



THE COMMONWEALTH OF MASSACHUSETTS

EXECUTIVE OFFICE FOR  
ADMINISTRATION AND FINANCE  
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July 22, 2010

Jay Gonzalez, Secretary  
Executive Office for Administration and Finance  
State House, Room 373  
Boston, MA 02133

The Honorable Steven C. Panagiotakos, Chair  
Senate Committee on Ways and Means  
State House, Room 218  
Boston, MA 02133

The Honorable Charles A. Murphy  
House Committee on Ways and Means  
State House, Room 243  
Boston, MA 02133

Dear Secretary Gonzalez, Chairman Panagiotakos and Chairman Murphy:

Pursuant to section 4(a) of Chapter 58 of the Acts of 2010, I present this report to update you on the progress made in the month of June towards addressing the City of Lawrence's financial challenges.

The City of Lawrence is in a financial emergency as a result of years of mismanagement and fiscal challenges. It is imperative that the City take action necessary to get its fiscal house in order and restore stability.

In this respect, the month of June marked overwhelming success over the course of the Mayor's first six months in office in contrast to recent years. The City, under the leadership of Mayor Lantigua, is taking action necessary to get its fiscal house in order and restore stability. Since the Mayor took office in January, the City has increased revenue generation with the passage of local option taxes, rapid sales of city-owned property, and aggressive collection of water and sewer bills; reduced spending and implemented tighter spending controls including a strict overtime policy; and developed a partnership with the UMASS Collins Center for Public Management to pursue best practices, cost saving analysis and revenue enhancers. The fiscal year 2011 budget process and the final budget reflect the Mayor and City Council's commitment to moving the city forward.

Since my appointment, I have been working directly with the Mayor and his staff to produce a balanced budget proposal for fiscal year 2011. Mayor Lantigua presented his balanced budget proposal to the City Council on June 1, 2010. The approach to fiscal 2011 focused on responsible

budgeting, reforms, revenues and shared sacrifice by taxpayers and employees, both union and non-union. The City Council approved a balanced budget for fiscal year 2011 on June 25<sup>th</sup>.

### **Fiscal Overseer's approval of the fiscal year 2011 budget**

The state took the approach of providing a combination of support and oversight for the City of Lawrence to get back on a path to responsible budgeting and long-term fiscal sustainability. This approach is designed to ensure that the City gets itself on a sustainable course while preserving for the newly elected Mayor and City Council – an administration that inherited this fiscal crisis – the chance, subject to the state's oversight and intervention, to act on behalf of the constituents they represent to make the hard decisions that are in their best interests. The state's approach retains for the Mayor and City Council the responsibility for making individual decisions.

As Fiscal Overseer my role is to make sure the City achieves a balanced budget in total, and does so through responsible budgeting. As Fiscal Overseer I need to make sure that the revenue assumptions are realistic and that non-discretionary liabilities (e.g., debt service, pension, legally required vocational school assessment) are fully funded. Based on this review and the difficult decisions made by the Mayor and the city Council, it is my determination that the City Council has voted a balanced budget for fiscal year 2011.

### **Shared sacrifice framework for fiscal year 2011 budget**

The approach to fiscal 2011 focuses on responsible budgeting, reforms, revenues and shared sacrifice by taxpayers and employees, both union and non-union. In June, as part of the fiscal year 2011 budget process, the City pursued employee participation in shared sacrifice to support a fiscal year 2011 budget that will provide essential local services.

The budget is a reflection of the sacrifices that the citizens of Lawrence are being asked to make through various taxes and fee increases along with a reality that core municipal services will be cut, affecting services.

The budget requires sacrifices for taxpayers including: the adoption of the local option meals tax and increase in the local rooms tax, a review of and expected increase in all local fees, fines and licenses to align with surrounding communities, an increase in parking tickets, a property tax increase of \$1.1 million, and implementation of parking meters, and layoffs which impact municipal services for the citizens of Lawrence.

The enacted budget does not reflect concessions from union employees, as union employees have to date not agreed to make concessions necessary to save jobs and preserve municipal services for the citizens of Lawrence. The result is a level of cuts to core services considered unacceptable by the Mayor, and a disproportionate level of sacrifice as a result being asked of citizens.

The Mayor continues to seek \$4 million in employee concessions to reduce the severe budget cuts outlined in his budget proposal. Discussions associated with collective bargaining agreements continue between management and labor within the City. If unions do agree the concessions in the spirit of shared sacrifice, the Mayor will pursue a supplemental budget to adjust the fiscal year 2011 budget to reflect those concessions and their benefit to City services for its citizens.

### **Deficit borrowing in fiscal year 2011 for one-time transition costs**

The Secretary of Administration and Finance's approach to allowing deficit borrowing by the City for fiscal 2011 focuses on allowing borrowing solely for one-time transition costs, including

costs that will be eliminated or funded in fiscal 2012 with savings from reforms or new revenues. The City has otherwise balanced its fiscal year 2011 budget, successfully positioning the City for sustainability going forward.

Deficit borrowing for fiscal year 2011 is expected to be \$3.3 million to date, based on a Pro Forma review by the Division of Local Services' Director of the Bureau of Accounts, to cover the following transition costs: savings from moving retired employees to Medicare that cannot be realized under federal law until fiscal year 2012 (\$1 million), unemployment costs associated with fiscal year 2011 layoffs (\$1 million), furlough and vacation buyouts associated with layoffs (\$320,000), the difference between City health insurance costs and GIC before GIC coverage begins under the statute on November 1, 2010 (\$400,000), and implementation for fiscal year 2012 of "pay and display" parking meters (\$540,000). Lawrence may be borrowing more than \$3.3 million because of potential exposures related to unemployment costs associated with the layoffs as well as potential deficits in the health care trust fund, which has been a long standing problem, which will be addressed going forward through the transition to GIC.

Because the Secretary limited borrowing in fiscal year 2011 to cover transition costs only, the budget adopted by the City Council necessarily solves the City's structural deficit and puts it on a financially sustainable course going forward. This approach also results in the current total estimated deficit borrowing by the City under the Act being \$27.3 million (\$24 million for fiscal year 2010 and \$3.3 million for fiscal year 2011, which is \$7.7 million less than the \$35 million authorized by the Act).

### **Continued progress: reforms and efficiencies**

The enacted fiscal year 2011 budget includes a number of reforms and efficiencies, including: review of solid waste fees and initiatives, aggressive sale of tax title properties, increase in parking tickets and a review of all fees, implementation of parking meters, combining sewer and water enterprise funds, moving eligible municipal retirees to Medicare, continuing aggressive pursuit of delinquent real estate, personal, property and excise taxes and outstanding water bills, and transitioning the City to GIC for health insurance. In addition, a proposed initiative to privatize payroll is under review. The City is already moving forward on these reform and efficiency initiatives.

Some of these reforms and efficiencies will be realized in fiscal year 2011 and some will be implemented in fiscal year 2011 and produce revenue or savings in fiscal year 2012.

The City, in partnership with the Division of Local Services, continues the process of consolidating the business and financial operations and functions of the school department with those of the City. This consolidation will yield streamlined operations, cost efficiencies and the benefit to both city and school of professional expertise.

### **Transfer to Group Insurance Commission**

On June 17<sup>th</sup>, I exercised my authority under Section 4 of Chapter 58 of the Acts of 2010 to deem that the City of Lawrence has accepted Section 19 of Chapter 32B of the Massachusetts General Laws and that the City intends to transfer its health care subscribers to the GIC on or before November 1, 2010. I have asked the GIC and City to take all steps necessary to transfer City of Lawrence subscribers to the GIC as provided for in Section 4(f)(3) of Chapter 58 of the Acts of 2010. This process is underway.

Preliminarily, FY11 savings and cost avoidance could be in excess of \$5M. We will have a better sense of actual savings once the employees go through the GIC open enrollment process in September.

### **Moving eligible city retirees to Medicare**

Pursuant to my duties under Section 4(f)(1) of Chapter 58 of the Acts of 2010, I have determined that the acceptance by the City of Section 18 of Chapter 32B of the Massachusetts General Laws would result in a cost savings for the City. On June 17<sup>th</sup> I notified the City of my decision and asked the City to take all necessary steps to transfer eligible municipal retirees into Medicare. Under federal rules regarding the timeline for moving eligible municipal retirees into Medicare, the City cannot implement the change and realize the savings until fiscal year 2012. In fiscal year 2011, deficit borrowing will cover the savings from moving retired employees to Medicare that cannot be realized under federal law until fiscal year 2012.

### **Regionalization initiatives**

I have begun exploring the possible benefits to the City of participating in the proposed Essex County regional 911 dispatch center and believe there may be potential for greater efficiency and effectiveness in public safety operations through participation in a regional dispatch center. Mayor Lantigua will meet with Sheriff Cousins to explore the possibility of joining the regional dispatch center in fiscal year 2012.

If you have any questions or comments please feel free to contact me at 617-626-2381 or by email at [nunesr@dor.state.ma.us](mailto:nunesr@dor.state.ma.us).

Sincerely,

Robert G. Nunes  
Fiscal Overseer

cc: Mayor William Lantigua, City of Lawrence  
Senator Susan C. Tucker  
Representative David M. Torrisi  
Representative Barry R. Finegold  
Representative Marcos Devers