



vision

Solutions for the FY2010 Budget

City of Somerville, Massachusetts

May 4, 2009



Overview

- States and municipalities under extreme pressures of economic crisis and taking drastic actions
- Somerville too must take strong action to address its projected budget deficit of \$7 - \$11+ million
- Our core principles will drive our approach to meeting this challenge
- Spending reductions and new revenues are required
- There are no easy answers; this will require compassion, fiscal responsibility, and shared sacrifice
- We will continue to move Somerville forward to a better future



Beacon Hill Exposure

- State revenue estimates in flux; dynamic situation
- The Governor, House, and Senate disagree on a revenue estimate to build the FY2010 budget
- The Governor & House used a revenue estimate of \$19.5B
- Senate likely to use \$18B-\$18.5B (\$1-1.5B below House); noncommittal on any potential tax increases
- April revenue figures released this week; Patrick will refile his budget using new revenue estimates
- Further deterioration extremely likely; 9C cuts in FY2010 a serious possibility



Other Communities Proposing Severe Solutions

- Governor – third time in seven months emergency cuts necessary; 5,000 executive staff take 5 day furloughs; additional 700 jobs cut
- State Senate – Senators agree to 3-5 day furloughs
- Boston – Over 565 layoffs (212 teachers; 67 police officers)
- Salem – 17 layoffs; 6 positions eliminated; and 5 early retirements
- Framingham – 27 teachers eliminated
- New Bedford – 200 layoffs (38 fire; 38 police)
- Brockton – 75 layoffs expected (30 police; 20 fire; 22 city hall)



Somerville's Decisions Guided by Core Principles

- **Fiscal Responsibility:** Avoid irresponsible cuts that generate short-term savings at the expense of long term prosperity. We will not build long-term plans on short-term fixes.
- **Uphold Core Commitments and Values:** Ensure the safety and education of our residents. Support the growth of our economy and protect the quality of our services. Give every child an opportunity to succeed. Assist our senior citizens when needed. Any budget must keep these promises.
- **Shared Sacrifice:** No group will bear a disproportionate burden from this challenge alone. All in it together.

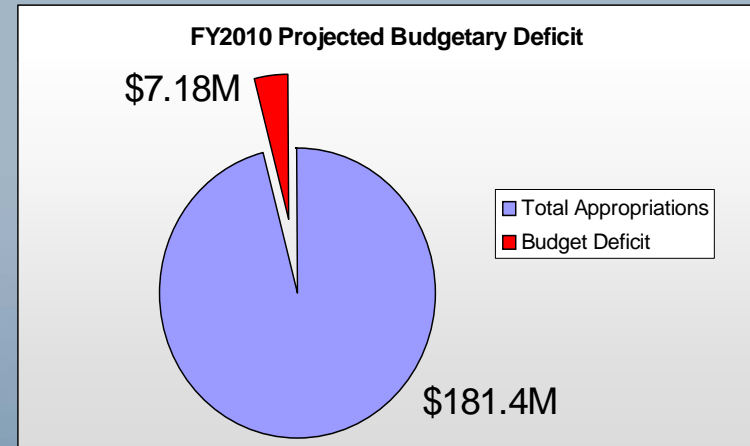


FY2010 Projected Budget (Level Services)

- Without cutting services or layoffs, structural budget deficit of $-\$7.18\text{M}$ (could be worse).

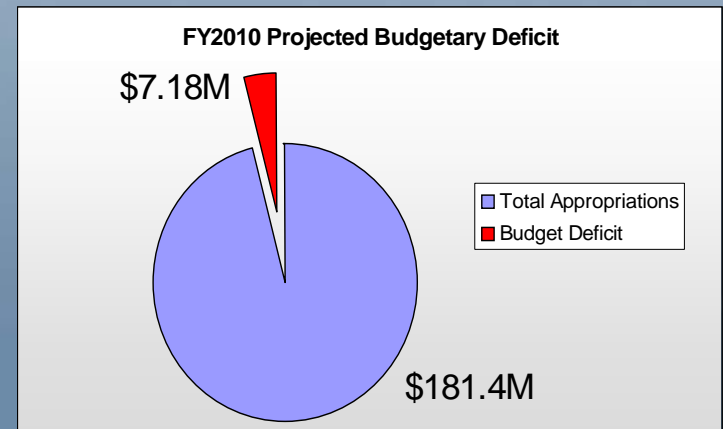
- Includes:

- Fixed/contractual cost increases
- Savings (vacancies, efficiencies)
- HWM2 State aid ($-\$6.12\text{M}$)
- Fee and Fine increases (+)
- $-\$2.9\text{M}$ Reduced Salary Contingency
- $\sim +\$3.9\text{M}$ Increase in Health care costs
- Prop. tax and growth ($+\$3.9\text{M}$), recycling ($-\119K), and Medicaid Reimbursement ($-\$900\text{K}$)



FY2010 Projected Budget (Level Services)

- The Level Services structural budget deficit of $-\$7.18\text{M}$. Does not include:
 - Cost of living or wage increases
 - Program improvements (MUNIS)
 - Service reductions; this scenario does not reduce or cut services
 - We cannot go backwards
 - Cannot change our principles and approach





Reading the Writing on the Wall

- Since October, School Department and City Administration began planning for worst case scenario
- Brought in outside experts – Financial Advisory Committee (FAC) to recommend measures to improve long-term financial solvency. FAC's Final Report preview:
- Recommendations by functional area, highlighting the reorientation of service delivery:
 1. Health insurance and benefits
 2. Increasing revenues
 3. Regionalization opportunities
 4. Competitive sourcing opportunities
 5. Indirect cost recovery implementation
 6. PAYT implementation
 7. Capital assets sale



Bridging the Gap

In order to bridge the budget gap and preserve services and personnel, Somerville must:

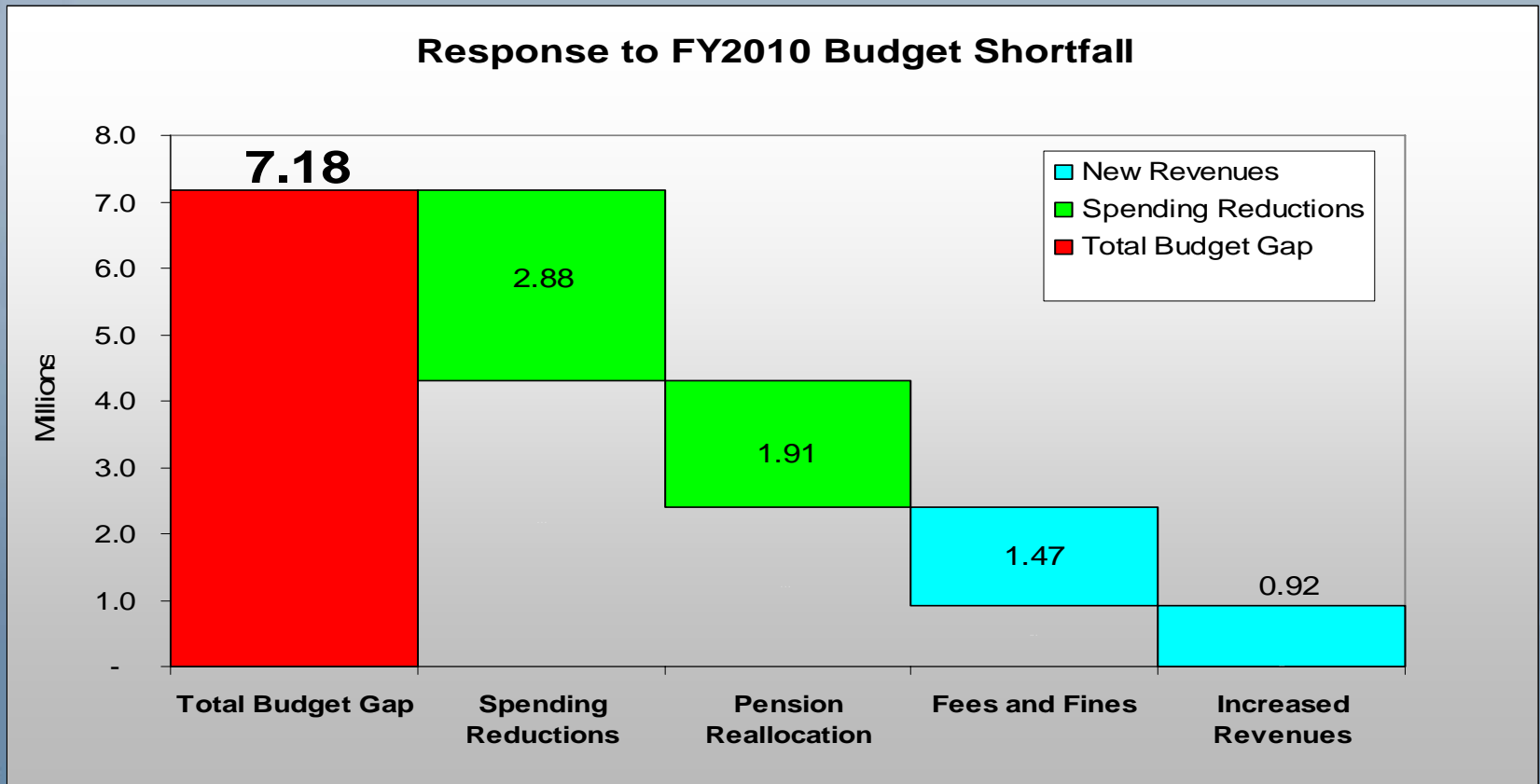
1. Control and reduce costs and expenditures
2. Increase and generate new and additional revenues
3. Take action on FAC recommendations

Decisive action is necessary by BOTH the Administration and the BOA

Expenditures	Revenues
	
Decrease	Increase

Blueprint to Bridge the Gap

- Spending reductions = \$4.79M
- Increasing revenues = \$2.39M





Spending Reductions and Controlling Costs

Major Actions Pending:

1. PERAC: adjusting pension schedule
2. Furloughs: Non-Union and Patrolmen (does not include superiors)
3. Health Insurance: two actions before BOA
(more actions possible – FAC report)

Spending Reductions	PERAC	Employee Furloughs	*Health Insurance
-\$4.79M	-\$1,914,257	-\$290,408	-\$2,593,689



Health Insurance

- Appropriation projected to increase by +\$3.79M in FY2010 – not sustainable
- FAC recommends bringing retiree contribution ratios in-line with surrounding cities and towns
- Moving retirees to 75/25% HMO-PPO and 60/40% retiree indemnity, results in +\$2.59M in savings
- Taken together, this can mitigate 68% of expected appropriation increase, as well as bring us in-line with other municipalities
- BOA actions necessary prior or July 1st to achieve full cost savings



Increasing Revenues

Major Actions Pending:

1. Parking fines and Citywide resident parking
2. Increasing parking permits
3. Increasing meter rates and hours of operation
4. Demand fees and City Clerk's fees and fines

Increasing Revenues +\$2.39M	*Parking Fines & Citywide Resident Parking	Residential Parking Permits	Meter Increases	*Demand Fees and City Clerk Fees
	+\$1,582,658	+\$170,000	+\$350,000	+\$279,685



Shared Responsibility

<u>City</u>	<u>BOA/School</u>
PERAC	Health insurance
Fees and Fines across-the-board	Traffic and Parking
Furloughs	Demand Fees
Wage freezes	City Clerk
\$2,724,665	\$4,456,032



We've Come Too Far...

Due uncertainty on Beacon Hill, we must take swift and deliberate action in order to preserve what we value. We can:

1. Generate additional revenues and reduce expenditures

OR

2. Cut core valued programs and services and plan for layoffs



On the Horizon...

- BOA: decisive action necessary on health insurance contribution ratios and fee and fine increases
- School Committee: continued collective bargaining partnership
- Cooperation key to success
- *Possible debt exclusion to finance E. Somerville Community School reconstruction*