenses:

Account	Description	Amount
35921	Bond Rating Stabilization Fund	\$4,603,871
04T803	OPEB Trust Reserve	2,762,323
500-91000	Worcester Public Schools	849,695
39815	Charter School Assessments	132,206
260-93000	Fire Department Capital	250,000
720-92000	Parks Ordinary Maintenance	117,067
04S639	Recreation Worcester, Summer	53,481
250-93000	Police Department Capital	45,000
410-93000	DPW&P Capital	<u>26,000</u>
	Total	<u>\$8,839,643</u>

Free Cash generated at the conclusion of FY17 has been certified by the Department of Revenue at \$9,207,742. Per the City's updated long-term financial plan, the distribution of Free Cash is as follows: 50% to the Bond Stabilization Fund, 30% to the OPEB Trust Reserve, and 20% for operational and capital needs as detailed below:

\$4,603,871 to the Bond Stabilization Fund

Per the City's long-term financial plan, 50% of Free Cash is allocated to the Bond Rating Stabilization Fund. In the updated financial plan voted by City Council, the bond stabilization threshold was increased from 5% to 10% to meet new norms and bond rating agency expectations. The City's bond rating continues to improve based on our continued discipline in adhering to our commitment to build reserves, saving millions of tax dollars as we continue to borrow for large capital projects.

\$2,762,323 to the OPEB Trust Reserve Fund

Per the City's long-term financial plan, 30% of Free Cash allocated to the OPEB Trust Reserve. The City's OPEB liability of more than \$860M is a significant long-term

financial risk to the City, as reported on the City's annual CAFR. This FY18 allocation pre-funds the liability, helping to mitigate the City's long-term risk. This is another component of the City's fiscal discipline that is rightly recognized by the three bond rating agencies.

\$1,100,000 (\$849,695, \$132,206, \$118,099) for Worcester Public Schools

The increase in appropriation to the Worcester Public Schools has been requested by Superintendent Binienda to support an additional eight teachers to address class size and students' special education service delivery needs. Also, the district experienced a large increase in special education out-of-district tuition costs resulting from unexpected, unbudgeted new students to the city with significant financial cost. The district is using health insurance cost savings from recently negotiated collective bargaining agreements to offset some of the district's added costs, but the additional \$1.1 million will result in no loss of current programs and services to the students during this school year.

In my conversations with Superintendent Binienda, I recognize the difficulty of closing these unanticipated budget costs without impacting other services provided to students. Without this additional appropriation, the Worcester Public Schools will need to make mid-year budget cuts of \$2.2 million, in order to close the current gap with only one half of the fiscal year remaining. Excluding costs that cannot be reduced, whether through contractual obligations or fixed costs, the district would need to cut the equivalent of 25 teachers and support staff mid-year to close the budget shortfall. This action would have significant consequences at a time where great things in our school system are gaining momentum and those most at-risk are dependent on the level of services that are being provided. This Free Cash allocation will stabilize the district's budget for the remainder of the year; a very important investment to our students, taxpayers, and stakeholders.

\$250,000 for Worcester Fire Department Capital

The Worcester Fire Department is seeking funds to replace six vehicles that have long outlived their useful life. Three of the vehicles are already off the road and two more will be pulled off the road by the end of December. The vehicles have extensive body rot and require excessive hours of service every year to keep them running. The cost of this service is greater than the value of the vehicles. These vehicles will not pass

inspection and are no longer safe for personnel to operate. The Worcester Fire Department currently has staff sharing vehicles, greatly hindering productivity. This purchase will bring the department closer to being in line with their 20 year vehicle replacement plan. The new vehicles will be placed in high use emergency response and staff positions allowing vehicles that still have a useful life in a less vital role to be redeployed.

\$117,067 for DPW&P, Parks Division Ordinary Maintenance

The City had expected approval of a state earmark in the amount of \$175,000 to support tree replacement. That funding is in limbo between the Governor and the Legislature. Without this City allocation, we will not be able to plant trees in the spring. It was our hope to do so, following the extensive stump removal program this fall. This allocation of free cash will allow us to move forward with tree replanting as scheduled.

\$53,481 for Recreation Worcester

This appropriation for the Recreation Worcester program is needed to supplement in-kind donations that make this program possible. The 2017 summer program experienced an increase in the amount of children it served, which increased the cost of staffing and supplies. As the program continues to draw demand, staffing ratios are critical to keep the youth safe and ensuring quality service. State funds were designated for the program. However, the timing of the approval of the State budget did not allow for the funds to be distributed and used for the 2017 summer program, rather only for future costs of the program.

\$45,000 for Worcester Police Department Capital

This appropriation for the Worcester Police Department will allow the department to purchase a new K-9 vehicle, enabling the Special Operations Division to add an additional K-9 officer with the goal to have 6 working K-9's. The new vehicle will be specially outfitted for the dog and handler.

\$26,000 for DPW&P Capital

DPW&P would like to supplement its fleet of pretreatment equipment with a brine spray system for these two smaller size trucks. Currently, DPW&P uses 4 large trucks and 2 medium size trucks to pretreat main line streets pre-storm when conditions warrant. The addition of 2 smaller pretreatment trucks will allow DPW&P to more effectively.