



**Worcester  
Municipal  
Research  
Bureau**

AN INDEPENDENT VOICE FOR RESPONSIBLE GOVERNMENT

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# **CITY FACING \$5 MILLION DEFICIT IN FY02; TAXES MAY INCREASE**

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## EXECUTIVE SUMMARY

Based on an analysis of anticipated revenues for FY02 (July 1, 2001 - June 30, 2002), the City will have about \$14.4 million more than it did in FY01. Of that sum, \$12.2 million must be allocated to the Worcester Public Schools. This leaves the City with \$2.2 million for new municipal expenditures. The City Manager, however, has identified necessary expenditures such as collective bargaining agreements, and health insurance and pension increases of \$6.5 to \$7.3 million. These increases leave the City with a deficit of \$4.3 to \$5.1 million.

In order to address this projected shortfall, the Research Bureau has a number of recommendations to reduce expenditures and increase revenues:

- Since the City's share of health insurance costs may increase by \$18 million in FY03, the City Manager needs to renegotiate its share so that employees contribute 25% to their health insurance premiums.
- The City Manager in cooperation with municipal employee unions should engage in fundamental restructuring of the delivery of services. Salary increases should be tied to real productivity gains. Competitive Service Delivery whereby City departments must bid against private vendors for the right to deliver services should be introduced.
- The City's sick leave policy should be modified to eliminate abuses of undocumented absences and payout for sick time that is allowed to accumulate from year to year.
- When the City Manager negotiates new collective bargaining agreements, benefits should be treated as part of total compensation. This is essential given substantial increases expected in health insurance premiums in FY03.
- The City Council should not adopt local option programs that add recurring costs to the City's budget.
- In order to plan appropriately and not run a deficit every year, the City Manager should increase the snow removal account to an average of actual expenditures during the previous five fiscal years. (This account has been consistently funded at \$1.17 million. The deficit in FY01 is \$2.5 million.)
- The City should work to expand the tax base through the clean up and sale of brownfields for development.
- The City Manager should encourage municipal departments to sell goods and services to other communities. According to the Massachusetts Department of Revenue, when selling municipal property and services (such as software programs developed by the City), the municipality has an obligation to get the best price for that property.
- The City should lobby the State legislature to establish a local aid program similar to those in Connecticut and Rhode Island by which the State reimburses municipalities a percentage of tax revenues they would receive if private tax-exempt properties were taxable.

- The City Manager should consider increasing the trash bag fee to \$1.00 for large bags and \$0.50 for small bags to cover more of the cost of the sanitation operation. This could generate about \$1.8 million.
- The City Manager could add revenue generated by new construction of about \$2 million. In each of the last two budgets, he has avoided doing that in order to reduce the increasingly high tax burden on property owners in Worcester.
- Any recommendations by the City Manager for fee or tax increases should be contingent on his appointment of a blue ribbon commission empowered to make proposals for restructuring municipal services to increase productivity and reduce costs. This commission should include business and community leaders as well as municipal employees.

## I. REVENUES

The total FY02 tax levy budget is expected to be about \$385 million, a \$15.6 million or 3.9% increase over FY01. There are three major sources of the City's revenues: local aid from the state, property taxes, and local departmental receipts.

### A. Local Aid

Local aid is projected to be **\$215.5 million**, an \$11.7 million increase or 5.4% more than FY01. Of that increase, \$10.7 million must be spent on public education. (That figure is determined by the formula established by the Massachusetts Education Reform Act (MERA) mandating each municipality's required spending on education. That figure cannot be reduced.) This leaves the City with \$1 million in new revenues from local aid to spend on other municipal services, assuming a supplemental lottery distribution in the amount of \$50 million as described in the House I Budget submitted by the Governor.

### B. Property Taxes

Under Proposition 2-1/2, the property tax levy can be increased by up to 2.5% of the prior year's maximum allowable levy plus the revenue generated by new construction not previously on the City's tax rolls. In order to reduce the tax burden on property owners, the City Manager has not raised taxes to match the revenue generated by new construction for the last two years. Assuming the City Manager continues this practice, property taxes are expected to generate **\$138.9 million**, an increase of \$3.7 million or 2.5%. If the City Manager cannot balance the budget, he may need to utilize the estimated \$2 million projected to be available from new construction.

### C. Local Receipts

Local receipts are the funds the City receives from the motor vehicle excise tax, licenses and permits, hotel and motel tax, and other fees. Local receipts are expected to increase by \$1 million to about **\$30.6 million**.

#### D. Free Cash

Any free cash that is generated will probably be used to eliminate the snow-removal deficit of \$2.5 million. The City Manager does not anticipate using free cash to fund any ongoing operations of the City, since free cash is not a reliable revenue source. (Free cash is the amount a community has accumulated when revenue collections exceed budget estimates that were used when setting the tax rate, and/or when actual expenditures or encumbrances are less than appropriations.) Free cash expenditures in FY01 were \$2 million.

As the accompanying chart indicates, the most striking feature about the City’s revenues is that more than 56% comes from the State. While the State now has substantial reserves (\$4 billion) compared to a decade ago, the City’s overwhelming dependence on State revenues beyond its control is less than desirable.

<b>REVENUES (millions)</b>					
	<b>FY01</b>	<b>FY02</b>	<b>INC/DEC</b>	<b>%CHANGE</b>	<b>% OF TOTAL BUDGET</b>
LOCAL AID	203.8	215.5	11.7	5.7	56.1
PROPERTY TAXES	135.2	138.9	3.7	2.5	36.2
DEPARTMENTAL RECEIPTS	29.6	30.6	1	0	7.7
FREE CASH	2.0	0	-2.0	-100	0
<b>TOTAL</b>	<b>370.6</b>	<b>385.0</b>	<b>14.4</b>	<b>3.9%</b>	<b>100</b>

## II. NEW EXPENDITURES

There are a number of new expenditures that the City will incur as a result of increases in the cost of operations and employee benefits.

#### A. Worcester Public Schools

As noted previously, **\$10.7 million** of the increase in local aid must be spent on public education. (The total budget for the Worcester Public Schools is expected to be about \$215 million, more than double what it was in FY93 at the beginning of education reform.) Because the City has reached its annual net school spending threshold that cannot be reduced, and because the State formula requires the City to finance public education in direct proportion to the growth of municipal revenues, the City administration will have to add local revenues to meet the requirements of MERA. In FY02, that additional amount is about **\$1.5 million**. (If local revenues continue to increase as a result of increases in real estate values or in motor vehicle excise revenues, as is currently the case, then additional local revenues of \$1.5 to \$2 million will have to be added to public education in future years as well.)

#### B. Health Insurance

Health insurance costs for municipal employees are expected to increase by **\$1.1 million** in FY02 from \$12.8 to \$13.9 million. (Health insurance for school employees is included in the budget of the WPS.) The rates for active employees will increase by 4.3 % for Blue Choice and 8% for Fallon Community Health Plan. The rates for retirees on MEDEX will increase by 14.1%.

### **C. Debt Service**

Debt service is expected to increase by **\$225,000**. (Total debt service in the FY01 tax levy budget was \$29.3 million.) In last year's budget, the City Manager limited capital spending to \$10 million for new tax-levy projects. The purpose of the \$10 million cap is to decrease this line item in future years by paying down more annually than the City borrows. The debt service on major projects such as the library, the senior center, and school buildings will be paid for with revenues set aside in a special account. The City Manager budgeted \$3 million for debt service last year and intends to keep \$3 million in that account in FY02.

### **D. Retirement Costs**

The City will have to add about **\$500,000** to its pension liability in FY02 as a result of the poor performance of the stock market. The retirement investments did not achieve the target 8.5% return. (Retirement costs in the FY01 tax levy budget were almost \$16 million.)<sup>1</sup>

### **E. Contractual Tipping Fees**

The fees for disposal of the City's solid waste at the Wheelabrator facility in Millbury will increase by \$191,000. In addition, the cost of weekly recycling will increase by \$35,125 and the cost of manufacturing City trash bags will increase by \$80,000, for a total increase of **\$306,000**. The City's total cost of trash removal and weekly recycling is about \$3.8 million. (When indirect costs such as benefits are included, the actual cost is about \$5 million.) The sale of yellow trash bags generates about \$1.8 million in revenue. The gap between expenditures and bag revenue must be paid by tax levy funds.

(It should be recalled that when the City Council voted not to accept Norton Company's offer to build a resource recovery plant that the City could use free of charge for its solid waste, and chose not to build a plant elsewhere in the City, the plant was built in Millbury instead. Since 1985, when the Wheelabrator plant opened, the City has paid almost \$16 million in tipping fees to dispose of solid waste.)

### **F. Public Safety Personnel**

New police and fire classes hired during FY01 will add **\$1 million** to those departmental budgets in FY02. (The Police Department's budget in FY01 is \$28.3 million and the Fire Department's budget is \$26.7 million.)

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<sup>1</sup> It should be noted that as a result of the City having issued a Pension Obligation Bond three years ago, all retired Worcester public employees receive an annual 3% increase in pensions, subject to annual approval of the Worcester Retirement Board. In the private sector, many pensions remain fixed without any cost of living increases.

## **G. Union Station**

The cost of operating Union Station will be **\$500,000** in FY02, since the City has yet to attract rent-paying tenants to the facility.

## **H. Worcester Business Development Corporation Contract**

The cost in FY02 of the City's contract with the WBDC to plan the Washington Square area and attract development for Union Station and its environs is **\$270,000**.

## **I. Information Services**

The Information Services budget includes a net increase of **\$197,500** in ordinary maintenance expenses. The majority of this increase will be used to fund operational expenses associated with implementing and managing a citywide Geographic Information System (GIS). The major expenditures include vendor support for the GIS software application; annual maintenance and repair costs for GIS hardware items; staff training for GIS programming; consulting services and supplies (generating colored maps). The total FY01 budget for Information Services is almost \$1.8 million.

## **J. Worcester Regional Airport**

The increased activity at the Airport as a result of the City's operational agreement with MassPort will result in additional Airport revenues in FY02. In addition, the operating agreement with MassPort stipulates that it will pay 75% of the shortfall in FY02, an increase from 45% in FY01. As a result of both these factors, the facility's tax levy subsidy can be reduced by **\$200,000** to about \$665,000.

## **K. Collective Bargaining**

All non-school collective bargaining agreements expired June 30, 2000, and to date, no new contracts have been signed. Salaries, pensions, and health benefits represent 65% or \$105 million of the non-school budget. A one percent increase in salaries alone would add \$850,000 to the budget, and a 3-4% increase would add **\$2.6-3.4 million**. (WPS collective bargaining agreements expired December 31, 2000. A 1% increase in salaries for teachers adds \$1 million to the WPS budget. A 3-4% increase would add \$3 to \$4 million which must be absorbed within the FY02 WPS budget of \$215 million. Whatever agreement is reached with the WPS affects collective bargaining with municipal employees.)

**SUMMARY OF NEW EXPENDITURES**

A.	PUBLIC SCHOOLS	\$10,700,000	
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OTHER CITY EXPENSES			
B.	WPS MINIMUM CONTRIBUTION REQUIREMENT	\$1,500,000	
C.	HEALTH INSURANCE	\$1,100,000	
D.	COLLECTIVE BARGAINING	\$2,600,000	\$3,400,000
E.	DEBT SERVICE	\$225,000	
F.	RETIREMENT COSTS	\$500,000	
G.	CONTRACTUAL TIPPING FEES	\$306,000	
H.	PUBLIC SAFETY	\$1,000,000	
I.	UNION STATION	\$500,000	
J.	WBDC CONTRACT	\$270,000	
K.	INFORMATION SERVICES	\$197,000	
L.	WORCESTER REGIONAL AIRPORT	-\$200,000	
<b>TOTAL</b>		<b>\$18,698,000</b>	<b>\$19,498,000</b>

While the above-mentioned new expenditures total somewhere between **\$18.7** and **\$19.5** million, new revenues are anticipated to be about \$14.4 million. Thus, the City is facing a **deficit** of about **\$4.3-\$5.1** million. (See Appendix A for a summary of municipal tax levy expenditures for the last five years.)

In order to address this anticipated deficit, the City will have to reduce expenditures and/or increase revenues.

**III. REDUCING EXPENDITURES**

**A. Health Insurance**

During the current fiscal year, the City is spending \$32.1 million for its share of municipal and school employees’ health insurance premiums. In FY02, the City will spend almost \$35.4 million, a 10.3% increase over the previous year. FY02 is the third year of a three-year contract with providers that included rate caps. The City’s health insurance consultant is reporting that current trends in health insurance costs will lead to substantial increases in FY03 that may bring the City’s share of costs to more than \$50 million.

The City’s current financial situation indicates that it cannot afford to pay these premiums, and that it should reconsider its contribution policy. A Research Bureau report (#00-3) issued last year at the request of the City Manager showed that the City is extremely generous compared to 19 other communities in Central Massachusetts and to 36 other cities and towns across the Commonwealth. Worcester contributes the highest percentage (87%) toward the Preferred Provider Plan, the second highest percentage (75%) toward the indemnity plan, and the highest percentage allowed by law (90%) toward the Health Maintenance Organization. Many communities offer no indemnity plan, and if they do, contribute 50%. Most communities surveyed offering a PPO contribute 50%, and a majority contribute between 65% and 82% towards the HMO.

Health insurance issues are subject to collective bargaining. Any reduction in the City’s contribution toward health insurance would result in an increase in the share paid by municipal employees and retirees. The charts below indicate the impact of changing the employee contribution to 25% for all

plans and an alternative arrangement whereby the City pays 90% of the charges of the lowest-cost provider (which is currently Fallon Community Health Plan), and provides an equal dollar amount toward the other plans. For those employees who have opted for Blue Cross/Blue Choice, a family would have to pay \$814 more per year under the 25% scenario and \$789 more per year under the 90% arrangement. The City would have **saved** about **\$5.4 million** in FY01 under the 25% option. While the enrollment figures for each plan are not yet available for FY02, the savings could be similar.

**Employees Pay 25% of Health Insurance**

		TOTAL	CURRENT		EMPLOYEE	
		COST (YR.)	EMPLOYEE	SHARE (YR.)	PAYS 25%	DIFFERENCE
BLUE CHOICE	IND.	\$2,588	\$336	13%	\$647	\$311
	FAMILY	\$6,780	\$881	13%	\$1,695	\$814
FALLON	IND.	\$2,199	\$220	10%	\$550	\$330
	FAMILY	\$5,678	\$568	10%	\$1,420	\$852

Source: City Manager's Office of Human Resources  
Prepared by: Worcester Municipal Research Bureau

**City Pays 90% toward Lowest Cost Provider (FCHP)**

(Maximum of \$1,979 Individuals; \$5,100 Family)

		ENROLLMENT	TOTAL	CURRENT		NEW	
			COST (YR.)	EMPLOYEE	SHARE (YR.)	EMPLOYEE	DIFFERENCE
				SHARE (YR.)	SHARE (YR.)		
BC/BS	IND.	25	\$11,645	\$2,911	\$9,666	\$6,755	
MASTER MED	FAMILY	3	\$28,997	\$7,249	\$23,887	\$16,637	
BLUE CHOICE	IND.	1,728	\$2,588	\$336	\$609	\$273	
	FAMILY	2,311	\$6,780	\$881	\$1,670	\$789	

Source: City Manager's Office of Human Resources  
Prepared by: Worcester Municipal Research Bureau

**B. Restructuring Delivery of Services**

Developing and adhering to a plan that addresses the most fundamental problems facing the City's financial health, which are not peculiar to this current fiscal year, will require that the City Manager in cooperation with the municipal employee unions engage in fundamental restructuring of the delivery of services. Salary increases should be tied to real productivity gains. Programs and positions should be reviewed to determine their effectiveness. Because public safety constitutes such a large part of the municipal budget, these departments will have to be reorganized in order to contain costs. For example, the need for firefighters to serve as drivers for chiefs should be reconsidered.

Further privatization of services should be given serious consideration. Over the past decade, the City has privatized Belmont Home, the ambulance service and other services delivered by Worcester City Hospital. Surveys compiled by the International City/County Management Association (ICMA) indicate that between 1988 and 1997 privatization and managed competition continued to grow as management tools in cities across the United States, while local officials are adopting policies designed to soften the impact of changes in service delivery on public employees. The percentage of cities reporting services provided entirely or in part by in-house employees declined in 60 of 64 service categories during the 10-year period.



The City administration should continue its review of privatization of public services. One example of a service that the City could privatize is fleet management. In its recent report (#00-2), the Research Bureau proposed that the administration of all municipally owned vehicles be centralized through a common software system under the control of a single administrator. Based on the experience of private-sector companies and other municipalities, this change would result in greater efficiency of purchasing and maintaining vehicles. The Research Bureau urged the City to consider privatizing fleet services because of the time and effort required to centralize fleet administration, install and train staff on a single software system, and establish a vehicle replacement fund.

Competitive Service Delivery (CSD) should also be given serious consideration. Cities like Phoenix, Indianapolis, Milwaukee, Los Angeles, and Baltimore have led the way in adopting CSD. The idea behind CSD is that if the private sector can provide the same services as City employees, municipal leaders require City departments to bid against private vendors for the right to deliver those services. By introducing competition into what has been a monopoly, CSD compels city administrators and workers to become more efficient in order to win the contract. Otherwise, the City can contract out the work at the lowest available price. Former Indianapolis mayor Stephen Goldsmith opened more than 75 City services to competitive bidding at an estimated savings of \$400 million, thereby allowing for regular reductions in the City taxes. Philadelphia saved \$2.4 million in managing its disability cases, \$500,000 in printing, and \$344,000 in custodial costs. Phoenix saved \$7.7 million in landfill costs, and about \$3 million annually in emergency services.<sup>2</sup>

### **C. Sick Leave**

Last year, the City Auditor asked KPMG, the City's audit firm, to review the City's sick leave policy and its enforcement, since abuse of sick leave obviously affects productivity and increases staffing needs. The City's current policy allows:

- Full-time employees to earn sick leave at a rate between 12 and 15 days per year
- Employees to accumulate between 165 and 200 days of sick time based upon the provisions of the employee's union contract. (Once an employee reaches the maximum amount that can be accrued, no additional sick time can be earned.)
- Employees to receive payment for unused sick time. This payment is based on allowing those individuals who accumulated over 100 days of sick time to receive payment for unused sick time prior to retirement. KPMG found that in FY99 nine individuals were paid over \$15,000 in sick time in the year prior to retirement. Sick time was used as follows:
  1. 1 employee used 68 days (five years' worth of sick days)
  2. 1 employee used 91 days (seven years' worth of sick days)
  3. 7 employees used in excess of eight years' worth of sick days, ranging from 111 days used to 251.

The Director of Human Resources indicated that three of the nine individuals had legitimate, documented reasons for being out sick for long periods of time in the year prior to retirement. The

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<sup>2</sup> Unpublished report prepared by Boston Municipal Research Bureau.

remaining six did not have long-term illnesses documented with the City and were in violation of the policy requiring documentation.

KPMG made several recommendations to correct abuses:

1. Implement a “use it or lose it policy,” such that sick time does not vest and no accumulation can occur from year to year. Such a policy would help to eliminate the potential for extended undocumented absences.
2. Reduce the number of days awarded to more closely reflect actual average usage.
3. Obtain private insurance to cover short-term illnesses (i.e., short-term disability) in an effort to reduce the City’s payout of sick time. Under this arrangement, all employees who are out of work more than a set number of consecutive days (perhaps four would be sufficient) would be removed from the City’s payroll and placed on short-term disability. Once placed on short-term disability, the insurance company would pay the employee’s salary, at a reduced rate until the employee returns to work. The City should prepare a cost analysis of disability insurance to determine whether this would be less expensive than self-insurance.

According to the City Auditor, the City’s current sick leave policy is standard in other municipalities, but comparable policies are seldom, if ever, part of private sector employment benefits.

#### **D. Collective Bargaining Agreements**

As mentioned, all non-school collective bargaining agreements expired June 30, 2000. It should be noted that as a result of the last round of negotiations, the incomes of municipal employees grew in real dollars. During 1997-2000, the period covering the last contract, inflation averaged 6.8% in the urban northeast, while wages increased by 10.5%, totaling more than \$7 million. When new contracts are negotiated benefits should be treated as part of the total compensation package. This is essential given the substantial increases expected in health insurance premiums in FY03.

#### **E. Cost Avoidance**

The City should not adopt local option programs that add recurring costs to the City’s budget. For example, a career incentive pay program for fire fighters, similar to the Quinn Bill for police officers, is currently under consideration by the State legislature. If it is approved, it would have to be implemented by a vote of the City Council and paid for by Worcester taxpayers. Regardless of the merits of such a program, the City’s precarious financial situation makes the adoption of this local option unaffordable.

#### **F. Snow Removal Account**

The snow removal account is consistently funded at \$1.171 million and always incurs a deficit even when there is a modest amount of snowfall in a given season. As previously noted, the account deficit in FY01 is about \$2.5 million. In order to obtain a more accurate picture of municipal expenditures and plan appropriately, the City Manager should increase the snow account to an average of actual expenditures during the previous five fiscal years.

#### **IV. INCREASING REVENUES**

##### **A. Expanding the Tax Base**

The most promising plan by far for increasing the City's revenues is to expand the tax base. In its report on "Distressed Properties: The Problem and the Options" (#97-2), the Bureau made recommendations for reclaiming abandoned properties and vacant lots so as to improve neighborhoods, enhance the value of properties, and thereby expand the tax base. In its report on "Facilitating the Cleanup and Development of Worcester's Brownfields" (#97-6), the Bureau made recommendations to facilitate the development of these contaminated properties. The Worcester Business Development Corporation has made the redevelopment of brownfields one of its priorities, and has already begun reclamation in the Prescott Street area. Now that the City has prepared a plan for brownfields, it should pursue this development aggressively, since these are virtually the only sizable tracts available in the City for expanding the tax base.

##### **B. Motor Vehicle Excise Tax**

The City Manager should work with the State legislative delegation to alleviate the problem of Massachusetts residents registering their motor vehicles outside the state and thereby avoiding the municipal excise tax. How much revenue is the City losing, and what can be done about it?

##### **C. State-owned Property**

The City should request that any State-owned property within the City of Worcester that has not been in use for five years should be offered to the City for its use or sold, so it generates tax revenues for the City.

##### **D. City-owned Property**

The City Manager should conduct a regular review of City-owned property to determine whether any should be sold for new development, which would add to the tax base, or leased so as to generate additional yearly income for the City. Any City-owned property that has not been used in five years should be sold at auction. In addition to increasing revenues, the City would reduce its expenditures on property maintenance.

##### **E. Selling Municipal Services**

In its report on Interlocal Agreements (#94-6), the Research Bureau suggested that various municipal departments might be in a position to sell services to nearby communities. In recent years, the City Clerk's Office has developed software for the management of vital statistics and the licensing of dogs. These software packages have been sold to 110 Massachusetts communities and brought in revenue of about \$100,000. The amount charged should reflect direct costs (including development of the program) and indirect costs (including employee benefits). According to the Commonwealth's Department of Revenue, when selling municipal property and services (such as software programs developed by the City), the municipality has an obligation to get the best price for that property (M.G.L. Ch. 40, Sect.

4A). If revenues from other such sales of services are shared with the department generating them and/or with the employees in the form of bonuses, it would provide incentives for government to be more entrepreneurial and set the stage for Competitive Service Delivery. Some possibilities for selling services include the following:

1. Public Works

The Department might act as a service provider in the area of engineering for those communities that do not have the financial resources or the need for full-time professionals. It might also provide equipment such as street sweepers. (This is already the case with the compost shredder.) Additionally, the Department might provide employee training programs for the operation of heavy equipment and for other areas of public works.

2. Public Health and Code Enforcement

In its report on delivery of municipal services issued in May, 1993, the Business Task Force for More Effective Government found that the Department of Public Health and Code Enforcement had the capacity and expertise to provide environmental testing services to other towns. The Department might also be able to provide other services of this kind, for example, septic system testing; restaurant, food and milk inspection; weights and measures inspection; environmental and public health nuisance control; ordering and monitoring removal of rubbish, abandoned automobiles, white goods, etc. from vacant lots or streets; and lead paint and other building and code inspections.

3. Parks and Recreation

Some communities already rely on the Worcester Department of Parks, Recreation and Cemetery as a problem-solving resource. The Department might further exploit its expertise to provide services in park maintenance and the design, staffing, and operation of recreation programs.

4. Assessing

Many small towns presently contract for assessing services such as revaluation. With adequate capacity, the Worcester Assessor's Office could provide such services.

**F. Local Aid in Lieu of Taxes**

The City Manager and the City Council should begin lobbying our local delegation to the legislature for a local aid program similar to those established in Connecticut and Rhode Island, through which the state reimburses municipalities at least a percentage of the tax revenues that they would receive if private tax-exempt properties were taxable. The City should discuss the possibility of such a program with the City's legislative delegation and with other interested parties such as the Massachusetts Municipal Association. In particular, the City should urge the state delegation and the MMA to lobby in support of the bill establishing such an aid program that is currently before the state legislature.

**G. Trash Bag Fee**

In FY95, the City instituted a trash bag fee of \$0.50 per bag in order to encourage recycling and cover some costs associated with trash removal and recycling. The cost of trash bags has never been increased. In FY00, the City raised \$1.8 million from the sale of trash bags, but the cost of the entire sanitation operation is now more than \$3.8 million. The City should raise the fee to cover inflationary costs since FY95. In order to cover most of the costs of the sanitation operation, the fee would have to be raised to at least \$1.00 for large bags and \$0.50 for small bags. Doing so would encourage more recycling and generate about \$1.8 million toward closing the \$4 to \$5 million budget deficit.

## **H. Increase Taxes**

As noted earlier, in preparing the last two budgets, the City Manager has avoided including revenue generated by new construction, so as to reduce the tax burden on property owners. If the City Manager included this year's revenue generated by new construction of about \$2 million, it would add \$0.32 per thousand to the single tax rate. Because of tax classification, this increase would add \$0.14 to the residential property tax rate and \$0.26 to the commercial/industrial tax rate. However, increasing the tax rate would be contrary to the goal of the City Manager and the City Council to reduce the tax rate so that Worcester is more competitive with area communities. Additionally, further increases in the tax rate would have negative long-term fiscal effects by reducing the number of taxpaying businesses in the City available to share the tax burden. (Worcester's commercial tax rate is already higher than that of any other municipality in the region and the fourth highest among all cities in the Commonwealth. The residential tax rate is higher than any other in the region and the second highest among cities in the Commonwealth. See Appendix B.)

## **I. Community Preservation Act**

The recently passed Community Preservation Act allows a community by referendum vote to adopt a 1%-3% permanent surcharge on property taxes to be designated for open space, affordable housing and historic preservation. (If a home is valued at \$200,000, for instance, the owner could owe an additional \$110.<sup>3</sup> The State will match 10%-100% of the amount raised, depending on how many communities adopt this new tax. (Communities may vote to exempt from this surcharge commercial/industrial property, the first \$100,000 of assessed value on residential property, and low-income and senior housing.) The money raised must be used for the designated purposes; it cannot be used to finance municipal services.

It should be noted in this context that for FY02 the City Manager is recommending an 8.7% increase in the water and a 7% increase in sewer rates (which are funded separately by user fees) because current revenues do not cover the cost of operations.<sup>4</sup> Even though water usage has decreased over the last few years, largely because of conservation measures, the costs of operating and maintaining the system have increased.

In sum, property owners in Worcester face the real possibility of an increase in water and sewer fees, an increase in property taxes, and an increase in the trash bag fee, while the City keeps trying to attract new development. Given these circumstances, community support for new fees and tax increases should be contingent on the City Manager's appointment of a blue ribbon commission empowered to make

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<sup>3</sup> \$200,000 x \$18.47 per thousand, residential tax rate, x .03.

<sup>4</sup> This increase would add about \$21.20 for the typical residential user.

recommendations for restructuring municipal services to increase productivity and reduce costs. The Commission would be similar to the Business Task Force for More Effective Government organized a decade ago to review municipal operations and lend support to the Proposition 2-1/2 override. This commission should include business and community leaders as well as municipal employees. The implementation of Competitive Service Delivery should be given serious consideration by the Commission.