

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
ADMINISTRATION AND FINANCE
STATE HOUSE • ROOM 373
BOSTON, MA 02133

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SECRETARY

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LAWRENCE FISCAL OVERSEER

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June 11, 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 towards addressing the City of Lawrence's financial challenges since I was appointed Fiscal Overseer for the City on April 23, 2010.

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. This requires that the City implement reforms, but also requires shared sacrifice from the people of Lawrence and from City employees, both union and non-union, in order to balance the books and ensure the continued provision of core services to residents of the city.

On April 23, 2010, Secretary of Administration and Finance Jay Gonzalez appointed me as fiscal overseer to the City of Lawrence. As fiscal overseer, I am committed to working collaboratively with Mayor Lantigua and the City Council to solve the financial crisis facing the City of Lawrence in a manner that best serves the citizens of Lawrence.

Brief summary of the Lawrence statute and charge of overseer

Chapter 58 of the Acts of 2010 provides a comprehensive approach by requiring the City to fulfill conditions to get back on a path to responsible budgeting. The legislation:

- Allows the City to borrow into deficit, up to \$35 million, to balance its fiscal year 2010 and 2011 budgets, thus allowing it to generate a steady cash flow, and to meet payroll and other commitments.
- Increases state oversight of city finances by providing for a state designated fiscal overseer working cooperatively with the Mayor and City Council. Requires the Secretary to appoint the overseer within 30 days after this bill becomes law. The overseer reports directly to the Secretary of Administration and Finance.
- Overseer must approve the annual or supplemental budgets of the city and the school committee and new collective bargaining agreements.
- Requires the overseer to assess the ability of City government to manage the City's fiscal challenges and develop a three-year financial plan.
- Requires the City to act to move to GIC or a regional health purchasing group if it will save the city money.
- Requires the City to consolidate municipal and school business functions.
- Provides that, at any time, if the state overseer concludes that the City is unable to achieve a balanced budget and fiscal stability, the overseer shall report this in writing to the Secretary, and the Secretary shall appoint a finance control board with extensive powers.
- If a Board is appointed, when it dissolves, the Mayor shall appoint a Chief Administrative and Fiscal Officer, after a structured search and with the Secretary's approval.

Overseer staffing and expenses

Under Chapter 58 of the Acts of 2010, the City of Lawrence is required to annually appropriate amounts sufficient for the proper administration of the fiscal overseer and staff, as determined in writing by the Secretary of Administration and Finance. Given the financial challenges facing the City, the Secretary of Administration and Finance has minimized as much as possible the financial support required of the City for the fiscal overseer and staff. As a state employee serving as overseer, I continue in my role as Deputy Commissioner of Revenue, overseeing the Division of Local Services, while fulfilling my responsibilities as Lawrence fiscal overseer. Staff support me in the day-to-day operations at the Department of Revenue. I continue to collect my state salary, and the City covers an incremental increase in compensation related to my additional responsibilities.

In performing my role as fiscal overseer, I will benefit from the support of other dedicated staff from the Department of Revenue's Division of Local Services and the Executive Office for Administration and Finance, at no additional cost to the city. In addition, the Secretary of Administration and Finance has asked the state's top union negotiators from the state's Office of Employee Relations to assist me by reviewing city contracts and advising me and the city in preparation for negotiations at no cost to the

city. I have also arranged for a legal intern (compensated solely for travel expenses) to work under the city solicitor's office to assist with the process of attaching liens to delinquent tax title properties as part of the city's efforts to target tax delinquents. The city is owed as much as \$25 million in back taxes. There may be instances when I seek outside assistance or support for independent studies or organizational assessments.

As a result of this approach to staffing and supporting the office of the fiscal overseer, total costs charged to the City are not expected to exceed \$75,000 per year (including fiscal overseer stipend, travel reimbursements and monies for professional services) and will likely be significantly less.

By comparison, expenditures of the Springfield Finance Control Board, for personnel, contracted services and equipment and administration were \$1,473,050 and \$1,329,171 in fiscal year 2007 and 2008 respectively.

FISCAL YEAR 2010 ACTIONS

Actions since Mayor Lantigua took office on January 4, 2010

- Freeze and mayoral review of all expenses in excess of \$1,000.00 via Executive Order
- Reduction of all take-home vehicles (52 vehicles city-wide down to 12 city-wide), cost savings of \$50K per year – Executive Order
- Aggressive collection of water and sewer bills; over \$3.9 million collected since January
- Rapid sales of City owned properties; \$303K sold since January
- Sale closing & payment for Saunders School; \$451K
- Reimbursement of \$1,058,670.00 from MSBA
- Partnership with UMASS Collins Center for Public Management – best practices, cost saving analysis and revenue enhancers
- UMASS engaged to review Medicaid reimbursement claims
- Reduction in cell phones city-wide(102 devices); \$5K per month savings
- Reduction in Department Head/managerial positions in January: Planning Director, Recreation Director, Commissioner of ISD, DPW Supervisor = \$ 274K
- Partnership with UMASS Medical to perform a desk audit of City worker's compensation process to improve efficiency and cost
- April 2010 awarded \$565K Energy Grant through U.S. Department of Energy; future cost savings on utilities in all municipal buildings for fiscal year 2011

Fiscal Year 2010 deficit and budget

As of my appointment on April 23rd, the City had a deficit of \$24 million, a product of failed leadership and chronic mismanagement by a prior administration during the last three fiscal years (fiscal year 2008, fiscal year 2009 and fiscal year 2010), and had not yet produced the balanced budget that would allow it to set a fiscal year 2010 tax rate.

In April, the City borrowed, on the private market, a total of \$24 million in general obligation deficit financing obligation bond anticipation notes to address the accumulated deficit of \$24 million. This private borrowing by the City is not a state obligation. See attached Appendix A for an excerpt from the borrowing Official Statement that details the accumulated deficit of \$24 million.

On April 21st, with the deficit borrowing of \$24 million supporting a balanced budget for fiscal year 2010, the Department of Revenue's Division of Local Services certified the City's fiscal year 2010 tax rate.

Adoption of local option taxes

The City has also taken actions in fiscal year 2010 to begin to address its financial challenges through reforms, efficiencies, savings and pursuit of new revenues. On April 20, 2010, the City Council voted to adopt the 0.75 percent local option meals tax, estimated to produce for the City new revenues of as much as \$300,000 annually, and voted to increase the local option room occupancy tax to 6 percent, estimated to produce additional revenues of \$75,000 per year. Both will go into effect for fiscal year 2011.

Executive Order restricting overtime work

On May 19, 2010, Mayor Lantigua issued an Executive Order restricting overtime pay and implementing a new overtime approval process that requires City employees to have prior written approval from the Mayor and fiscal overseer before working overtime. Public safety personnel are not restricted to the prior written approval requirement due to the unplanned nature of public safety emergencies. However, the police and fire chiefs must submit a weekly report detailing all overtime costs, names and pay rates of employees on overtime, and the specific reason why the overtime was paid.

Solid waste efficiencies

In May, the City also began tighter enforcement of its solid waste pickup, eliminating pickup for commercial properties not allowable under the existing solid waste contract and eliminating pickups for dwellings of more than 6 residential units, for a cost savings in excess of \$250,000 in fiscal years 2010 and 2011.

Analysis of obtaining group health insurance from GIC or a joint purchasing group

Under the Lawrence statute, I have 60 days after appointment, until June 23rd, to determine the financial impact to the City should the City join GIC or another group purchasing pool. The City contracted with Group Benefit Strategies (GBS) to conduct an analysis of the financial impact to the City should the City terminate the provision of group health insurance coverage by self-insurance and accept Section 19 of Chapter 32B for the purposes of obtaining group health insurance coverage from the Group Insurance Commission. The analysis and my determine will be included in the June 2010 monthly report.

Analysis of moving eligible city retirees to Medicare

The City contracted with Group Benefit Strategies (GBS) to conduct analysis and determine the financial impact to the City of accepting Section 18 of Chapter 32B of the General Laws. Analysis indicates the City will save \$1 million in fiscal year 2012 from accepting Section 18. 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. However, in fiscal year 2011 the Mayor will be asking the City Council to vote on acceptance.

Consolidation of school department and city business and financial operations

Under my oversight, and with the assistance of Bureau Chief Rick Kingsley and Financial Management Analyst Zachary Blake from the Department of Revenue's Division of Local Services Technical Municipal Data Management/Technical Assistance Bureau, the City has begun 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.

Regionalization initiatives

I have begun exploring the potential benefits to the City of participating in the proposed Essex County regional 911 dispatch center, as well as purchasing and other regionalization initiatives.

FISCAL YEAR 2011 APPROACH

Since my appointment, I have been working directly with the Mayor and his staff to produce a balanced budget proposal for fiscal year 2011, for presentation to the City Council on June 1, 2010. The approach to fiscal 2011 focuses on responsible budgeting, reforms, revenues and shared sacrifice by taxpayers and employees, both union and non-union.

Responsible budgeting

In developing his fiscal year 2011 budget, the Mayor has demonstrated solid budgeting practices and addressed past irresponsible budgeting practices by prior administrations that helped lead the City to its current crisis. In its fiscal year 2010 budget, the prior administration relied on local aid numbers from the Governor's budget proposal despite more recent local aid numbers from the House Ways and Means proposal being available. The prior administration had used unrealistic estimates of local revenues as well. The prior administration also failed to account for a full year's worth of payroll expenses in its fiscal year 2010 budget.

In developing his fiscal year 2011 budget, Mayor Lantigua used the House Ways and Means proposed local aid numbers, as recommended by the Division of Local Services. The Mayor's fiscal year 2011 budget proposal provides a full accounting of personnel and other expenses, uses well-informed revenue estimates and meets net-school spending requirements. The Mayor's fiscal 2011 budget proposal also aggressively addresses the City's fiscal challenges with difficult personnel and service decisions rather than pushing costs on to the following fiscal year.

Mayor's fiscal year 2011 budget proposal

The Mayor's fiscal 2011 budget proposal is a balanced budget that relies on \$4 million of deficit borrowing for one-time transition costs and \$10 million in cuts, revenue adjustments and savings, to solve a \$14 million structural deficit in a total budget of \$243 million. The Mayor's fiscal year 2011 budget presentation, delivered to the City Council on June 1st, is attached to this report as Appendix B.

The Mayor's plans account for a number of reforms and efficiencies, some of which will be realized in fiscal year 2011 and some of which will be implemented in fiscal year 2011 and produce revenue or savings in fiscal year 2012, 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 (to achieve a single, stable, balanced fund with estimated savings of \$700,000), 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, in April 2010 the City was awarded a \$565,000 energy grant through the U.S. Department of Energy which will result in future cost savings on utilities in all municipal buildings in fiscal year 2011.

The Mayor's approach to fiscal year 2011 seeks shared sacrifice from taxpayers (as reflected in the budget proposal) and employees.

The proposed 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 Mayor's proposed sacrifices for taxpayers include: 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. The Mayor's budget also proposes 115 layoffs throughout city government and 75 layoffs in the school department, for a total of 190 layoffs, which will produce unacceptable cuts to municipal services for the citizens of Lawrence.

The Mayor's budget proposal filed June 1st does not yet reflect concessions from employees, both union and non-union. The result is a level of cuts to core services considered unacceptable by the Mayor, and too much sacrifice as a result being asked of

citizens. The Mayor seeks \$4 million in employee concessions, both union and non-union, by June 30th to reduce the severe budget cuts outlined in his budget proposal.

City employees are being asked to make concessions to preserve services and jobs. If the unions do not agree to participate in helping to solve the problem, the City will be left with no choice but to eliminate city jobs, yielding even greater impacts on city services.

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

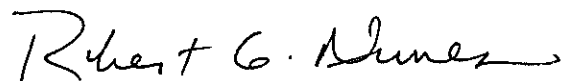
The Secretary of Administration and Finance's approach to allowing deficit borrowing by the City for fiscal 2011 focuses on allowing borrowing solely for one-time transition costs that will be replaced in fiscal 2012 with savings for reforms or new revenues, one-time transition costs. The City must otherwise balance its fiscal year 2011 budget to position it for sustainability going forward. The Secretary has approved deficit borrowing for fiscal year 2011 in the amount of \$4 million 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), snow and ice deficit (\$740,000), 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). Because the Secretary has limited borrowing in fiscal year 2011 to cover transition costs only, the Mayor's budget proposal and the budget ultimately adopted by the City Council necessarily solve the City's structural deficit and put 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 \$28 million (\$24 million for fiscal year 2010 and \$4 million for fiscal year 2011, which is \$7 million less than the \$35 million authorized by the Act. The City budget for fiscal year 2011 includes the first interest payment of \$500,000 on the \$24 million borrowed in fiscal year 2010. The first payment of principal on the \$24 million will occur in fiscal year 2012.

June 2010: the month ahead

In June the City will pursue employee participation in shared sacrifice to support a fiscal year 2011 budget that will provide essential local services; achieve, with City Council approval, an enacted, balanced budget for fiscal year 2011 by June 30th; and confirm the City will join the GIC.

In the meantime, 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.

Sincerely,



Robert G. Nunes
Fiscal Overseer

Appendix A

Page 29 from the Official Statement for general obligation deficit financing obligation bond anticipation notes showing accumulated deficit of \$24 million fro fiscal years 2008, 2009 and 2010.

Deficit Financing

The current issue of \$24 million State Qualified General Obligation Deficit Financing Bond Anticipation Notes will fund the following accumulated and current fiscal year deficits:

Items to be Financed with Note Proceeds

Unbudgeted Expenses FY 2010

Debt and Interest Charges	\$	2,181,341	
Cherry Sheet Offsets - School Lunch & Library		197,172	
Overlay Shortfall		500,000	(estimated)
Underfunded Health Insurance Appropriation		900,000	(estimated)
Accrual Buyouts per Union Contracts		740,000	(estimated)
Net Underfunded Appropriations		1,144,794	(estimated)
Total FY 2010 Unbudgeted Expenses	\$	<u>5,663,307</u>	

Overestimated Revenues FY 2010

Cherry Sheet Assessment Variances	\$	2,105,929	
Cherry Sheet Revenue Shortfalls		4,140,579	
Overestimated MSBA Reimbursement		74,312	
Overestimated Local Receipts		3,090,986	
Overestimated Water Receipts (General Fund to Subsidize)		800,000	
Total FY 2010 Overestimated Revenues	\$	<u>10,211,806</u>	

FY 2009 Deficits

Snow and Ice	\$	1,465,471	
Overexpenditure of Operating Budget		1,028,238	
Total FY 2009 Deficits	\$	<u>2,493,709</u>	

FY 2008 Deficits

Health Insurance	\$	<u>1,665,614</u>	
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Capital Projects Deficit

High School Construction Project	\$	<u>3,965,564</u>	
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TOTAL	\$	<u>24,000,000</u>	
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Appendix B

Fiscal year 2011 budget proposal presentation by Mayor Lantigua to the Lawrence City Council on June 1, 2010

City of Lawrence
Fiscal Year 2011 Budget
"Shared Sacrifices"

Submitted:

June 1, 2010

Mayor William Lantigua

Inherited Deficit
FY'10 & Prior Years

• **\$ 24 million**

- Failed leadership and chronic mismanagement of public finances by prior administration
- December 31, 2009, Governor Patrick filed Special Legislation to assist City of Lawrence
- March 31, 2010, Great & General Court approves Special Legislation to allow Lawrence to deficit borrow
- April 23rd Fiscal Overseer appointed to get Lawrence back on track

**The Mayor's Approach
January 4, 2010 – Present**

- **Reforms, Efficiencies & Savings**
 - **Shared Sacrifice**
- **Responsible Budgeting**

**Reforms/Efficiencies/Savings
January 4th and Counting**

- Freeze and Mayoral review of all expenses in excess of \$1,000.00 – Executive Order
- Reduction of all take-home vehicles (52 vehicles city-wide down to 12 city-wide), cost savings of \$50K per year – Executive Order
- Freeze and Mayoral/Overseer review of all over time expenses – Executive Order
- Aggressive collection of water and sewer bills; over \$3.9 million collected since January

Reforms/Efficiencies/Savings January 4th and Counting

- Rapid sales of city owned properties; \$303K sold since January
- Sale closing & payment for Saunders School; \$451K
- Reimbursement of \$1,058,670.00 from MSBA
- Partnership with UMASS Collins Center for Public Management – best practices, cost saving analysis and revenue enhancers

Reforms/Efficiencies/Savings January 4th and Counting

- Contract with UMASS to process Medicaid reimbursement claims
- Reduction in Cell Phones City-wide(102 devices); \$5K per month savings
- Aggressive collection of tax delinquents (+\$25 million due to city)
- Legal Intern assigned to City Attorney's Office to assist in property tax liens

Reforms/Efficiencies/Savings January 4th and Counting

- Consolidation of LPS and City business & finance operations – September 2010
- Group Insurance Commission transition on November 1, 2010 (Health Insurance); \$2.4 million cost avoidance, full implementation in FY'12
- Transfer retiree's to Medicare FY'12; \$1 million savings
- Requested Lawrence Retirement Board to conduct actuarial study on extension of funding schedule; anticipated \$226K savings (per Legislative approval)
- Combine Water and Sewer enterprise funds; \$700K savings
- Enforcement of Solid Waste Contract, eliminating pick-up for commercial properties not allowable under existing contract; cost savings \$200K

Reforms/Efficiencies/Savings January 4th and Counting

- Immediate reduction in Department Head/managerial positions; Planning Director, Recreation Director, Commissioner of ISD, DPW Supervisor = \$ 274K
- Partnership with UMASS Medical to perform a desk audit of our worker's compensation process to improve efficiency and cost
- April 2010 awarded \$565K Energy Grant through U.S. Department of Energy; future cost savings on utilities in all municipal buildings FY'11
- Regionalization Efforts; Review Essex County Regional 9-1-1 dispatch proposal, Energy regionalization, purchasing and other initiatives

Shared Sacrifice “The Taxpayers”

- Drastic, unacceptable level of cuts to core municipal services effecting citizens city-wide
- Taxpayers have been requested to pay more in all areas

Shared Sacrifice “The Taxpayers”

- Adoption of Meals Tax estimated \$300K per year in revenue; 104 communities adopted to date
- Adoption of Hotel/Motel Tax estimated \$75K per year in revenue; 82 communities adopted to date
- Review & increase of all local fees, fines and licenses to align with surrounding communities
- Increase Parking Tickets (\$15-\$30); \$250K
- Property tax increase of \$1.1 million fiscal year 2011
- “Pay & display” parking meters; Essex and Common Street; estimated \$540K per year

Shared Sacrifice “The Employees”

- City employees **need** to come to the table for the benefit of the residents of Lawrence
- City employees **must** make millions of dollars worth of concessions to avoid massive lay-offs, as are presented in FY’11 budget; which **will** effect the citizens and is unacceptable
- The balance of sacrifice **needs** to shift to the City employees. Union concessions must be made within the next 20 days in order to protect core city services. Sacrifices will need to be made by all employees

Shared Sacrifice “The Unions”

- **FY’11 Budget proposal does not include Union Concessions**

RESULT

Unacceptable cuts to municipal services for the citizens of Lawrence

FY'11 Budget

•115 Lay-offs throughout City Government

FY'11 Budget Lay-offs

Mayor's Office = 1
Purchasing = 1
Assessor = 1
Treasurer = 2
Collector = 3
City Attorney = 1
City Clerk = 1
Elections = 1
Planning Dept = 1
Police Dept = 38; 35 patrol, 3 admin, 7 demotions
Fire Dept = 32; 29 Firefighters, 2 Lt's, 1 dispatcher
DPW = 15
Cemetery = 2
Airport = 1
Council on Aging = 2
Library = 7
Recreation = 1
ISD = 5

Total = 115 Employees

FY'11 Budget

**•75 School
Department
Lay-offs**

FY'11 Budget

Lay-offs

Teachers = 32

Administrators = 2

Principals = 2

Paraprofessionals = 21

Clerks = 6

LPN's = 1.5

RN's = 1.5

Safety Officers = 2

Central Office Staff = 2

Custodians = 5

Total = 75 School Employees

*(Union Concessions could save 44 positions)

FY'11 Budget

Total Lay-offs

115 City Lay-offs

+

75 School Department Lay-offs

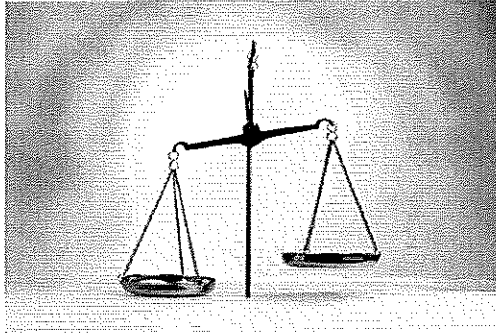
Total = 190 Employees

**Shared Sacrifice
"Concessions"**

- **\$4 million Concessions needed no later than June 30th to reduce severe cuts outlined in budget**
- **A balance of sacrifice is needed immediately to improve levels of service to city residents**

Taxpayer vs. Employee

We need balance by July 1st



FY'11 Budget
Deficit

**No Free Cash, No Reserves,
No Stabilization Funds**

City is Broke

\$14 million structural deficit

FY '11 Budget Deficit

**\$14 million structural deficit
\$4 million one-time borrowing**

= \$10 million problem

**Solved by: Massive Cuts,
Revenue adjustments &
Health Insurance Savings**

FY'11 Deficit Borrowing \$4 million (authorized)

**Budget includes \$4 million in one-time deficit
borrowing for transition cost**

Medicare savings (FY'12) = \$1 million
Unemployment Cost (layoffs) = \$1 million
Furlough & vacation buyouts (layoffs) = \$320K
Snow & Ice deficit = \$740K
GIC Transition = \$400K
"Pay & display" Parking Meters = \$540K

Total = \$4 million

FY'11 Budget
Amount To Be Raised

• **\$243,055,878**
**(including water and
sewer)**

FY' 11 Budget
Local Aid

- Local Aid cut \$11.5 million from '09 – '10
- FY'11 Unrestricted Aid was cut \$739K
- **Free Cash:**
 - 2004 = \$3, 255,813
 - 2005 = (2,490,350)
 - 2006 = (15,112,680)
 - 2007 = (12,098,339)
 - 2008 = Not Certified
 - 2009 = Not Certified

FY'11

Health Insurance Cost

- City will transition to the GIC by November 1st ; \$500K savings per month
- City will avoid an estimated \$2.4 million increase in the cost of health insurance
- Experience/Analysis illustrates that the growth rate of health insurance will drop significantly under GIC

FY'11 Budget Deficit "Solutions"

- FY'11 Budget, as submitted, is **balanced**
- FY'11 Budget, as submitted, relies on \$4 million in one-time borrowing (not available in FY'12)
- FY'11 Budget includes massive cuts along with revenue enhancers to keep City operating

FY'11 focus - Continued Reforms, Efficiencies and Savings along with a "Shared Sacrifice" approach by all will keep Lawrence Operating