



The Research Bureau

Are there any alternative to taxes, taxes, and taxes?

During the past few months, Massachusetts residents have been subjected to a dizzying array of proposals to increase their taxes, tolls, and fees to close the Commonwealth's and Worcester's budget gaps in FY10. These include an increase in the gas tax and sales tax, increases in the tolls on bridges and the Mass Pike, and instituting a toll on I-93 to catch all those folks who live in New Hampshire and work in Massachusetts (assuming they continue to do so after the tax hikes). In addition, the Governor has proposed a one percent local-option hike in the hotel tax and meals tax, putting communities that adopt these increases at a competitive advantage with those that do not. The Governor also wants to lift the sales tax exemption on soda, candy and alcohol, and increase the fee for renewing a driver's license or registering a car. Meantime, closer to home, one Worcester city councilor suggested that the City tax college dorm rooms, even though jobs in education and health care constitute 40% of employment in Worcester, and they are the only sectors that aren't shedding jobs. Worcester's City Manager proposed increasing the trash bag fee by fifty cents to \$2.00 per bag and increasing other fees to bring in an additional \$500,000 annually. Let's keep in mind that property tax bills in Worcester have been going up every year even as property values decrease. Are there no alternatives to more taxes?

To be fair, the state plans to lay off about 1,000 people. But since the Governor hired at least 2,000 new employees after taking office two years ago, that's still a net gain of 1,000. Meanwhile, the City Manager has had to reduce Worcester's non-school complement by almost 300 employees, or about 20%. Surely, the City's public safety and public works employees who constitute 70% of the City's non-school personnel provide functions at least as important as those employed by the State's multiple and overlapping human service agencies, which serve many of the same clients – to say nothing of toll takers on the Mass Pike who get \$67 per hour for working on holidays!

All the various proposed hikes in taxes and fees are merely tinkering at the edges of the State's budgetary difficulties rather than addressing their root causes – superfluity, waste, and programs that provide lavish benefits to public employees at the expense of taxpayers who typically receive far less. In the current recession, amid growing unemployment, it isn't surprising that the public is hardly enthusiastic about paying more taxes. But genuine reform that would make a substantial difference in government operations and save millions of dollars every year at the state and local levels without sacrificing

essential services takes political will to resist the pressure of special interests. Do our elected officials have the gumption it takes?

Let's start with public employee health insurance. Most City of Worcester employees pay 20% of their monthly premium. The City manager wants all employees to pay 25%, and to increase some co-pays, altogether saving the City close to \$3 million in FY10 and millions more in successive years. Thus far only a few unions have agreed to this reasonable proposal while the public safety and teachers unions have refused. Going beyond that proposal, if the City paid 75% of the premium for the lowest-cost plan only – leaving it to public employees to pay the added cost of more expensive plans out of their own pockets - , a very common arrangement in the private sector - the City could have saved \$16 million last year.

Remarkably, state employees pay only 15% of their health insurance premiums. If they were required to pay 25%, the state would save \$100 million in FY10. These savings could reduce the Governor's projected local-aid cuts. Worcester's share could save public safety and public works jobs.

Privatizing or contracting out a whole variety of services could also reduce costs. For example, for several years, The Research Bureau has been suggesting that Worcester's custodial services be contracted out. The City Manager has accomplished this for non-school custodians. Contracting out the School Department's custodial services would save an additional \$2 million annually.

A very big-ticket item requiring lots of political courage to reform is the public-employee pension system. We read regularly about pension abuses – a former legislator doubling his pension through voluntary service on his town's library board, firefighters retiring on accidental disability pensions (72% of salary, tax-free) with non-existent back injuries, a provision enabling legislators to boost pensions after losing a re-election bid, and "retired" employees collecting pensions who then work as contractors for the agencies from which they retired. The list of abuses goes on and on, and the bills before the State legislature address only the most egregious abuses without tackling fundamental structural problems that make it impossible to sustain the system over the long haul.

Perhaps the most costly aspect of the public employee pension system that needs reforming is the fact that it is a defined-benefit program for both city and state employees which guarantees employees a fixed benefit on retirement regardless of how well the retirement system's investments have performed. This is in stark contrast with defined-contribution plans, far more common in the private sector, in which retirement income is determined by the actual investment performance of the employee's and/or employer's contribution. Under the City and the Commonwealth's defined-benefit plan, because investments have lost about one-third of their value as in the current market, ordinary taxpayers – already facing tightened financial straits – are required to compensate for the losses in public employee retirement systems in order to fund the promised retirement benefits. So the taxpayer takes a double hit: while the value of his own 401K is down, he is obliged to shore up the benefits of public employees. Have you asked your employer

(if you still have a job) to compensate for your recent losses in the value of your 401K? In the interest of fairness to all taxpayers, public employee pensions must be transformed into defined-contribution plans.

The reforms listed here are just a few of the alternatives to taxes, taxes and more taxes. For more ways to reduce expenditures, see *Worcester's FY10 Budget: Challenges and Opportunities for Reform*, Report 09-03, which among other suggestions, recommends that the City divest itself of subsidized non-core municipal services such as Union Station and the Senior Center.

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