



ADDRESSING THE PROJECTED BUDGET SHORTFALL IN FY03

**Report No. 02-02
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EXECUTIVE SUMMARY

As of April 20, 2002, the City is anticipating a budget shortfall of somewhere between \$15 million and \$35 million for FY03 (July 1, 2002-June 30, 2003). This is the result of new expenditures to meet pay raises from contractual obligations, extraordinary increases in health insurance costs, unanticipated increases in retirement costs, obligations to the Worcester Public Schools (WPS) under the Massachusetts Education Reform Act of 1993, and level-funding of, or as much as a 10% cut in local aid from the state. (More than 54% of the City's revenues come from local aid.)

In order to address this projected shortfall, the City Manager is considering a number of measures to reduce expenditures, which represent one-time or short-term reductions in the cost of municipal services:

- Leave vacant positions unfilled.
- Adopt an early retirement program and leave many of those positions unfilled.
- Adopt a voluntary furlough program.
- Request municipal employees forgo pay raises of 4% that take effect on July 1, 2002.
- Reduce existing programs such as the summer pool program, long patch program (for repairing streets), bulk waste pick up, marketing and convention/visitors bureau, and doubling the elderly tax abatement.
- Increase trash bag fee to more closely approximate the cost of the service provided.

The Research Bureau suggests that there is a need to consider a fundamental restructuring of the delivery of municipal services that will have a long-term impact on the cost of providing those services:

- Restructure municipal employee health insurance along the lines suggested by the City Manager so that it is similar to plans in the private sector and in other municipalities. This includes higher employee contribution rates and higher co-pays for doctor visits and prescriptions.
- Restructure the retirement system to include a Deferred Retirement Option Plan in order to minimize the incentive to retire on a disability pension.
- Restructure the Police and Fire Departments so that the ratio of supervisory personnel is similar to that of similar cities in New England, and so that the responsibilities of supervisors are commensurate with increased salaries.

- Require municipal employees to compete against private vendors for the right to deliver municipal services as has become the practice in many cities in the U.S.
- Expand the tax base especially by developing brownfields since they are virtually the only sizable tracts available in the City.

I. BACKGROUND

Last April, the Research Bureau estimated that the City would be faced with a \$5 million shortfall in the FY02 budget. That deficit did not materialize as anticipated for a number of reasons:

- During the two fiscal years prior to FY02, the City Manager had not included new growth in property values when determining the tax levy. The reason for this decision was to minimize the yearly increase in taxes. The Research Bureau report estimates were based on the assumption that new growth would not be included in the tax levy. In order to balance the budget in FY02, however, the City Manager taxed \$2.5 million (out of \$3.6 million) new growth.
- The City revised its budget estimate from local receipts increasing it by \$300,000. This increase in revenues was then used toward balancing the budget.
- The City Manager was able to reduce several expenditures by about \$1.1 million. There was a \$450,000 reduction in the retirement account resulting from a refinement in the formula used to allocate costs among the various departments. (This refinement was needed to properly assess retirement costs to departments whose employees are funded with Federal and state funds, and are participants in the City's retirement system.) A second reduction of \$500,000 was the result of the delay in the start of construction of the Vocational High School. This meant that less money had to be put aside for the building account during FY02.
- The City Manager did not budget for about \$700,000 worth of expenditures originally planned, such as the capital acquisition of new microwave dishes to improve the City's communication system and the signalization improvements for Pleasant Street to accommodate 2-way traffic.

As a result of increasing taxes, decreasing anticipated expenditures, and changing the formula for calculating costs, the City Manager was thus able to avert a budget shortfall.

II. REVENUE AND EXPENDITURE TRENDS: FY97-FY01

Before evaluating the City's financial prospects for FY03, we should consider how Worcester has allocated its resources during the recent five-year period of prosperity. As shown in Appendix A, revenues increased by 29% from \$283.7 million to almost \$367 million, far above the rate of inflation for this period, which was 14%. The largest increase in dollar amount (\$56 million) came from local aid, which continued to be the

City's largest single source of revenue (54%) of the municipal budget. Revenues from motor vehicle excise taxes also increased by 40%, from \$8.8 million to \$12.4 million. Property tax revenues rose by 15%, or more than \$17 million, during this five year period.

Municipal spending, as shown in Appendix B, increased by 25% between FY97 and FY01, also at a rate far exceeding that of inflation. The largest increase (almost \$32.4 million) was expended on public education, as required by the Massachusetts Education Reform Act of 1993. Spending on the legislative and executive offices increased by 65% from \$2.5 million to \$4.1 million, and on health insurance by 31% from \$23.1 million to \$30.4 million. (Thus it is evident that the problem of rapidly escalating health insurance costs, which has reached crisis proportions for FY03, is not a new phenomenon.) Public safety expenditures also grew substantially from \$47.2 million to \$58 million, or 23%. While revenues grew substantially during this period, it does not appear that the City used the opportunity to rethink and restructure operations such as health insurance and public safety in order to be prepared for the inevitable downturn.

III. PROSPECTS FOR FY03

Since the City depends on local aid from the State for more than half of its revenues, the absence of a state budget for FY03, or at least a firm commitment on local aid, makes it increasingly difficult for the City to prepare its own budget. In light of this difficulty the City Manager has decided to delay by two weeks (until mid-May) the submission of his budget to the City Council. Because of the uncertain circumstances, the Research Bureau will present below what seem to be the best and worst-case scenarios as of April 20.

A. Revenues

The City's revenues come from three primary sources: property taxes, local aid from the state, and local receipts.

1. Local Aid

As noted above, local aid is the largest source of revenue for the City. In FY02, it constituted \$211.8 million, or 54% of total revenues. The Governor's budget, prepared in January, 2002, indicates that local aid to Worcester will be \$218 million, a **\$6.2 million increase**. However, of that total about \$156.2 million is designated for the Worcester Public Schools, in the form of Chapter 70 Education Aid. This is an increase of \$8.2 million over FY02. The Governor's budget indicates that funds to reduce class size in the schools will be reduced by \$500,000 next year. This leaves a net increase of \$7.7 million in new school aid next year. The other parts of the local aid formula, such as lottery funds, which are used for non-school operations, will be level-funded under the Governor's budget. The final figure for local aid is subject, of course, to legislative approval. As early as March of this year, the City's legislative delegation indicated that local aid may be cut by as much as 10%, or \$21.2 million. A 10% cut for the WPS means they would receive \$14.8 million less than last year from the State. (Chapter 70 funds in FY02 were \$148 million.) Since the City is obliged by the state funding formula to give the WPS an additional \$2.5 million, the net loss would be \$12.3 million. **Non-school**

services would have to absorb the remainder of the 10% cut in local aid, or \$6.4 million. These cuts would prevent the City from maintaining the current level of municipal services. According to the most recent estimates, 300 jobs would have to be eliminated.¹ (This does not include any cuts in personnel in the WPS.)

2. 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. As previously noted, in FY00 and FY01, the City Manager did not raise taxes to match the revenue generated by new construction in order to reduce the tax burden on property owners. Given the Commonwealth's, and therefore the City's current financial difficulties, the Budget Director indicated that will not be the case this year. Property taxes are expected to generate \$147.8 million, an increase of **\$6.3 million** over FY02. (The allowable increase on existing structures is about \$3.8 million, while the new construction levy increase is projected to be \$2.5 million.)

3. 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 in FY02 were \$31 million. The City Manager is evaluating whether to increase revenues in the FY03 budget for both motor vehicle excise taxes and trash bags.

4. Free Cash

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. After the FY02 budget was approved, the City received certification of \$8 million in free cash. In past years, the City Manager has tried to use free cash for one-time expenditures rather than ongoing operations of the City, since it is not a reliable revenue source. In FY02, however, **\$6.2 million** of these revenues were appropriated for ongoing expenditures, including collective bargaining agreements and to offset reductions in state aid that occurred subsequent to the start of the fiscal year. This means that additional revenues of \$6.2 million will be needed in FY03 to fund the commitments that were made with the free cash in FY02.

Since it was evident last summer when free cash became available that the economy was headed into a recessionary period, the Research Bureau believes it would have been prudent for our public officials to have put most of the free cash into a reserve account. This would have greatly lessened the impact of FY03's budget shortfall. While some free cash may once again become available since fees from the motor vehicle excise tax are still strong, the amount is not expected to be anywhere near the amount required to fund those commitments.

¹ *Telegram & Gazette, March 15, 2002, p.1.*

As summarized in the table below, the total amount of new revenues available for new expenditures for municipal operations and the Worcester Public Schools is **\$6.3 million**. If local aid were cut by 10%, however, as hypothesized in the worst-case scenario, the City would have a total reduction of \$21 million. There would be \$6.4 million less for municipal operations and \$14.8 million less for the Worcester Public Schools.

SUMMARY OF REVENUE CHANGES IN FY03 (BEST AND WORST-CASE SCENARIOS)

REVENUES	GOVERNOR'S BUDGET (MILLIONS)	10% CUT IN LOCAL AID (MILLIONS)
Property Taxes	\$6.3	\$6.3
State Aid	\$6.2	\$(21.2)
Loss of one time revenues (free cash)	<u>\$(6.2)</u>	<u>\$(6.2)</u>
Net new revenues to spend	\$6.3	\$(21.1)

B. 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.

1. Worcester Public Schools

As noted previously, according to the Governor’s budget, Ch. 70 aid to the Worcester Public Schools will increase by \$8.2 million. In addition, the City will have to increase its contribution to the WPS by \$2.5 million because the City has reached its annual net school spending threshold that cannot be reduced, while the formula established under the Massachusetts Education Reform Act requires the City to finance public education in direct proportion to the growth of municipal revenues. (The total budget of the WPS is expected to be about \$222.5 million, more than double what it was in FY93 at the beginning of education reform.) The WPS will have about **\$10.5 million** to cover all new expenditures (including health insurance and contractual obligations). If, however, there is a 10% cut in local aid, the WPS will have to absorb a \$14.8 million reduction in its budget and still cover new expenditures for salary, health benefits and pension increases.

2. Health Insurance

Health insurance contracts have expired and must be renegotiated for FY03. Based on initial proposals, premiums for the Fallon Community Health Plan will increase by 16% and for Blue Cross by 44% for the current plans and contribution rates. These increases would translate into an additional expenditure of \$11.1 million. (Since health insurance costs have increased dramatically nationwide in the past couple of years, substantial increases in local health plan rates are inevitable.) The City Manager, however, has calculated that given its current fiscal distress, the City cannot afford more than a **\$4.5 million** increase in health insurance costs for municipal employees. The proposals for keeping these new costs to \$4.5 million will be discussed later in the Options Section of this report.

3. Salary Increases

As a result of contractual obligations, the City will have to add about **\$4.5 million** to departmental salary accounts.

4. Retirement Costs

Retirement costs will increase by **\$3.1 million** for three reasons. The recent lackluster performance of investments, contractual pay increases which increase the City's share of employee benefits, and the number of employees retiring on disability pensions all contributed to the increase in the City's unfunded pension liability.

5. Public Library

Expenditures for the library will increase by about **\$300,000**. This increase is the result of the need for additional personnel associated with the expansion of the library and the bookmobile.

As summarized in the table below, total projected new expenditures amount to about **\$22.6 million**.

SUMMARY OF NEW EXPENDITURES

NEW EXPENDITURES	MILLIONS
Schools	\$10.2
Health Insurance	\$4.5
Collective Bargaining Agreements	\$4.5
Retirement Costs	\$3.1
Public Library	<u>\$0.3</u>
Total	\$22.6

C. Budget Reductions

There are several line items of the FY03 budget that will be less than they were in FY02. These include the following:

- Principal/interest for existing obligations will be **reduced by \$500,000** because the City is paying off more annually than the new obligations it incurs. So long as the City maintains its current policy of capping new tax levy borrowings at \$10 million annually, this line item should continue to decline.
- The Federal Debt Replacement Schedule for the closing of Worcester City Hospital will be **reduced by \$500,000** since all the Federal debt obligations have been fulfilled.
- Tax levy support for Worcester Regional Airport will **decrease by about \$250,000**. According to the City's agreement with Massport, the Authority will pay 100% of the operating deficit in FY03 and FY04 (currently about \$1.7 million). If the contract

is terminated in FY05, the City will have to resume payments for the operating deficit.

As summarized in the table below, these budget **reductions total \$1.25 million.**

SUMMARY OF BUDGET REDUCTIONS

BUDGET REDUCTIONS	MILLIONS
Debt Service	\$(0.5)
City Hospital Payments	\$(0.5)
Tax Levy Subsidy – Regional Airport	<u>\$(0.25)</u>
Total of All Budget Reductions	\$(1.25)

When these budget reductions are subtracted from new expenditures of \$22.6 million, **net new costs total \$21.35 million.** Since new revenues total \$6.3 million, the City is left with a **budget gap of \$15 million.** Under the worst-case scenario projected by the leadership in the House of Representatives of a 10% cut in local aid, municipal operations would lose \$6.4 million bringing the budget gap to \$21.4 million. The WPS would lose \$14.8 million, leaving the City with a total budget gap of about \$35 million.

SUMMARY OF REVENUE & EXPENSE CHANGES	GOVERNOR'S BUDGET (MILLIONS)
Property Taxes	\$6.3
State Aid	\$6.2
Loss of one-time revenue(free cash)	<u>\$(6.2)</u>
Net New Revenues to spend	\$6.3
NEW EXPENDITURES	
Schools	\$10.2
Retirement costs	\$3.1
Public Library	\$.3
Health Insurance	\$4.5
Collective Bargaining Agreements	<u>\$4.5</u>
Total New Expenditures	\$22.6
Budget Reductions	
City Hospital Payments	\$(0.5)
Debt Service	\$(0.5)
Tax Levy Subsidy – Regional Airport	\$(0.25)
Total of All Budget Reductions	\$(1.25)
Net Expenditure Changes	\$21.35
Net Budget Gap	\$15.05

IV. OPTIONS FOR CLOSING THE DEFICIT

Because of the City's heavy dependence on local aid from the State, it will be necessary to reduce expenditures in order to reduce the projected deficit. Listed below are a number of options that deserve serious consideration. These represent suggestions for one-time or short-term reductions in the cost of municipal services. They do not entail a fundamental shift in how services are delivered.

1. Unfilled Vacancies

As a result of the hiring freeze instituted by the City Manager in January, 2002, the City has about 70 vacant positions valued at \$2 million. Those include positions for police officers and firefighters, as well as positions authorized for more public library services including the resumption of bookmobile services. Leaving these positions vacant in FY03 would generate \$2 million in savings.

2. Early Retirement Program

According to state guidelines for early retirement, employees may retire after twenty years of service or after ten years if they are over 55. Under these provisions, 950 municipal employees are eligible for the program. The City's actuarial advisor estimates that 30%, or 260 employees might take that option. If that were the case, the City could save \$12 million of which \$7 million would be from public safety departments. (To achieve these savings none of these positions can be filled. Any positions that were filled would reduce the amount of the savings accordingly.)

3. Furloughs

The City has calculated that it could save about \$175 per day for each municipal employee who opted for a voluntary day off. If 2,000 employees took that option, the City could save \$350,000 for each voluntary day off.

4. Forgo Pay Raises

Most of the City's municipal employee unions have contracts that provide 4% pay increases on July 1, 2002, the beginning of the new fiscal year. The City administration has requested both union and non-union employees to forgo those raises for one year which would save about \$4.5 million. This option, which must be approved by the unions, would have the advantage of maintaining the same level of services, and minimizing the need for layoffs.

5. Reducing Programs

The City Manager is considering reducing programs that cost about \$2.6 million. These include the summer pool program, tree trimming, stump removal, long patch program (for repairing streets), bulk waste pick up, downtown streetscape, marketing and convention/visitors bureau, doubling the amount of the tax abatement for which the elderly are eligible, and tax levy funding for the Centrum Centre.

6. Trash Bag Fee

While the first five recommendations call for reduced expenditures through a reduction in services, this recommendation suggests increasing the fee to more closely approximate the cost of the service provided. In FY95, the City instituted a trash bag fee of \$0.50 per bag for large bags and \$0.25 for small bags in order to encourage recycling and cover some costs associated with trash removal and recycling. These fees have never been increased. In FY02, the City raised \$1.9 million from the sale of trash bags, but the cost of the entire sanitation operation was \$5.5 million. In FY03 the cost is expected to be \$5.6 million. In order to cover all the costs of the sanitation operation, the fee would have to be raised to at least \$1.60 for large bags and half that for small bags. In order to cover only the \$1.5 million cost increase since FY95, the fee would have to be raised to \$1.00 for large bags and \$0.50 for small ones. Doing so would encourage more recycling and generate an additional \$1.5 million toward closing the budget deficit.

V. LONG -TERM OPTIONS

The proposals discussed below represent a fundamental shift in how services are delivered. They are policies designed to reduce costs over the long term.

A. Restructuring Health Insurance

In the current fiscal year, the City is spending \$35.3 million on health insurance for its employees, or about 8% of the total municipal budget. The proposed 16% increase by Fallon and 44% increase by Blue Cross constitute an \$11.1 million, or 31% increase. (This increase is determined by allocating the appropriate costs to the number of employees who carry Fallon and Blue Cross respectively.) Under the current benefits arrangements, this would mean that a Blue Cross family subscriber would receive the equivalent of a 7.9% pay increase in addition to a 4% raise as part of collective bargaining agreements. Given the projected deficit, the City simply cannot afford to maintain the status quo regarding health insurance benefits. The City's recommendations include the following:

- Eliminate Blue Cross and use Fallon as the sole provider of all health insurance. (CALPERS, the California Public Employees Retirement System, has just eliminated two of its plans.)
- On the HMO and POS (Point of Service) plans, increase cost of office visits from \$3 or \$5 to \$15, thus lowering the rates charged to the City.
- Increase emergency room co-pays from \$25 to \$50.
- Increase prescription drug costs to: \$5 for generic and brand name; \$15 for preferred brand name; \$35 for non-preferred brand name (for which less expensive versions are available).

- Implement \$250 co-payment for inpatient hospitalization.
- Reduce City contribution rates to 70% for the indemnity plan (75% currently), 80% for the HMO (90% currently) and POS (87% currently), and 70% for Fallon Senior (84% currently).

These recommendations, if adopted, would reduce the projected increase from \$11.1 million to \$4.2 million. The municipal employee union representatives have argued that it is premature to accept changes in health insurance benefits because they may be unnecessary.² Even if this were the case, which is highly unlikely, health insurance benefits represent a burgeoning cost that cannot continue to be sustained as they are currently structured. Between FY97 and FY01, City health insurance costs increased by 31%. Over the past decade, the Research Bureau has recommended a series of changes in benefits which are similar to those that have been in place for years in other municipalities as well as in the private sector³. It does not seem unreasonable to ask City employees to accept the same kind of health insurance that most citizens do.

The City's own analysis has now produced similar findings and recommendations to those of the Research Bureau. Had these kinds of proposals been adopted, they could have saved the City tens of millions of dollars which could have been used for enhanced municipal services and/or a "rainy day" fund for crises like the one we are facing. In a survey of Massachusetts cities of 25,000 or more population conducted by the City's Office of Human Resources, 20% do not offer indemnity plans (the most expensive coverage) and more than 50% do not offer PPO's (Preferred Provider Organizations, the second most expensive). Of those that offer a PPO, all except Boston contribute between 50%-80% (compared to Worcester's 87%). Worcester pays 90% of the HMO plan, the most allowable by state law, whereas many cities contribute between 50%-80%. Should the unions accept the City's proposals, they will provide employees with the incentive to more closely monitor their expenditures and to become better-educated consumers of medical services. This will help to stem the overall cost of health insurance for all citizens.

B. Restructuring the Retirement System

The total cost of the Worcester retirement system in FY03 will be about \$29.6 million. Of that total, \$16.6 million is for principal and interest (to be paid each year) to pay off the pension obligation bond issued to fund the unfunded pension liability as of January 1, 1999. The remaining \$13 million is to pay the City's share of benefits for current employees plus the unfunded liability since 1999. This is a \$3.1 million increase over

² *Telegram & Gazette, March 15, 2002, p. B.1*

³ See, for example, City Facing \$5 Million Deficit in FY02; Taxes May Increase (#01-02); Municipal Employees Health Benefits: A Comparison With Other Communities (#00-03); Observations on the City Manager's FY01 Budget (#00-04); Observations on the City Manager's FY00 Budget (#99-04).

FY02. As noted previously, one of the contributing factors to the rising costs is the number of employees retiring on disability pensions, which pay 72% of salary (tax-free) compared to a superannuation pension which pays up to 80% but is taxable. In FY00, 68% of retiring firefighters retired on accidental disability and in FY01 70% retired on accidental disability. Many were eligible under the heart, lung and cancer presumptions [Massachusetts General Laws, Chapter 32 Section 94 (heart), Section 94A (lung), Section 94B(Cancer)] which state that if a firefighter develops heart or lung disease, or if he develops any form of cancer within five years of retirement, it is presumed these illnesses were job-related, and he is eligible for a disability pension. If a police official develops heart disease, he is also eligible for a disability pension. The added cost of these pensions poses a serious threat to the financial viability of the retirement system.

Under Massachusetts law, all employees contribute the same percentage of salary into the retirement system based on the date of hire. (Contribution rates have increased for more recent hires.) There is no distinction between the contributions made by office employees and by public safety personnel who are much more likely to suffer injuries that may result in the need for disability pensions. Thus, the non-public safety personnel may be subsidizing the disability pensions of public safety officers. The current system provides no incentive to minimize the use of disability pensions.

The City of Houston, among others, offers an interesting alternative. Houston has three separate retirement boards: police, fire and all other personnel. Firefighters may retire after twenty years at 50% of their salary at that time, or may join a DROP (Deferred Retirement Option Plan). A DROP participant has a monthly benefit (calculated as if the member had retired on the DROP entrance date), bi-weekly contributions (calculated at 7.7%), and interest posted to the DROP account monthly. The City's 15.4% contribution for each member is not posted to the member's DROP account, but remains in the Fund. Many of the DROP accounts will be in excess of \$500,000 upon completion of a ten year period. Upon exit from the DROP, a member will have access to the accumulated DROP balance.

Once a firefighter enters the DROP, he is no longer eligible for an Occupational Disability (a disability retirement option for members who can no longer perform the duties of a firefighter due to an on-duty injury or illness, but can maintain other gainful employment). However, DROP participants are eligible for a General On-duty Disability (a disability retirement option for members who suffer an on-duty injury or illness whereby he cannot maintain any gainful employment). The number of DROP participants who are currently receiving General On-Duty Disability benefits is less than 1/2% of the total DROP participants.

C. Restructuring Police & Fire Departments

In order to reduce municipal expenditures over the long term, the City Manager should review the structure and operations of the public safety departments (police and fire) which in FY02 are responsible for about 56% of all department expenditures.

1. Fire Department

According to statistics provided by the State Fire Marshal, and recorded in the accompanying chart, the number of structure fires in the City decreased by more than 20% between 1995 and 2000. The total number of fires decreased by 40% during this six-year period. And the number of fires attributed to arson, once a very serious problem in Worcester, has declined by 45.5%, from 617 in 1995 to 336 in 2000.⁴ Yet the number of companies has remained the same at 23. Are all these companies necessary now? Out of 466 uniformed personnel, 118 are supervisors. This means there is one supervisor for every 2.94 uniformed personnel. Are all these supervisors needed? Should the department be reorganized so that some are eliminated and others assume more responsibilities?

WORCESTER FIRES FROM 1995 TO 2000

	Total fires	Structure Fires	Vehicle Fires	Other Fires	Total Arson	Structure Arson	Vehicle Arson	Other Arson
1995	2413	548	264	1601	617	93	58	466
1996	2150	556	341	1253	461	28	66	367
1997	965	271	107	587	282	14	27	241
1998	1274	345	171	758	356	33	44	279
1999	1795	428	291	1076	447	39	55	353
2000	1431	435	235	761	336	24	49	263

Source: State Fire Marshall, Executive Office of Public Safety, Commonwealth of Massachusetts.

2. Police Department

Police officers and officials will be receiving \$3.6 million from the City after a recent arbitration award resolved a contract dispute between the City and the Police Department. As a result, salaries will increase substantially.

- Besides a 4% pay increase in each of the three years of the contract, the firearms qualification pay will be increased from \$250 to \$500, and will be rolled into the base pay. On July 1, the firearms qualification stipend will increase to \$750 and will be added to the base pay, after the 4% wage increase is calculated. (Previously, all uniformed members of the Police Department received \$250 firearms qualification stipend each year that was not included as part of the officer's base wage.)
- Rolling this pay into the base will cause the amounts paid to officers and officials for the Quinn Bill (pay incentives for college and graduate degrees), holiday pay and overtime to increase.
- The method for calculating holiday pay will be changed to be consistent with the practice used in the Fire Department. For the three “super holidays” (Thanksgiving, Christmas and New Year's Day), the holiday rate calculation will remain at 1.5 times the rate of pay. However, instead of being based on one-fifth of an individual's weekly pay, it will be based on one-fourth, and on a new 20% higher scale.

⁴ The decrease in fires is probably the result of the City's efforts to enforce building codes and ordinances regarding smoke detectors, and to better secure abandoned and vacant buildings.

The responsibilities of the police officials should be reviewed to determine whether they are commensurate with these new salaries. There are currently 380 police officers and 99 supervisory level police officials so that the ratio is one supervisor for 3.83 police officers. As indicated in the accompanying chart, that ratio is higher than Providence and Springfield. In other words, the Worcester Police Department's supervisory personnel have a smaller span of control and less responsibility than supervisors in other cities. Does the Worcester Police Department need 99 supervisory personnel? Does it need three deputy chiefs? Should the span of control of some supervisors be increased to match these increased salaries? Increasing responsibilities for these positions would mean that some supervisory positions could be eliminated. (Ten officials cost about \$1 million.) If public safety employees take advantage of the early retirement program mentioned previously, the City Manager has the opportunity to restructure those departments accordingly.

NUMBER OF POLICE SUPERVISORY PERSONNEL

	Chief	Deputy Chief	Major	Captain	Lieutenant	Sergeant	Total Supv.	P.O./Others	Sq. Miles	Population Density
WORCESTER	1	3		10	28	57	99	380	37.2	4641.10
PROVIDENCE	1		5	8	19	64	97	400	18.5	9384.80
SPRINGFIELD	1	2		10	24	53	90	547	31.7	4797.50
HARTFORD	1	4		7	22	68	102	358	17.3	7027.60

Ratio of Patrol Officers to Supervisors

Worcester	3.83
Providence	4.08
Springfield	6.07
Hartford	3.51

Source: Police Departments of Worcester, Hartford, Providence, Springfield
 Prepared by: Worcester Regional Research Bureau

D. Competitive Service Delivery

With the school system projecting a \$400,000 deficit in its custodian overtime budget and battling high absenteeism among custodians, some public officials have suggested that private custodial services may be a more cost-effective option. The current contract requires the Worcester Public Schools to pay time and a half to anyone brought in to replace an absent custodian. The Worcester Public Schools Superintendent has stated, however, that "custodians are part of the school family," and that the service should remain with municipal employees.

This position is contrary to recent trends in municipal government. Cities like Phoenix, Indianapolis, Milwaukee, Los Angeles and Baltimore have led the way in adopting Competitive Service Delivery (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.⁵ Given the potential of CSD for long-term savings, the City should give this approach serious consideration.

E. Privatization of Services

Over the past decade, the City has privatized Belmont Home, the ambulance service and other services, previously delivered by the former Worcester City Hospital. 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 a report issued two years ago (#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.

F. Expanding the Tax Base

In addition to decreasing expenditures, the City needs to increase its revenues to continue to provide its citizens with adequate municipal services. 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. The City should pursue brownfields development aggressively, since these are virtually the only sizable tracts available in the City for expanding the tax base.

G. Payments in Lieu of Taxes (PILOT)

Recently, there have been renewed calls for the City to establish a PILOT program whereby non-taxable institutions (especially the colleges) would make "voluntary" payments to the City. Five years ago, the Research Bureau issued a study (#97-4) in which we found if we used the same PILOT formula as Cambridge, Worcester's colleges

⁵ Unpublished report prepared by Boston Municipal Research Bureau., 2001.

would be contributing less than 1% to the City's municipal budget. Assuming a municipal budget of about \$450 million, the colleges would be contributing about \$400,000.

Instead of trying to extract payments from Worcester's colleges which make a considerable contribution to the City (see "Discover the Intellectual Capital of Central Massachusetts," March, 2002), our public officials should lobby the State legislature to approve a program similar to those in effect in Connecticut and Rhode Island. Municipalities in both Connecticut and Rhode Island receive a form of payment in lieu of taxes for privately held tax exempt property; however, these payments come in the form of local aid from the state, which reimburses each municipality a percentage of property tax that would be due if exempt properties were taxable.

Appendix A											
CITY OF WORCESTER, MASSACHUSETTS											
GENERAL FUND REVENUES (FY97-FY01)											
	FY97	% Change	FY98	% Change	FY99	% Change	FY00	%Change	FY01	% of Total	% Change FY97-01
State - Local Aid	\$ 141,363,196.00	12%	\$ 158,440,468.00	7%	\$ 168,996,908.00	10%	\$ 185,805,818.00	6%	\$ 197,736,828.00	54%	40%
Real Estate & Personal Property Taxes	\$ 116,558,711.00	4%	\$ 121,189,221.00	5%	\$ 126,887,720.00	3%	\$ 130,797,627.00	2%	\$ 133,885,273.00	36%	15%
Motor Vehicle Excise Taxes	\$ 8,874,742.00	19%	\$ 10,521,482.00	-5%	\$ 9,961,470.00	12%	\$ 11,133,693.00	12%	\$ 12,459,648.00	3%	40%
Licenses, permits & Office Fees	\$ 4,235,522.00	4%	\$ 4,409,336.00	8%	\$ 4,740,178.00	3%	\$ 4,861,425.00	-1%	\$ 4,825,815.00	1%	14%
Education (Medicaid Reimbursement)	\$ 2,226,564.00	-11%	\$ 1,977,511.00	114%	\$ 4,238,587.00	-15%	\$ 3,600,926.00	30%	\$ 4,678,333.00	1%	110%
Interest Income	\$ 1,672,396.00	50%	\$ 2,514,953.00	21%	\$ 3,055,597.00	-26%	\$ 2,263,307.00	29%	\$ 2,921,339.00	1%	75%
Other Taxes, Assessments & in lieu Payments	\$ 1,671,588.00	-1%	\$ 1,660,532.00	39%	\$ 2,300,065.00	-19%	\$ 1,867,086.00	25%	\$ 2,338,321.00	1%	40%
Fees & Charges	\$ 1,902,774.00	-2%	\$ 1,858,453.00	-2%	\$ 1,817,795.00	15%	\$ 2,083,696.00	1%	\$ 2,105,782.00	1%	11%
Other Revenue	\$ 1,217,250.00	-37%	\$ 763,612.00	13%	\$ 861,401.00	11%	\$ 959,121.00	116%	\$ 2,072,116.00	1%	70%
Parking & Court Fines	\$ 2,627,998.00	-9%	\$ 2,401,030.00	-1%	\$ 2,378,124.00	-8%	\$ 2,195,304.00	-8%	\$ 2,024,222.00	1%	-23%
Interest & Penalties on Taxes & Assessments	\$ 1,425,208.00	30%	\$ 1,847,582.00	0%	\$ 1,844,926.00	15%	\$ 2,113,679.00	-8%	\$ 1,937,593.00	1%	36%
Total	\$ 283,775,949.00	8%	\$ 307,584,180.00	6%	\$ 327,082,771.00	6%	\$ 347,681,682.00	6%	\$ 366,985,270.00	100%	29%

Appendix B											
CITY OF WORCESTER, MASSACHUSETTS											
GENERAL FUND EXPENDITURES (FY 97 - FY01)											
	FY97	%Change	FY98	%Change	FY99	%Change	FY00	%Change	FY01	% of Total	% Change FY97-01
Education	\$ 139,947,792.00	7%	\$ 149,893,544.00	4%	\$ 156,265,323.00	6%	\$ 165,579,319.00	4%	\$ 172,357,478.00	48%	23%
Public Safety	\$ 47,250,057.00	0%	\$ 47,439,736.00	22%	\$ 58,069,267.00	-3%	\$ 56,609,393.00	3%	\$ 58,024,757.00	16%	23%
Debt Service (1)	\$ 18,801,436.00	13%	\$ 21,222,948.00	5%	\$ 22,272,853.00	86%	\$ 41,474,229.00	7%	\$ 44,488,250.00	12%	137%
Insurance	\$ 23,136,528.00	6%	\$ 24,628,295.00	7%	\$ 26,289,055.00	10%	\$ 28,930,481.00	5%	\$ 30,384,095.00	8%	31%
Public Works(2)	\$ 13,272,278.00	-3%	\$ 12,886,690.00	6%	\$ 13,638,694.00	-3%	\$ 13,183,056.00	30%	\$ 17,164,736.00	5%	29%
General Government	\$ 8,864,668.00	-8%	\$ 8,129,078.00	2%	\$ 8,310,294.00	15%	\$ 9,528,076.00	-7%	\$ 8,879,787.00	2%	0%
Retirement (1)	\$ 19,527,103.00	12%	\$ 21,814,326.00	3%	\$ 22,391,414.00	-61%	\$ 8,657,597.00	-19%	\$ 7,014,576.00	2%	-64%
Health & Human Services	\$ 4,177,099.00	9%	\$ 4,572,906.00	7%	\$ 4,886,121.00	8%	\$ 5,266,793.00	3%	\$ 5,426,146.00	2%	30%
Recreation	\$ 3,338,939.00	5%	\$ 3,513,947.00	-3%	\$ 3,397,123.00	9%	\$ 3,693,896.00	11%	\$ 4,110,756.00	1%	23%
Legislative & Executive	\$ 2,497,285.00	-5%	\$ 2,374,728.00	14%	\$ 2,704,697.00	19%	\$ 3,232,105.00	27%	\$ 4,109,997.00	1%	65%
Libraries	\$ 4,155,222.00	-3%	\$ 4,030,276.00	-7%	\$ 3,755,213.00	-3%	\$ 3,660,665.00	2%	\$ 3,717,316.00	1%	-11%
State, County & Regional Charges	\$ 1,968,588.00	4%	\$ 2,042,906.00	-4%	\$ 1,970,924.00	54%	\$ 3,040,730.00	-30%	\$ 2,131,676.00	1%	8%
Workers' & Unemployment Compensation	\$ 871,616.00	-11%	\$ 777,907.00	35%	\$ 1,053,267.00	33%	\$ 1,405,070.00	14%	\$ 1,603,978.00	0%	84%
Total	\$ 287,808,611.00	5%	\$ 303,327,287.00	7%	\$ 325,004,245.00	6%	\$ 344,261,410.00	4%	\$ 359,413,548.00	100%	25%

(1) Pension obligation bonds in the amount of \$220,979,365 were issued by the City in FY99 to fund the unfunded actuarial accrued liability of the Worcester Retirement System (WRS). The resulting costs were accounted for in the debt service category in FY00. Prior to FY00 all costs associated with the WRS were accounted for in the retirement category.

(2) These figures include snow removal expenditures which were twice as much in FY01 than they were in FY97. When snow removal expenditures are taken out, DPW expenditures increased by 10.5% between FY97 and FY01.