



**Worcester
Municipal
Research
Bureau**

AN INDEPENDENT VOICE FOR RESPONSIBLE GOVERNMENT

OBSERVATIONS ON THE CITY MANAGER'S FY00 BUDGET

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EXECUTIVE SUMMARY

Based on an analysis of anticipated revenues for FY99 (July, 1998 - June 30, 1999), the City will have \$5.7 million more than it did in FY98 to spend on municipal government apart from public schools. That new money will be absorbed by increases in debt service (\$4.1 million), pensions (\$130,000), health insurance (\$657,000), workers' compensation (\$250,000), police positions previously paid for with federal grants that have now expired (\$600,000), and the Quinn bill that covers stipends for additional education for police (\$400,000).

The City Manager's current projections do not include money for retroactive pay increases for which the City is currently in arbitration. If the Joint Labor Management Committee rules that the City has to provide retroactive increases, the additional cost to the City will be about \$2 million for FY99. These projections also do not include a minimum of \$4 million for the Cost of Living Adjustment (COLA) to pensions should the City Council choose to adopt those provisions of state law that shift the cost of COLAs from the state to municipalities. Furthermore, no debt service has been included for the senior center, a new vocational school and a new comprehensive high school, renovations to the library and Forest Grove Middle School.¹

In addition to the City's immediate shortage of revenues, it faces a number of problems which will affect spending on municipal services well into the next century:

- The City could reach the levy ceiling in FY00. Should this occur, the City will not be able to raise additional revenues from property taxes.
- Airport operations will continue to require a tax levy subsidy (\$1.2 million in FY99).
- As of FY00, the City will have to increase its contribution to the School Department by \$2 - 2.5 million to comply with the Education Reform Act that requires municipalities to contribute to public schools on the basis of a "standard of effort" established in 1993.

All of these problems require prudent financial management. The City Council must reconcile its repeated calls for reductions in municipal spending and property taxes with its interest in increasing the level of municipal services.

In light of the City's financial difficulties, the Research Bureau has a number of suggestions to reduce expenditures and increase revenues:

- The City Manager and the City Council should prepare a strategic financial plan similar to the one prepared by the City of Baltimore. The Baltimore plan established goals including providing property tax relief, strengthening the City's financial condition, and creating a healthy economic climate that would foster economic development. The goal of such a plan in Worcester might be to reduce departmental and benefits expenditures by 1% each year for the next five years while providing the same level of service. This would mean reducing the entire budget of more than \$300 million by about \$3 million. Such a reduction would

¹ The City Manager recently presented a plan to the City Council for funding these projects. The City's share will be \$26.4 million over twenty years. The impact on debt service will be minimal in FY99 and increase to \$2.5 million in year five.

translate into a drop in the residential tax rate of \$0.45 per \$1,000 and a drop in the commercial/industrial tax rate of \$0.90 per \$1,000 of assessed valuation.

- The City Manager should negotiate a change in the current contribution system for health insurance based on a 90% contribution by the City toward the least expensive health plan, with equal dollar amounts applied toward each of the other plans. For FY98, the estimated savings to the City would have been more than \$3.7 million if the contribution method based on equal dollar amounts had been in place. (Over the last eight years, the City would have saved almost \$39 million based on this contribution method.)
- The City Manager and the City Council should encourage all municipal departments to subject public services to market competition. Each department should develop a competitive contracting plan to be implemented over several years that would test services for market competitive potential.
- The City Manager should consider Research Bureau recommendations in its report on "Distressed Properties: The Problems and the Options" (#97-2) for reclaiming abandoned properties and vacant lots that would improve neighborhoods, enhance the value of property, and thereby expand the tax base.
- The City Manager and the City Council should work with the legislative delegation to obtain approval for issuing pension obligation bonds in an amount up to the unfunded pension liability in order to realize savings from current interest rates.
- The City Manager should commission an independent study of the Worcester Fire Department to determine the appropriate mix of equipment (stations, suppression equipment, etc.) and personnel (deployment, work schedules, etc.) to meet the department's responsibilities. (Worcester's department has more engine companies than all but one of the 11 other comparable cities surveyed.)
- The City Manager should consider the inclusion of a bonus and incentive program for municipal employees to reward those employees whose performance is exceptional or who develop more efficient ways of delivering a service.
- The City Manager should conduct a study of paid details in the Worcester Police Department similar to the one done by Boston's Finance Commission to determine all the costs of the details, how details are assigned, and the true costs of employing civilian flaggers as an alternative. (In FY97, the City spent \$4.2 million for paid details.)
- The City Manager should consider privatizing Hope Cemetery.
- The City Manager should collaborate with nearby communities to determine if various municipal departments might be in a position to sell services such as engineering, traffic engineering, environmental testing, etc.

INTRODUCTION

This report reviews the City's revenues and expenditures over the last five years and makes some financial projections for FY99 (July 1, 1998-June 31, 1999). The intention is

to analyze trends in the City's financial condition, to examine some of the implications of those trends for next fiscal year and beyond, and to make some recommendations.

BACKGROUND: FY93-FY97

The details of revenues and expenditures during the last five years are set forth in Charts A and B.

REVENUES (CHART A)

- Property tax receipts have increased during this period by 18% or \$18 million. Forty-nine percent, or almost \$9 million, comes from increases allowable in the existing property tax base; the remainder comes from allowable increases under the category of new construction.
- Local aid, which represents the largest source of revenues (50% of General Fund revenues in FY97), has increased by 52%, or \$49 million since FY93. (This calculation includes \$11.4 million Equal Education Opportunity Grants (EEOG) reclassified from special revenue.)
- \$40 million of the \$49 million increase in local aid, or about 80% was mandated by the Education Reform Act of 1993, and was dedicated to public school expenditures.

- Fees and charges (departmental receipts, motor vehicle excise tax, interest income, Medicaid reimbursements for special education students, etc.) increased by 10.5%, and represent about 9% of General Fund revenues. (In FY93, fees and charges represented 11% of revenues.)
- Total General Fund revenues increased by 38% between FY93-FY97.
- Total revenues from enterprise accounts increased by 1%. (This includes Belmont Home, which was closed, and a new facility, Christopher House was built and is operated privately.)
- Airport revenues decreased by 40% because of the decrease in the number of carriers and flights, and the consequent decrease in the number of enplanements.
- Water and sewer revenues increased by 39% and 24% respectively.
- Grants from the state for specific purposes decreased by 38% because EEOG was reclassified as local aid. Grants from the federal government increased by 10%.
- Revenue from Community Development Block Grants increased by 25%.
- Total revenues from all sources increased by 27%, or nearly \$81 million, during this period.

EXPENDITURES (CHART B)

- Departmental appropriations increased by 48% between FY93-FY97.
- Public school expenditures increased by 64% as a result of the Education Reform Act of 1993, as mentioned above.
- The General Government category, which includes Treasury, Auditing, Purchasing, Information Services, Human Resources, etc., increased by 44%. This increase is the result of a number of factors, the most significant of which is pay raises. In addition, the Information Services Department is supporting maintenance contracts for the City's computer system.
- Public safety expenditures increased by almost 26%, with most of the growth occurring during the last three years as a result of increased staffing in both police and fire departments. The Police Department has added about 150 new officers and the Fire Department has added about 50 new firefighters. Both departments are now at their authorized staffing levels of 480 and 474, respectively.

- The Public Service category was eliminated, with Hope Cemetery transferred to Health and Human Services and the Centrum to Recreation/Culture. The tremendous increase of 171% in this latter category is the result of expenses for the Centrum (\$360,000 for the management contract and insurance), additional staff for the Parks Department, and expenditures for the summer pools programs (\$130,000 per year) and for the removal of dead trees (\$100,000 per year).
- The City is required to spend about \$2 million for state, county and regional charges. This includes \$1.3 million for the Worcester Regional Transit Authority, \$147,000 for county employees, and \$29,600 for the Central Massachusetts Regional Planning Commission.
- Fixed charges increased by 14%, not including the share of debt, health insurance, and pension costs allocated to those departmental budgets transferred from the General Fund to enterprise accounts.
- The largest increase was in debt service (46%). This is the result of the Centrum Center, Medical City, Gateway Project, capital expenditures for police and fire, etc.
- Pension costs increased by 26%. This is the result of several factors, the most important of which are increases in the number of municipal employees and increases in salaries. In addition, three years ago, the City Council, on the recommendation of the City Manager, approved a bonus to all retirees with 25 years or more of service under Chapter 32 Section 90 a,c,d,e, of the Massachusetts General Laws. The initial cost of this bonus was \$500,000 which then had to be factored into pension increases for subsequent years. The City Council also approved the veterans buyback option under which veterans are able to add four years of their service in the military to their years of service to the City. These additional years are then factored into their pensions. This option cost the City an additional \$114,000 annually for fifteen years. As a result of a state lawsuit, the City was also required to add a \$300 bonus to all retirees who were already receiving the maximum pension.
- Workers' compensation decreased by 63% due to lump sum settlements, better medical care management, and safety training.
- Health insurance costs decreased by 1% as more employees have switched from the indemnity plan to managed care.
- Other expenditures, which include grants made by the state and federal governments, rose by 5.5%.
- Total spending increased by almost 30% during the period under review. Departmental expenditures rose by more than \$72 million, or 48%. General Fund spending increased by almost \$84 million, or 40%. Inflation over the course of these four years, however, was 15%.

In sum, over the last five years, there has been a \$72.7 million increase in spending on municipal services, \$54.6 million of which went to the public schools (including the vocational schools). This increase, which resulted from the Education Reform Act of 1993, continued the recent trend of increasing dependence on local aid and decreasing dependence on

property taxes to fund municipal services. In FY97, property taxes constituted 40.7% of General Fund revenues (down from 47.5% in FY93), while local aid supplied 50.3% of General Fund revenues (up from 40.1% in FY93).

PROJECTIONS FOR FY99 (CHART C)

A. Revenues

The revenue projections for FY99 are 4.5% higher than they were in FY98.

1. PROPERTY TAXES

Under Proposition 2 1/2, the property tax levy can be increased by 2.5% of the prior year's maximum allowable levy plus the tax base for new construction. This total allowable property tax levy in FY99 will be \$126.7 million, or about \$5.2 million more than last year. (This is the net figure after abatements are subtracted.)

2. LOCAL AID

In FY98, the City received \$163.3 million in local aid. The preliminary figure for FY99 is \$172.2 million (net), an increase of \$8.9 million or 5.5% over the previous year. This includes an additional \$8.4 million for both public and vocational schools which, under the Education Reform Act of 1993, must be allocated to the schools. Thus, the City will have about \$500,000 more than last year from local aid to spend on the remainder of the municipal budget.

3. FEES AND CHARGES

The City estimate for fees and charges for FY99 is \$26.2 million, about the same as last year.

4. SURPLUS

At this time, no surplus is anticipated. The net increase in new revenues from property

taxes and local aid to spend on municipal services apart from schools is about \$5.7 million.

B. EXPENDITURES

On the expenditure side, it is necessary to identify “fixed charges” before estimating departmental appropriations.

1. FIXED CHARGES

a. Debt service is projected to increase by \$4.1 million to \$25.3 million, a 19% increase over last year. (Debt service has risen by over 90% since FY93.) A substantial part of the increase is for the City’s portion of the convention center, Medical City, several new schools, the Gateway project, and capital equipment.

b. Worcester City Hospital continues to cost the City \$566,000 each year, into the beginning of the next century to cover the repayment of the overpayment from Medicare and \$1.8 million per year of pensions for former employees.

c. Pensions are projected to cost \$24.2 million. Of that sum, \$16.9 million will be shown on the pension line of the tax levy budget. The remainder is allocated to the public and vocational schools (excluding teachers whose pensions are paid by the state) and to enterprise accounts. These figures do not include cost of living adjustment (COLA) changes that were approved by the state under Chapter 17 of the Acts of 1997. This law shifts the burden of paying for COLAs from the State to each municipality. If the City Council were to adopt these changes, it could add about \$4 - \$7 million to the tax levy portion of the FY99 budget, depending on the funding schedule adopted. The City’s total pension costs would be at least \$28.2 million. Last year, pensions added 24.4% to the municipal payroll. If the new COLA provisions were adopted, pensions would add about 30% to payroll costs. For comparison, Boston’s pensions add 15% to the payroll. (The rule of thumb nationwide for private enterprise is that pensions add 10% to payroll costs.)

d. The Health insurance account (which also includes life insurance, Medicaid tax and employee assistance) is expected to increase by about \$657,000 or 6% over last year, to \$11.2 million of the General Fund for municipal departments, excluding public and vocational schools and enterprise accounts. When these departments are included, total spending in the health insurance account will be about \$28.9 million for more than 9,200 employees, including retirees. This larger-than-anticipated rise in cost occurs because MEDEX premiums are expected to increase by 20%, and the migration from the more expensive plan to Blue Cross 65 plan is less than projected.

e. Workers' compensation is expected to cost over \$1 million for municipal departments excluding schools and enterprise accounts. The increase of \$250,000 over last year occurs because the City has been ordered to pay significant medical expenses for a former municipal employee. This \$1 million is for medical expenses, benefits paid to retirees, dependent widows, lump-sum payments to terminate cases, etc. The actual compensation for each worker currently employed is included in the respective department's salary account. Workers' compensation had been decreasing until this year as a result of the efforts of the Human Resources Department to contain costs by terminating cases through lump-sum payments, better medical case management, initiatives to get employees to return to work, safety training, and accident prevention programs.

In sum, fixed charges are expected to be \$55.3 million. Debt service will increase by \$4.1 million. The City Manager does not intend to recommend additional funds for the school construction bond stabilization account as he did in FY98. Therefore, the net increase in fixed charges is \$2 million, or 3.75%. This increase will leave about \$3.7 million of the \$5.7 million in new money for other municipal services.

2. DEPARTMENTAL APPROPRIATIONS

The City Manager is projecting departmental expenditures at \$266.3 million. These projections include pay raises of 3% and automatic step increases of .25% which together total \$2.2 million. They also include an additional \$3.1 million for public safety. This is the result of the City's commitment to fund positions previously paid for with federal grants that have now expired (\$600,000), and an increase in the cost of funding the Quinn bill (\$400,000) that covers stipends for additional education. In addition, there will be another police class in the next fiscal year (\$1 million). Public Works expenditures are expected to increase by \$300,000 because the recycling contract with BFI has expired, and the rates will be less favorable because the market reuse of recycables has declined. Expenditures for public schools will increase by \$8.4 million as a result of additional Chapter 70 funds allocated under the state's Education Reform Act of 1993. Although the airport is an enterprise account, it is expected to run a deficit of \$1.2 million, which must be funded by tax levy revenues.

The City Manager's current projections do not include money for retroactive pay increases for which the City is currently in arbitration. If the Joint Labor Management Committee rules that the City has to provide retroactive increases, the additional cost to the City will be about \$2 million for FY99. As mentioned previously, these projections also do not include a minimum of \$4 million for the COLA to pensions should the City Council choose to adopt those provisions of state law that shifts the cost of COLA. According to the City Manager's recently unveiled proposal, debt service for the senior center, the new vocational school, the new comprehensive high school, renovations to the library and Forest Grove Middle School will be minimal in FY99 (\$78,750) but will increase to \$2.5 million in FY04. The

C O L A a n d t h e

retroactive pay increases together would generate a deficit of at least \$6 million. In addition to the City's shortage of revenues to fund the above-mentioned projects, it faces a number of problems which will affect spending on municipal services well into the next century:

- Levy Ceiling

Under proposition 2 1/2, as already noted, the City can raise by taxation 2.5% of the total assessed valuation. The City's assessed valuation has increased slightly since last year from \$5 billion to \$5.2 billion, which raised the property tax limit to \$131.4 million. The FY99 budget projects property tax revenues at \$130 million before abatements. In other words, the City is practically at this levy limit. Unless values continue to increase, the City will exceed the levy limit in FY00.

- Debt Ceiling

Property values also affect the City's legal debt limit, since a community is generally allowed to borrow 2.5% of its equalized valuation. The City's current debt limit is \$135 million, based on equalized valuation of \$5.4 billion. Based on current outstanding debt, the City would have a legal debt margin of \$32 million. The critical issue is whether the municipal budget can continue to absorb increases in debt service for capital projects.

- Worcester Airport

Airport operations will continue to require a tax levy subsidy. For FY99, the subsidy is estimated to be \$1.2 million for debt operations and fringe benefits.

- Worcester's Centrum Centre

Worcester's Centrum Centre requires tax levy support currently estimated at about \$800,000 for both debt service and operations. Under the terms of the contract currently being negotiated with Spectacor, it is possible that the City will be able to reduce its subsidy in future years.

- Worcester Technical Institute (WTI)

WTI currently receives about \$500,000 in student tuitions. In order for the school to break even, an additional \$500,000 is taken annually from a tuition account of excess tuitions from several years ago. This tuition account will be used up next year.

- Expiration of grants

The City has acquired more than \$3 million in state and federal grants for public safety. As these grants expire, the City will have to assume the costs of the employees who

were added with the grants, or else decrease the level of service. In FY99, two federal grants will expire, requiring the City to spend an additional \$1 million in future operating budgets. The local match for all these grants will have to continue in order to keep the same number of police officials and other staff employed. In addition, the City receives a number of grants that are subject to renewal every year. The City would have to absorb the costs of any one of those programs that is not renewed if it wished to continue their operation.

- **Education Reform Act**

This Act requires municipalities to contribute to public school funding on the basis of a “standard of effort” established in 1993. The funding must increase annually by the community’s municipal growth factor, which in Worcester, has been about 4%. Until now, the City’s contribution to the public schools exceeded the base plus each year’s growth factor. However, as of FY00, the City’s contribution will have to increase to comply with the state law. The Budget Office estimates that the City’s contribution in FY00 will need to be about \$2-\$2.5 million. Additional funds will be required in succeeding years, which will leave fewer dollars for other municipal services.

All of these problems make it imperative for the City Manager and the City Council to plan carefully, set priorities, and spend wisely in order to avoid undesirable layoffs, to provide quality services that ensure the safety and welfare of all citizens, and to invest in the City’s infrastructure so as to encourage economic development, while retaining some “cushion” for lean years, which are inevitable. The revenue and expenditure projections for FY99 will leave the above-mentioned issues largely unresolved. Thus, the City Manager and the City Council are faced with some difficult choices. The City Council needs to reconcile its repeated calls for reducing municipal spending with its desire to provide additional benefits to municipal employees, such as the COLA on pensions, union contract increases, and increased municipal services to the City’s residents such as additional police and fire personnel and a youth center.

WHAT THE CITY HAS DONE TO IMPROVE ITS FINANCIAL CONDITION

1. Reduction in Property Tax

Over the past few years, the City Council and the City Manager reduced the allowable tax levy by \$2.8 million, thereby providing modest property tax relief for residents. Because of tax classification, however, businesses have not benefited from this reduction. In FY98, the residential rate was \$18.06 and the commercial/industrial rate was \$37.63. By comparison, the single tax rate in Shrewsbury in FY98 is \$13.32.

2 Performance-Based Budgeting

The City Administration has developed a performance-based budget which links

money spent on services to the achievement of specific outcomes. The budget is expressed in terms of goals, desired outcomes, and activities planned to attain these outcomes, all of which should be comprehensible to the average citizen. For example, if the City collects leaves from 830 center lane miles of streets in a 50-week span at a cost not in excess of \$680,000, then the intended outcome was attained.

A performance-based budget is also the first step in determining the unit cost of providing a service. Once unit costs are established, a department can investigate whether there is an alternative delivery system that can provide the same service at a lower cost or at greater value to the citizenry. In other words, the City would then be in a position to engage in competitive bidding on municipal services.

3. *Grants Office*

The City administration has established a grants office within the Office of Planning and Community Development (OPCD) to aggressively seek out federal, state and foundation grants in order to increase municipal revenues. In the four years since the office began operations, it has procured grants totaling more than \$10.5 million for public safety, education, and improved municipal services. The cost of staffing the office of three is about \$110,000 per year.

4. *Department of Public Works Initiatives*

a. *Water and Sewer Operations*

- **Electronic Water Meters** The City Administration and the City Council have followed the recommendation made by the Department of Public Works and reaffirmed by KPMG Peat Marwick LLP (the City's independent auditor), to install electronic water meters in all customer locations. The Department has completed over 99% of the small-meter replacement program. In order to detect leaks, it is also testing, refurbishing and replacing the meters of the 50 largest users, who are responsible for 20% of all water use.

Unaccounted-for-water is that percentage of the water volume entering the distribution system that, for various reasons, fails to be recorded by customer meters. Some of this loss is due to system leakage, main breaks and unmetered use such as hydrants. In Worcester, however, a significant portion of the "missing" water was also attributed to under-registering residential and industrial customer meters. This component of unaccounted-for-water has now been addressed through meter improvement programs. As a result, water revenue has been increased without raising rates, even though overall system demands (water volume entering the distribution system) have been decreasing. If the meters had not been changed, DPW estimates that the rates would have to be 22% higher in order to meet the cost of running the water system. •

Quarterly Billing DPW has instituted quarterly billing of all residential accounts and bimonthly billing of its commercial/industrial accounts. (The Department intends to introduce monthly billing of commercial/industrial accounts once some computer software problems have been resolved.) Reducing the time periods between billings improves the City's cash flow and reduces the need for short-term borrowing.

- **Selling Water and Sewer Services** DPW has arranged to purify Paxton's water through the City's water filtration plant, and sell the purified water back to Paxton. This will generate \$306,000 in water revenue during FY99. The Department is currently negotiating with Holden and West Boylston for treatment of their sewage by connecting with Worcester's infrastructure.
- b. **Solid Waste Management** In 1997, DPW reduced the number of its 2-man collection crews from eleven to nine. The current complement needed to pick up solid waste on a daily basis is eighteen (nine drivers and nine laborers), half the number of personnel required before the value-based bag program was instituted (twelve 3-man crews). The net savings to the City is \$80,000. In addition, DPW has instituted several new programs at no additional cost to the taxpayer:
 - A textile drop-off program where clothes and other textiles are collected at no cost to residents. The city is paid \$80-90 per ton for these goods, adding several hundred dollars annually in new revenue.
 - A metal drop-off, where residents can drop off metal goods free of charge, has provided the City with \$1,500 in new revenue. (This is in addition to the program whereby residents arrange for their bulk metal goods to be picked up at their homes.)
 - A recycling drop-off point where residents in condominiums and other housing units not served by the City's regular solid waste program can participate in recycling.
- c. **Garage Operations** DPW has computerized vehicle records, inventory, and maintenance history to more effectively manage the department's varied fleet.
- d. **Traffic Engineering** Traffic Engineering, formerly a separate department, has been integrated into DPW as a separate operating division which benefits from DPW's resources and budget. For example, center-lane striping, previously done by department personnel, has been outsourced, allowing department personnel to focus on crosswalk painting and associated tasks. In addition, traffic lights have been replaced with a new, less energy-demanding lights that are expected to yield \$80,000 in savings.

5. *City Clerk's Office*

The City Clerk has overseen the computerization of vital records - birth, marriage and death, dog licenses and business licenses. The Clerk's Office is also in the process of implementing an agenda management program to computerize all records of City Council meetings. The staff recently invited city and town clerks from the region to view the operation of these programs with the intention of selling them to other communities. Each module will be sold for somewhere between \$250 and \$450 depending on the population of the community. Any changes in the program will be available for \$100 per module. The

Information Services Department has developed a Police Detail Tracking System in response to an external audit which raised questions about the Police Department's recordkeeping of these details. The City is attempting to interest other communities in buying this program as well.

6. *Worcester Area Regionalism Education Project (WAREP)*

The City is one of the organizers of WAREP, a collaborative effort of Worcester and a number of nearby towns to determine what functions and services could be provided regionally on a cost-effective basis. For example, given recently-approved legislation that provides for competition in the supply of electric power, this is an area which should be considered for bulk purchasing by communities in the region. The work of WAREP, including recommendations for implementation, should be completed in six months.

7. *Worcester Vocational School*

The City Council recently adopted the City Manager's recommendation to reorganize Worcester Vocational High School under the Worcester Public Schools so that the vocational school will be eligible to receive 90% reimbursement from the state toward a new building. If the vocational school had remained independent, it would have been eligible only for 77% reimbursement. The reorganization will save the City \$14 million over twenty years.

SUGGESTIONS FOR REDUCING EXPENDITURES

In addition to the steps the City has already undertaken to improve its financial condition, the Research Bureau has a number of suggestions to reduce expenditures and increase revenues:

A. *Unfunded Pension Liability*

The Commonwealth has decided it will no longer pay for COLAs and therefore, the City Council is required to accept a new law that shifts the expense of COLAs from the state to local retirement boards in order for municipal employees to be granted COLAs. The City Council should enlist the aid of the City's legislative delegation to reverse this new law so that the Commonwealth will continue to pay for COLAs. If the City Council were to accept this law that shifts COLA responsibility, the unfunded liability of the pension system would increase by \$63.5 million, and pension expenditures would increase by somewhere between \$4-7 million in FY99. Given the City's fiscal constraints, it appears unwise for the City Council to approve the COLA shift. If it does, however, the City Manager should investigate the possibility of issuing pension obligation bonds in an amount up to the unfunded pension liability. Given current interest rates, the City could realize substantial savings compared to present funding of the retirement system. This technique could also help to reduce the impact of the COLA. In order for the City to issue pension obligation bonds, special legislation would have to be approved for borrowing for this purpose and to allow this borrowing to be done outside the City's debt limit. The money borrowed would be invested by the Retirement Board and become part of the Retirement Board's investment portfolio. This plan would eliminate the City's unfunded liability. The City's annual obligation would be to pay off the debt service on these bonds. Borrowing in this manner is analogous to refinancing a home mortgage.

B. Fire Department Study

The City Manager should commission an independent study of the Worcester Fire Department to develop a comprehensive multi-year plan for this department, as recommended in Research Bureau report #96-3. The consultant should investigate the relocation and rehabilitation of fire stations, the best type and mix of fire suppression equipment, the opportunities for increased efforts at fire prevention and education, and the optimal number of personnel, including shifts, work schedules, deployment, and number of supervisors to meet the responsibilities of the Fire Department. According to a Research Bureau survey of fire department staffing (#97-

1), Worcester's department has more engine companies than all but one of 11 other comparable cities surveyed. In addition, its vacation schedule is compressed into eight weeks during the summer, which requires having more firefighters available to cover stations than if there were a 12-week schedule.

C. Competitive Bidding of Municipal Services

The City Manager and the City Council should encourage all municipal departments to subject public services to market competition. Each department should develop a competitive contracting plan to be implemented over several years that would test services for market competitive potential. Municipal employees should bid to provide the services as well.

A 1987 survey of more than 1,000 cities and counties found that a large majority of cities reported 10-30% savings from contracting specific services. Ten percent of respondents reported savings of 40% or more. The reasons most frequently cited for contracting for services are as follows:

- reduce service delivery costs
- provide a higher quality product or service
- gain access to specialized skills and equipment
- provide flexibility in adjusting the size of a government program, service or activity
- avoid high start-up costs

D. Bonuses and Incentive Awards

Creating a system of bonuses and incentives is a logical outgrowth of setting targets for providing service and measuring performance that has been established by performance-based budgeting. Portland, Maine, established a bonus and incentive system for public works employees building a baseball stadium and another for those performing other public works functions. The rewards are based on meeting target completion dates, reducing absenteeism, improving safety, and providing distinguished performance. The cost of the Portland program is minimal. A more expensive bonus program should be tied to the development of specific performance measures, and to the development of more efficient ways of delivering services.

E. Health Insurance

The City's health insurance budget for FY99 is projected at \$28.2 million. Blue Cross, one of the City's two carriers, insures almost 70% of municipal employees. The FY98 enrollment and cost for each plan in Worcester are summarized in the table below. This table indicates that the City pays \$10,646 per family for Blue Cross Master Medical, \$5,350 for Blue Cross/Blue Choice, and \$4,641 for Fallon Community Health Plan.

FY98 HEALTH INSURANCE COSTS

	BC/MASTER MEDICAL			BC/BLUE CHOICE				FCHP		
	Ind.	Family	Medex	Ind.	Family	Blue Care 65	HMOB SRS.	Ind.	Family	Senior
Enrollment	62	14	2,457	1,593	2054	225	63	817	1,199	742
City's Yearly Cost (per employee)	\$4,811	10,646	1,413	1,982	5,350	709	1,394	1,797	4,641	731

Health insurance issues are subject to collective bargaining. For the last eight years, Research Bureau reports have recommended negotiating a change in the current contribution system to one based on a 90% contribution by the City toward the least expensive health plan, with equal dollar amounts applied toward each of the other plans. For FY98, the estimated savings to the City would have been more than \$3.7 million if the contribution method based on equal dollar amounts had been in place. Over the last eight years, the City would have saved almost \$39 million based on this contribution method.

F. Injured-On-Duty (IOD) Compensation

1. "Light Duty" Work

The City Manager and the City Council should continue to make the reorganization of Injured-On-Duty (IOD) compensation a top priority. This is a matter for collective bargaining. Establishment of a "light duty" alternative to IOD, particularly for long-term cases, has been part of the City Administration's negotiating proposal for the past couple of years. Currently, employees of the Police and Fire Departments may be placed on the IOD list at full compensation, which is tax-exempt, even if they are only partially disabled. In other words, because public safety employees can earn more on IOD status than otherwise, there is no incentive to be removed from that status. Some disincentive for remaining on IOD should be established. In the meantime, IOD employees should be required to return to light-duty work if found medically able. If this policy were in effect, the City could minimize the number of civilians hired for police positions in the Police Department by substituting police officers on IOD status. During FY97, IOD compensation cost the City \$1.39 million. In December, 1997, there were 19 police officers and 18 firefighters on IOD status.

2. Restricting Outside Employment

The City should also reform the injured-on-duty program by prohibiting employees receiving injured-on-duty compensation from working for another employer. This provision would be particularly effective in conjunction with a light-duty program. If employees are able to work at a light-duty assignment for the City, they should not be able to turn the assignment down and go to work for another employer while continuing to receive IOD benefits.

3. *Separating IOD Benefits in the Budget*

IOD benefits should be a separate line item in the department's salary account. If the benefits were separately identified in the public safety budgets, they would be subject to public scrutiny, and hence potentially to greater control.

G. The City Manager should review the following measures for potential savings in municipal operations:

1. Determine whether inspectional services of the Police and Fire Departments could be performed by the Department of Public Health and Code Enforcement, so that the public safety departments can focus on their primary missions. If changing departmental jurisdiction for inspections requires changes in State law, the City Manager and the City Council should work with the City's delegation in the legislature to get that accomplished.

2. Employ flagmen (rather than off-duty police officers) to direct traffic at DPW worksites. Off-duty police officers are paid a range of \$27.68 for a patrol officer to \$38.97 for a captain per hour in overtime pay, whereas civilian flagmen command about one-half that rate. Moreover, the police generally require a four-hour minimum for each assignment. During FY97, the City spent about \$1 million on paid police details posted at public work sites. Because of these costs, the Commissioner of Public Works will now determine when paid details are needed at DPW worksites. The City spent an additional \$3.2 million on paid police details for state road projects, crowd control at parades, Centrum events, etc. Hiring off-duty police officers at construction sites is not required by law, but the practice has become widespread in Massachusetts. Flagmen are the rule in the other 49 states, including eight that use civilian flaggers exclusively.

A recent report compiled by the City Auditor found that 90, or 45% of the top 200 wage earners in city government were members of the Police Department, in large part because they can earn income through extra details, an opportunity that other municipal employees do not share. Fifty police officials added more than \$20,000 to their regular salaries for paid details in 1997. Most top administrators are not paid for overtime. In light of these findings, the City Manager should consider appointing a committee to conduct an independent study of paid details in the Worcester Police Department similar to the one done by Boston's Finance Commission on the Boston Police Department to determine all the costs of this arrangement, how details are assigned, and the true costs of employing civilian flaggers as an alternative. If the results of that study indicate that employing civilian flaggers would be beneficial, then the City Manager should enter into negotiations with the International Brotherhood of Police Officers on the issue.

3. The City Manager should consider privatizing more of the City's proprietary functions and limiting the City to the provision of core services such as public safety, public works and public education. As a result of the constraints of Proposition 2 1/2, the City closed Worcester City Hospital and privatized Belmont Home. It should now review its ownership of Hope Cemetery and Worcester Memorial Auditorium to determine whether they should be privatized.

4. The City Manager should close Worcester Technical Institute and transfer its programs to other two-or four-year colleges. As noted earlier, current tuitions do not cover the cost of operations and are subsidized by a tuitions savings account which will be exhausted next

year.

5. The City should wait for the completion of a one-year, DPW-initiated study intended to explore recycling and reuse options of street sweepings and catch-basin materials that might mitigate the costs of disposing of those materials. The City Council recently voted against disposal of street sweepings and catch-basin materials at Green Hill Park. The costs to the City of this decision are as follows:

- Cost of capping the landfill site at Green Hill Park - \$1.5 million over 20 years even with a loan from the state's revolving loan fund.
- Cost of building new soccer fields at that site as called for in the Park's Master Plan estimated to be about \$750,000.
- Cost of disposing of street sweepings and catch-basin materials to a landfill outside the city - approximately \$1 million per year after 2000.
- Cost of building a transfer station for these materials - approximately \$1 million.

SUGGESTIONS FOR INCREASING REVENUES

A. Developing a Strategic Financial Plan

The City Manager and the City Council should prepare a strategic financial plan similar to the one prepared by the City of Baltimore. The development of such a plan was recommended by community leaders at the Worcester City Council's tax classification hearing last November. The Baltimore plan established goals including providing property tax relief, strengthening the city's financial condition, and creating a healthy economic climate that would foster economic development. The plan includes the following: a \$0.05 per \$100 tax rate reduction each year, funding an undesignated General Fund reserve in order to improve the city's bond rating, developing a systematic expenditure reduction strategy, and exploring new sources of non-local revenue. Given Worcester's high tax rate on both residential and commercial property compared to surrounding towns in the region and the kinds of services it must continue to provide to a diverse population, a well-conceived and sustained financial plan is essential for the City's long-term well-being. The goal of such a plan might be to reduce departmental and benefits expenditures by 1% each year for the next five years while providing the same level of service. This would mean reducing the entire budget of more than \$300 million by about \$3 million. Such a reduction would translate into a drop in the residential tax rate of \$0.45 per \$1,000 and a drop in the commercial/industrial tax rate of \$0.90 per \$1,000. A plan is more essential than ever since the City is rapidly approaching the property tax levy ceiling and its debt ceiling. It may reach its property tax ceiling in FY00. Such a plan should also include a "rainy day" fund so that the City has a cushion for a downturn in the economy or cutbacks in local aid.

B. Expanding the Tax Base

The most promising measure by far for increasing the City's revenues is to expand the tax base. In its report on "Competing for Economic Development: What can Worcester Do?" (#95-1), the Research Bureau suggested some steps the City should take to attract commerce and industry. In its report on "Distressed Properties: The Problem and the Options" (#97-2), the Bureau made recommendations for reclaiming abandoned properties

and vacant lots that would improve neighborhoods, enhance the value of properties, and thereby expand the tax base. In its recent report on "Facilitating the Cleanup and Development of Worcester's Brownfields" (#97-6), the Bureau made some recommendations to facilitate the development of these contaminated properties. In fact, the City Council Fees and Charges Committee recently approved a Research Bureau suggestion to reduce by 50% the sewer discharge fee it assesses for temporary connections associated with ground water treatment systems (#97-6, p.25). According to the City's Development Office, the cost of installation, operation and maintenance of a ground water treatment system that handles one million gallons per day is \$500,000 in the first year. At present rates, the total discharge fee for one year of treatment is \$800,000. Since a typical ground water treatment system runs for three years or more, the discharge fee for the one million-gallon-per-day system over three years would be \$2.4 million. The reduction in the fee should encourage the cleanup and development of abandoned or underutilized industrial property, which, if developed, will add jobs and tax revenues to the City.

C. Motor Vehicle Excise Tax

The City Manager should establish a task force to investigate and make recommendations to alleviate the problem of city residents registering their motor vehicles outside the state because of lower insurance rates and to avoid the state excise tax. How much revenue is the City losing, and what can be done about it?

D. 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 can generate tax revenues for the City. The City should make this proposal to the State.

E. 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.

F. 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. As noted earlier, the Clerk's office has taken the lead in this area. Other possibilities include the following:

1. Public Works

The Department might be able to 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. The Department might also act as a provider in the use of equipment such as streetsweepers. (This is already the case with the compost shredder.) 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 be able to exploit its expertise in this and in other respects 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.

5. Human Resources

The Office should continue to provide training in supervisory and management skills for personnel in surrounding towns. The City charges the towns on a per participant basis. The Office has also participated in some sharing of facilities for training sessions. In addition to training, the Department might investigate whether cost reductions could be realized from regional purchasing of health care for municipal employees.

G. Local Aid in lieu of Taxes

The City Manager and the City Council should begin lobbying our local delegation 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. Although it is unlikely that the state will be willing to fund any comprehensive aid program prior to the expiration of funding for the Education Reform Act in 2000, it is not too early to begin discussing 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. The City should also examine the possible return to be gained by taking a more aggressive stance in regard to those activities that are unrelated

to the core missions of nonprofit organizations. To the extent that such activities are unrelated businesses and compete with for-profit enterprises, they are properly subject to property taxation.

Mission Statement: The Worcester Municipal Research Bureau is a private, non-profit organization dedicated to conducting independent, non-partisan research on financial, administrative, management and community issues facing Worcester's municipal government and the surrounding region.