



The Research Bureau

# Worcester's FY11 Budget and Fiscal Crisis: No End in Sight

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## EXECUTIVE SUMMARY

The recession continues to strain public finances at all levels of government. Worcester faced a deficit of \$15 million for FY11, caused primarily by cuts to local aid and increases in fixed costs. The City Manager was able to close this deficit as a result of one-time revenues, actions taken at the state level, reduced expenditure projections, and tapping into Worcester's excess levy capacity for the first time in 15 years. Despite these actions, as well as various reforms and personnel reductions in previous years that have reduced the impact of the recession, Worcester still faces a structural imbalance between recurring revenues and expenditures. Several signs suggest the likelihood of deficits in FY12 and beyond:

- Further cuts in local aid due to the state's structural imbalance
- Loss of stimulus funds for police positions
- Reliance in FY11 on \$2 million in one-time Airport sale proceeds
- Increased health insurance premium costs
- Gradual commitment of \$2 million property tax increase to new capital program
- The Worcester Public Schools' reliance on one-time revenues in FY11

In order to address Worcester's structural deficit, The Research Bureau makes the following recommendations for reform:

- **Increasing Revenues**
  - Worcester's City Manager should continue to pursue divestment of non-core assets.
  - The Worcester City Council should phase in a single tax rate over the next five years.
- **Reducing Expenditures**
  - The City Manager should develop a plan for addressing Worcester's long-term retiree health-care liability.
  - The City Manager should pursue regionalization of services.
  - The City Manager should pursue administrative consolidation of departments and/or services.
  - The City Manager should pursue privatization of services where appropriate.
  - The School Committee should privatize custodial and cafeteria services.
  - The City Manager should work with public employee unions to restructure compensation packages so that all "extras" beyond base salary are in the form of flat stipends, not percentages.

- The state Legislature should either grant health insurance plan design authority to municipalities or eliminate the requirement for union approval for entry into the Group Insurance Commission.
- The School Committee should negotiate a 25% health insurance premium contribution rate for all WPS employees.
- The City should encourage greater enrollment in its lower cost health insurance plans by negotiating health insurance contribution rates with its unions such that the City pays 75% of the lowest-cost plan only. Those employees who opt for the higher cost option pay the difference between the two. This would save the City almost \$15 million in FY11.

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## INTRODUCTION

Now in its thirtieth month since officially beginning in December 2007,<sup>1</sup> the current recession continues to strain public finances at the Federal, state, and local levels. The Congressional Budget Office estimates that President Obama's proposed FY11 budget would record a deficit of \$1.5 trillion in 2010 and \$1.3 trillion in 2011.<sup>2</sup> These are the largest deficits ever in absolute terms and, expressed as a percentage of gross domestic product, they are also by far the largest deficits since World War II.<sup>3</sup> According to a recent estimate by the Center on Budget and Policy Priorities, state governments face a total \$375 billion shortfall in 2010 and 2011.<sup>4</sup> These must be addressed either through cutting expenditures or raising revenues since, unlike the Federal government, states are required to balance their budgets.

Local governments, of course, are not immune from these deficits. Worcester faces a deficit for the coming fiscal year, as it has in nearly all of the last ten fiscal

years. The FY11 deficit for municipal operations (not including the Worcester Public Schools) is \$15 million, or about 3% of the City's total General Fund budget. The following report will discuss the causes of the deficit, and how Worcester's City Manager proposes to address it. It will conclude with some recommendations for addressing the City's fiscal difficulties.

## WORCESTER'S FY11 BUDGET

On April 27, the City Manager proposed a \$571.3 million FY11 budget: \$506.1 million in General Fund expenditures and \$65.2 million in Enterprise Account expenditures. As stipulated by Worcester's City Charter, the City Council has to vote on the City Manager's budget by June 12, or 45 days after they received it.

**Table 1** sums up the revenues and expenditures for FY11 and the two prior fiscal years since the beginning of the recession.

Worcester's FY11 Budget and the Fiscal Crisis: No End in Sight

<b>Table 1: Revenues and Expenditures: FY09, FY10, FY11</b>				
<b>Revenues (in millions \$)</b>				
	<b>FY09 (Actual)</b>	<b>FY10</b>	<b>FY11</b>	<b>Change between FY09 and FY11</b>
Property Tax Levy	197.5	204.8	214.9	8.8%
State Aid (General)	53.3	41.6	39.7	-25.5%
State Aid (Education)	180.5	192.8	191.5	6.1%
State Aid (Charter Schools)	5.4	4.6	4.4	-18.5%
Mass School Building Authority Reimbursement	17.8	19.1	15.7	-11.8%
Local Receipts	39.8	41.9	38.5	-3.3%
Other Funds	4.8	1.3	1.3	-72.9%
Free Cash	-	-	-	-
<b>Total</b>	<b>499.1</b>	<b>506.0</b>	<b>506.1</b>	<b>1.4%</b>
<b>Expenditures (in millions \$)</b>				
<b>Education</b>				
Worcester Public Schools	256.6	264.4	264.1	2.9%
Charter and School Choice tuition	22.9	23.7	25.1	9.6%
<b>Total</b>	<b>279.6</b>	<b>288.0</b>	<b>289.2</b>	<b>3.4%</b>
<b>Fixed Costs</b>				
Pensions (including POB)	25.5	27.8	27.1	6.3%
Health Insurance, Worker's Comp and IOD	25.8	23.9	27.5	6.6%
Unemployment Compensation	0.5	1.3	0.6	20.0%
Debt Service	28.9	29.9	29.9	3.5%
Intergovernmental Charges	3.2	3.2	3.3	3.1%
Streetlights	3.1	1.9	1.9	-38.7%
Snow Removal	7.0	2.5	2.7	-61.4%
Snow Carryover	-	3.1	1.0	-
Five Point Plan Funding	12.1	12.0	14.9	23.1%
<b>Total</b>	<b>106.1</b>	<b>105.6</b>	<b>108.9</b>	<b>2.6%</b>
<b>Operational Costs</b>				
Legislative Office	2.2	2.0	2.0	-9.1%
City Manager's Office	8.3	6.8	6.8	-18.1%
City Manager Contingency	-	1.0	0.3	-
Human Resources	1.0	0.9	0.9	-10.0%
Economic Development	2.2	1.2	1.1	-50.0%
Law Department	1.6	1.4	1.4	-12.5%
Fire	33.5	32.2	32.2	-3.9%
Police	40.3	39.0	38.9	-3.5%
Emergency Communications	2.6	2.1	1.9	-26.9%
Inspectional Services	3.2	2.9	2.8	-12.5%
Public Works and Parks	16.2	16.0	16.0	-1.2%
Administration and Finance	6.5	5.4	5.3	-18.5%
Airport	1.2	1.2	0.0	-100.0%
Golf (Enterprise Subsidy)	0.1	0.0	0.0	-100.0%
<b>Total</b>	<b>119.0</b>	<b>112.3</b>	<b>109.9</b>	<b>-7.6%</b>
<b>Total<sup>5</sup></b>	<b>504.6</b>	<b>506.0</b>	<b>506.1</b>	<b>0.3%</b>

## Revenues

### State Aid

Barring any midyear cuts,<sup>6</sup> Worcester will receive \$235.6 million, or 46.5% of its total General Fund budget, in local aid in FY11. 83% of this is education aid: \$191.5 million in Chapter 70 Aid, and \$4.4 million in Charter School Aid. The City will receive \$39.7 million in General Government Aid to be used for municipal operations. Worcester's General Government Aid has been in steep decline during the recession, as **Table 2** shows.

previous year, plus the value of new construction. Proposition 2 ½ also limits the total tax levy of a community in any given year to 2.5% of the total taxable assessed value of the community.

Worcester has not taxed to its 2.5% limit since 1995. The City has maintained an excess levy capacity of over \$10 million since FY01 and \$12 million since FY05. In his FY11 budget, the City Manager is recommending that the City Council vote to raise an additional \$2 million and reduce Worcester's excess levy capacity back to \$10 million.

**Table 2: State Aid since FY08 (millions)**

	FY08 Actual	FY09 Actual	FY10 Budget	FY11 Budget	% Change FY08- FY11
<b>Education (Ch. 70 and Charter Schools)<sup>7</sup></b>	\$179.6	\$185.9	\$197.4	\$195.9	9.1%
<b>General Government</b>	\$58.1	\$53.3	\$41.9	\$39.7	-31.7%
<b>Total</b>	\$237.7	\$239.2	\$239.3	\$235.6	-0.9%

The housing collapse that precipitated the recession has resulted in a serious decline in Worcester's residential property values. However, property tax *revenues* have continued to rise during the recession, since the City has had to continue to raise tax rates (within the Prop 2 ½ limits) on both residential and commercial properties in order to maintain its operations (**Table 3**). The City Council does not vote on tax rates until November, but the rates for FY11 will have to increase again in order to support the City Manager's budget.

The loss since FY08 of almost \$20 million in General Government Aid, a recurring revenue source, represents the most serious way in which the recession has affected Worcester's finances.

### Property Tax

The second-largest revenue source for the City is the property tax, which accounts for 42.5% of General Fund revenues. In Massachusetts, municipal property tax collections are constrained by Proposition 2 ½, which limits the tax levy increase each year to 2.5% over the

**Table 3: Property Values and Tax Rates, FY08-FY10**

	2008	2009	2010
<b>Residential Valuation</b>	\$10.4 billion	\$9.8 billion	\$8.5 billion
<b>Commercial, Industrial and Personal Property Valuation</b>	\$2.3 billion	\$2.3 billion	\$2.3 billion
<b>Total Valuation</b>	<b>\$12.7 billion</b>	<b>\$12.1 billion</b>	<b>\$10.9 billion</b>
<b>Residential Tax Rate</b>	\$12.54	\$13.50	\$15.15
<b>Commercial, Industrial and Personal Property Tax Rate</b>	\$26.20	\$28.72	\$33.28
<b>Total Levy</b>	<b>\$187.4 million</b>	<b>\$197.5 million</b>	<b>\$204.8 million</b>

*Source: Massachusetts Department of Revenue*

**Local Receipts**

Another important source of revenue for the City, although considerably less significant, is fees and charges, for which the City has budgeted \$38.5 million, or 7.6% of the budget. Examples include the motor vehicle excise tax (\$11.4 million), hotel and meals taxes (\$2.4 million), and fees for licenses and permits (\$3.9 million).

The decline in Local Receipts is the second-greatest loss of recurring revenues that the City has experienced during the recession. Worcester will receive an estimated \$4 million less in Local Receipts in FY11 than it did in FY08.

**Expenditures**

**Education**

The total education expenditure for the Worcester Public Schools (WPS) and Public Charter Schools is \$289.4 million, or 57% of the budget. The school department budget is bigger than all the other departmental budgets combined and alone consumes more than half of the total General Fund Budget in FY11 (\$260.4 out of \$506.4 million). The state pays for about 75% of the WPS' total budget and 17% of Charter School expenditures.

Earlier in FY10, the WPS projected a budget deficit of \$26 million; the deficit currently stands at \$16.8 million. \$8.2 million in available stimulus funds will reduce the budget to \$8.6 million. Over the last three fiscal years, the school department has made use of a total of about \$55 million in stimulus funds. However, unlike FY09 and FY10, there will not be sufficient stimulus to prevent layoffs in FY11. In order to balance its budget, the WPS estimates that it will have to eliminate 140 positions, including over 100 teachers (31 full-time and 72 part-time tutors).<sup>8</sup>

Due to this reliance in FY11 on one-time revenues, the WPS faces a \$10.2 million structural deficit for FY12.

It is important to emphasize that the size of the school department budget and the City's contribution to it is determined by the state; the School

Committee and Superintendent decide how to allocate the funds. The City Manager and City Council have virtually no authority over school spending.

**Health Insurance**

In FY11, Worcester will spend \$25.8 million on Health Insurance for municipal employees (not including WPS employees). This constitutes a 12.6% increase from FY10 (\$22.9 million). The average annual health insurance increase for the City over the past decade (FY01-FY10) has been 7.2%.<sup>9</sup> The Worcester Public Schools expects to spend \$41.9 million on health insurance, bringing the combined health insurance expense for all Worcester employees to about \$68 million, or 13% of the General Fund budget, the second largest expenditure overall.

**Pension Costs**

Retirement benefits are the third-largest City expenditure. The total pension cost for the municipal FY11 budget will be \$27.1 million. The total cost including the amount credited to the Worcester Public Schools is \$44.5 million.

**Operational Costs**

Worcester has relatively little control over the vast majority of its annual budget. Education spending, which is determined by the state’s Chapter 70 foundation formula, and fixed costs

together constitute about 4/5 of the total General Fund budget. As a consequence of this, the operational or departmental budgets which include the core services of public safety and public works have absorbed most of the budget cuts that have occurred over the past two years. Since fixed costs have continued to rise, and education was sheltered by stimulus funding, in order to continue to balance the budget, the City Manager has been forced to cut from the budget’s operational side (Table 4).

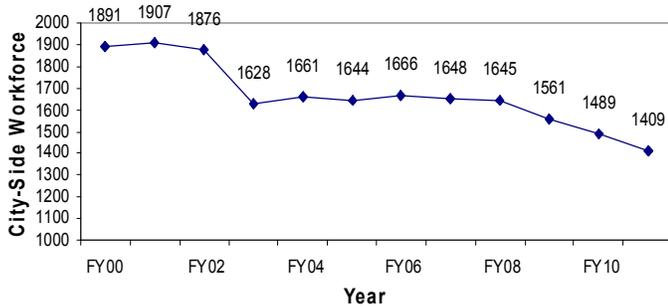
**Table 4: Impact of Recession on Operational Expenditures (millions)**

	All Revenues	Fixed Costs	All Education	Remaining Balance for Operational Expenditures
<b>FY08</b>	\$475.7	\$92.7	\$265.8	\$117.2
<b>FY09</b>	\$499.1	\$106.1	\$279.6	\$113.4
<b>FY10</b>	\$506.0	\$105.6	\$288.0	\$112.3
<b>FY11</b>	\$506.1	\$106.9	\$289.2	\$109.9
<b>Change between FY08 and FY11</b>	6.4%	15.3%	8.8%	-6.2%

Another way to illustrate the impact of the recession on the City’s operational spending is through personnel reductions. As Chart 1 shows, Worcester’s workforce has been steadily declining over the last decade.

In FY00, the tax levy-funded municipal (non-school) workforce was almost 1,900. The City Manager estimates that this number will be near 1,400 if the early retirement program goes through

**Chart 1: Worcester's workforce, FY00-FY11  
(municipal departments-not including WPS)**



Source: FY09 Comprehensive Annual Financial Report, City Manager's March 23 Communication to the City Council

and other positions open up and remain frozen as planned in FY11. This constitutes more than a 25% decline in the municipal workforce between FY00 and FY11, and a 15% decline since FY08. This workforce reduction has resulted from a combination of layoffs, early retirement incentives, and hiring freezes. It should be mentioned that during this same time, the City's population has been *increasing*. Worcester's current population is estimated to be 182,596, up from 172,648 in 2000.<sup>10</sup>

The Worcester Public Schools' workforce has also declined between FY00 and FY10. In 2001-02, there were 3,102 WPS employees, while in 2009-10, there are 2,764 (this does not include grant-funded positions). Enrollment during that time has also decreased. In FY03 WPS enrollment was 24,786 and in FY10, it is 23,988.<sup>11</sup> As mentioned before, although WPS was not forced to make any layoffs in FY10 due to the infusion of Federal stimulus funds, it

will be forced to eliminate 140 positions in FY11.

## CAUSES OF THE FY11 DEFICIT

As early as November, the City Manager projected an FY11 deficit of \$10 million. This eventually grew to \$15 million by March. The causes of the City's FY11 deficit were as follows:

### Revenue Losses

In January, before the Governor and House had released their budget containing local aid cuts, the City Manager anticipated a net revenue loss of **\$400,000**. This was due to cuts in Massachusetts School Building Authority reimbursements (\$3.4 million) and revisions in the Federal Medicaid reimbursement formula (\$3.7 million for certain services provided to low-income students by the WPS), offset by increased property-tax revenues (\$6.7 million).

In order to balance Massachusetts' FY11 budget, the Legislature and Governor must close a \$2.7 billion shortfall, or 9.7% of its FY10 budget.<sup>12</sup> Both the Governor and the House in their budget proposals rely significantly on one-time revenue sources: Federal stimulus funds and, in the case of the Governor, tapping into the state's reserves.

When the Governor released his budget in January, although he proposed to

level-fund Chapter 70 and General Government Aid, he did cut **\$350,000** in other aid to Worcester.

After the Governor released his budget, the City decided to revise its own revenue projections for FY11 down by **\$350,000**.

The House cut both Chapter 70 and general government aid to Worcester by \$1.4 million. By the state education contribution formula, this reduces the City's contribution to the Worcester Public Schools by \$400,000, resulting in a net impact of **\$1 million** to the City's bottom line from the House budget.

### **Increased Expenditures: Fixed Costs**

Over half of the City's total FY11 deficit, **\$8.8 million**, comes from anticipated increases in fixed costs: pensions, health insurance, and contributions to fiscal stabilization funds.

The Worcester Retirement System (WRS) lost \$275 million, or 28% of its value, in 2008. In order to compensate for these market losses and comply with its current actuarially-approved schedule to be fully funded by 2030, the City must increase its contribution to the WRS by \$2.7 million in FY11.

Like most employers in the Commonwealth and nationwide, Worcester faces steep health insurance premium increases. Health insurance

premiums for municipal employees were expected to increase by 10%, or \$4.7 million in FY11.

Not all of the deficit is linked to the recession. The City Manager's "Five Point Financial Plan," adopted by the City Council in November 2006, calls for increased contributions to certain accounts and limits on borrowing in order to maintain the city's bond rating and long term fiscal stability (**Table 5**). These self-imposed restrictions reduce spending on operations.

**Table 5: Worcester's Five Point Financial Plan**

<b>(1)</b> Five-year forecasting and long-term planning of City finances and projects
<b>(2)</b> Strengthening of reserves, including creation of Bond Rating Stabilization Fund
<b>(3)</b> Quarterly financial reporting
<b>(4)</b> \$18 million cap on borrowing (briefly lowered to \$15 million in FY10, restored to \$18 million in FY11)
<b>(5)</b> Capital Improvement Plan to achieve debt service stability in budget

### **Increased Expenditures: Education**

The state funding formula initially mandated that the City increase its contribution to the WPS by **\$2.9 million**. (Recognizing additional local aid cuts in the House budget, this increase comes down to \$2.5 million.)

### **Increased Expenditures: Municipal Operations**

Although the City Manager has succeeded in avoiding pay raises for FY10 and FY11, Worcester will still experience a slight (**\$1.2 million**)

operational increase due to automatic step and longevity salary increases, as well as higher energy and utility costs.

**Table 6** sums up the causes of the deficit.

<b>Table 6: Causes of the Deficit</b>	
Net revenue loss	\$400,000
Governor's cuts	\$350,000
Adjusted revenue projection	\$350,000
State Aid (net of reduced WPS contribution)	\$1 million
WPS	\$2.9 million
Operations	\$1.2 million
Fixed costs (health insurance, pensions, Five-Point Plan)	\$8.8 million
<b>Total</b>	<b>\$15 million</b>
<i>Source: City Manager's Communications to the City Council of January 12, March 2, March 23, and April 27, 2010</i>	

## ADDRESSING THE DEFICIT

The deficit was closed in several ways; a combination of actions by the state Legislature and the City Manager, and expenditure projections that are less than originally expected.

### Pension Schedule Extension

The WRS is on a schedule to be fully funded by 2030 (the Pension Reform Act of 2009 extended the deadline from 2028). In 2009, Worcester filed a Home-Rule petition to allow the City to extend its amortization date to 2038 but was denied. However, both the Governor

("An Act Providing Municipal Pension Funding Schedule Relief") and the House (H.4618 "An Act relative to municipal relief") have proposed changing state law to allow all retirement systems in the Commonwealth to extend their funding schedule by ten years. Both the Governor's and the House's bills would require municipalities to devote any investment returns in excess of their assumed rate of return in any given year to reduce their funding schedule, not their level of appropriation from that year.

Though these bills would reduce the amount that Worcester would have to devote to pensions in FY11, they come with a serious opportunity cost. The WRS' long-term liability (\$930 million, of which \$300 million is currently unfunded) is structured to be paid off through a combination of employee contributions, employer contributions and investment return. The amount not paid off by investment return is left to contributions by employees and employer. Employee contributions are fixed by state law and difficult to change. The lower the return on investment, the greater the employer, that is, the taxpayer, contribution will be.

Reducing the amount of cash that Worcester will be required to contribute in FY11 means, ultimately, less return on investment. The \$1.7 million that

Worcester will *not* contribute in FY11 if the legislature approves the pension extension, compounded over 20 years at WRS' 8.25% assumed rate of return, means a true loss of about \$7.7 million by 2030, WRS' former amortization date (Table 7).

<b>Fiscal Year</b>	<b>Principal + 8.25% return, compounded</b>
11	\$1,700,000
15	\$2,334,321
20	\$3,469,765
25	\$5,157,504
30	\$7,666,182

And the *complete* opportunity cost will be significantly greater, since the legislation will reduce pension appropriations in the years after FY11, as well.

In its 2009 report on the WRS, The Research Bureau supported Worcester's Home Rule petition, but it is important to emphasize that this decision to extend the funding schedule should be taken with the full awareness that it will burden future generations of taxpayers with increased pension costs.

### **Early Retirement Incentive Program**

During the FY10 budget cycle, Worcester also filed Home Rule legislation that would enable it to offer an Early Retirement Incentive program

to 100 employees (with up to 20 positions to be refilled). This petition, too, was denied. The Governor and the House have now proposed offering a similar early retirement program to municipalities (H.4618, section 11). To qualify, employees would have to have 20 years of service. The program would credit them with up to an additional three years of service to use in their pension calculation.<sup>13</sup> The local retirement system and also the mayor or city manager would have discretion over which employees could participate and how many additional years to grant in each case. The legislation also contains a provision that will require any participating municipalities to amortize the increased liability within ten years.

In his budget proposal, the City Manager assumes that the early retirement legislation will pass. Some uncertainties about the program remain, such as what groups of employees are eligible, how generous the incentive is, and restrictions on backfilling open positions. Additionally, the City cannot be sure how many employees will elect to participate in the program and from which departments. The City Manager assumes that 80 individuals will participate, and that 20-25% of these positions would be refilled (the limit on backfilling positions currently imposed by the Legislature is 30% in FY11, 45% in FY12, and 60% in FY13). This will

result in an estimated **\$2 million** in savings in FY11.<sup>14</sup>

### **Airport Transfer**

Since 1999, MassPort has been operating the Worcester Airport and absorbing a significant share of its deficit. The Comprehensive Transportation Reform Act that Governor Patrick signed into law last June calls for MassPort to assume ownership of the Airport by July, 2010. When the negotiations over the transfer and sale are complete, Worcester will be freed from the **\$1.2 million** annual cost of operating the airport. The City Manager also proposes to devote **\$2 million** in one-time sale proceeds to close the FY11 deficit.

### **Health Insurance Reduction**

Worcester's health insurance-generated deficit will end up being **\$1.1 million** less than originally anticipated. This is due to negotiations with providers, further personnel reductions, and revised, lower premium increase projections.

### **Unemployment Benefits**

Worcester expects to spend **\$500,000** less on unemployment benefits in FY11 than it did in FY10, because of fewer layoffs.

### **Federal Medicaid Formula Revisions**

In recent months, the City learned that the projected changes in the Federal

Medicaid reimbursement formula would not take effect in FY11.

Worcester categorizes these recurring revenues as a type of Local Receipt. This revision enabled the City to budget for **\$2.5 million** more in Local Receipts than originally anticipated.

### **Hiring Freeze and Department Cuts**

In order to balance the FY10 budget, the City Manager had to impose a hiring freeze on 70 open positions. In FY11, he proposes extending this freeze to 20 more positions as they become open, either through the early retirement program, normal retirement, regular attrition, or layoffs, if necessary. This combination of freezing 20 more positions and further personnel reductions during FY11 will save **\$2 million**.

### **Raising Property Taxes**

As mentioned above, Worcester has an untapped property-tax levy capacity of \$12 million, the result of not raising taxes to the Proposition 2 ½ allowable maximum over the past 15 years. For Massachusetts municipalities, this is an unusually large amount: only Cambridge (\$98 million) and Marlborough (\$18 million) have larger unused levy capacities. A Proposition 2 ½ override is not necessary to access these funds, but only a simple majority vote of the City Council. The City Manager has recommended that the City Council vote to raise an additional

**\$2 million** from this excess capacity to close the remainder of the FY11 deficit. This would mean an increase of about \$30 for the average homeowner and \$180 for the average commercial/industrial property owner, in addition to the regular 2.5% annual increase.<sup>15</sup>

Beginning in FY12, this \$2 million will be used to pay debt service on a new capital program to repair streets and sidewalks. Based on The Research Bureau’s ComNET neighborhood surveys, the most common complaint by residents is the condition of streets and sidewalks. Years of deferred maintenance and New England’s harsh winters have left Worcester’s infrastructure in deplorable condition.

According to the Commissioner of Public Works and Parks, to address all of Worcester’s streetscape maintenance would require \$130 million, or over five times the size of his department’s annual budget. Merely to address the backlog that has been generated by citizen petitions, the City would need to spend around \$40 million. Currently, the City devotes about \$9 million annually (out of a capital budget of \$18 million) to maintenance for streets and sidewalks.

A central component of the City Manager’s Five Point Financial Plan, discussed above, is for the City to

“live within its means,” by being more frugal and borrowing less. In their ratings reports, the bond rating agencies have emphasized the importance of adhering to the Five-Point Plan to maintain Worcester’s A3/A/A- bond rating.<sup>16</sup> However, the reductions to the City’s capital budget in recent years have made maintaining Worcester’s aging infrastructure all the more challenging.

With his FY11 budget proposal, the City Manager has proposed a new \$17 million capital program for streets and sidewalks, in addition to the \$9 million the City currently spends. This program will be funded partly by \$3 million in proceeds from the sale of the Worcester Airport, and partly by the new \$2 million stream of recurring revenues generated by raising taxes. Although in FY11, the \$2 million will be devoted to closing the deficit (operational expenses), in future years, it will be devoted to debt service for this new capital program (**Table 8**).

**Table 8: Future of the \$2 million**

	<b>Streets and Sidewalks Program</b>	<b>Debt Service Due</b>	<b>New Tax Revenues</b>	<b>Revenues Available for Operational Expenditures</b>
<b>FY11</b>	\$5 million	-	\$2 million	\$2 million
<b>FY12</b>	\$8.5 million	\$300,000	\$2 million	\$1.7 million
<b>FY13</b>	\$3.5 million	\$1.1 million	\$2 million	\$900,000
<b>FY14</b>	-	\$1.8 million	\$2 million	\$200,000
<b>FY15</b>	-	\$2 million	\$2 million	0

**Table 9** summarizes the steps taken to close Worcester's \$15 million FY11 deficit.

<i>Table 9: Solutions to the Deficit</i>	
Pension Schedule Extension	\$1.7 million
Early Retirement Incentive Program	\$2 million
Airport Transfer (recurring)	\$1.2 million
Health Insurance Reduction	\$1.1 million
Reduced Unemployment Benefits	\$500,000
Federal Medicare Formula Revisions	\$2.5 million
Airport Transfer (one time)	\$2 million
Additional Freeze (20 more)	\$1 million
Additional Departmental Cuts	\$1 million
Tax increase	\$2 million
<b>Total</b>	<b>\$15 million</b>

## CITY MANAGER'S RECENT ACTIONS TO ADDRESS STRUCTURAL DEFICIT

The fiscal crisis was caused by factors far beyond the City's ability to control, and municipal governments in Massachusetts have limited powers at their disposal to address these problems.

In recent years, Worcester's City Manager has taken several actions to close the City's structural deficit relative to both raising revenues and reducing expenditures. The most important of these actions relate to municipal employee health insurance:

- **Contribution rate changes**  
Increasing the employee

contribution rate of all municipal employees (with the exception of Local 504, the police officials union) to 25%. When the City Manager initiated these reforms in FY06, City employees were paying only 10% or 13% of their premiums (depending on the plan), health care costs were increasing by double digits each year, and employee contributions of 25% had become the norm in the private sector.

- **Section 18**

Section 18 of MGL Ch. 32B is a local option that, when adopted, mandates that all retirees age 65 or older eligible for Medicare enroll in the Federally subsidized Medicare Plans rather than remain on much more expensive city-offered conventional plans. At the recommendation of the City Manager, the City Council voted to adopt Section 18 in September 2007. This action reduced Worcester's long-term retiree health care liability by over \$100 million.

- **Plan design changes**

Increasing co-pays for prescription drugs and doctor and emergency room visits. These changes made co-pays comparable to private-sector plans and reduced premium costs for both the City and employees.

- **Self-Insurance**

Deciding to self-insure all conventional plans (not Medicare supplemental plans) instead of having claims paid by a third-party carrier. In the event that total claim costs are lower than premium costs (as they were in both FY09 and 10), the City can then retain the surplus, and put it towards reducing premiums for employer and employees.

- **Prescription Benefit Manager**  
Self-insuring also allowed the City to contract directly with a prescription drug provider instead of going through a health insurance carrier (Blue Cross or Fallon) as intermediary.
- **Senior Plan Restructuring**  
Restructuring retiree health plan offerings in order to “wrap in” Medicare Part D savings. This reduced premiums for the City and the retirees.

As **Table 10** shows, the deficit could have been significantly worse were it not for these health insurance reforms.

Contribution Rate Changes	\$9.4 million
Plan design changes	\$8.5 million
Section 18	\$6.5 million
Self-Insurance	\$870,000
Prescription Benefit Manager	\$5 million
Senior Plan Restructuring	\$4 million
<b>Total</b>	<b>\$34 million</b>
<i>Source: City Manager's Communication to the City Council, March 2, 2010</i>	

The City Manager has also initiated several reforms in the Worcester Fire Department (WFD). In order to make the Department more effective and reduce “over-responses” to 911 calls (in which fire trucks, police cars and ambulances all respond to a non-life threatening emergency), in 2007, the City Manager redeployed some personnel and closed two engine companies to “provide an equal or improved service at a reduced cost [to the City].”<sup>17</sup> The 24 firefighters of these closed companies have now been transferred to other fire stations. Also, the Brown Square station has been closed, and both fire trucks at the Providence Street station have been replaced with an ambulance.<sup>18</sup> This redeployment, coupled with an 11% reduction in staff over eight years has resulted in approximately \$3.8 million in savings each year to the City.

The City Manager has also looked to develop partnerships with the local community to support the City. He has negotiated PILOT deals with WPI (\$9 million over 25 years, to be used to support the Worcester Public Library and Institute Park), and the Massachusetts College of Pharmacy and Health Sciences (\$1.2-1.5 million over a 25-year period). He has partnered with UMass Memorial to support the City's Public Health Division, which, due to the fiscal crisis, has seen its budget

reduced from about \$588,000 in FY09 to \$152,000 in FY11.

But despite these reforms, there is no end in sight to Worcester's structural deficit. The persistent imbalance between revenues and expenditures was an issue even before the recession, and it will likely continue, so long as increases in fixed costs (especially health insurance) continue to outpace revenue growth. Several factors make a deficit in FY12 extremely likely, as summarized in **Table 11**.

**Table 11: Worcester's Structural Imbalance: Potential Causes of a Deficit in FY12**

1. Further cuts in local aid
2. Loss of stimulus funds for police positions
3. Reliance on airport transfer revenues in FY11
4. Rise in health insurance premium costs
5. Devotion of \$2 million tax increase to capital program
6. WPS' reliance on one-time stimulus funds in FY11

1. Due to the state's heavy reliance on one-time revenues to balance its FY11 budget, it faces a deficit of over \$2 billion going into FY12.<sup>19</sup> As a result, further local aid cuts may be necessary to balance the state's FY12 budget.
2. 24 police officer positions are currently funded by stimulus funds which run out in November, 2010.<sup>20</sup> The City Manager has committed to then fund these positions from regular, recurring General Fund revenues. According to the City Manager, this creates a structural

deficit of over \$1 million for the WPD.

3. As mentioned earlier, Worcester has experienced an average annual health insurance premium increase of 7.2%. Assuming premiums will continue to rise for the City, health insurance expenditures will likely generate a deficit of at least \$5 million.
4. The use of \$2 million in Airport transfer proceeds to fund operations in FY11 means that the City Manager will have to come up with other new revenues in FY12.
5. Although the \$2 million in new property tax revenues is technically a new recurring revenue source, it is being treated like a one-time revenue source in FY11. As **Table 8** above illustrates, the \$2 million is ultimately intended for capital needs but is being used in the coming fiscal year to support Worcester's operational budget.
6. Also worth mentioning in this context is the **\$10.2 million** structural deficit faced by the WPS going into FY12, the result of relying on one-time revenues in FY11.

## RECOMMENDATIONS

For longer-term solutions, The Research Bureau proposes the following:

### Increasing Revenues

*Worcester's City Manager should continue to pursue divestment of non-core assets.*

The transfer of Worcester Airport to MassPort will relieve the City of providing a \$1.2 million annual subsidy, and will permanently relieve the City from owning and running an airport. However, the City owns several other facilities that require a subsidy (**Table 12**).

Union Station	\$408,098
Hope Cemetery	\$432,926
Worcester Memorial Auditorium	\$121,506
DCU Center	\$363,602
Senior Center	\$558,737
<b>Total</b>	<b>\$1,884,869</b>

*Source: City of Worcester FY11 Budget*

Selling these facilities would generate one-time revenues and eliminate the annual subsidies. (The City Manager is currently researching the sale of the City's parking garages to generate new revenues.)

*The Worcester City Council should phase in a single tax rate over the next five years.*

MGL Ch. 59 allows cities and towns to tax residential and commercial and

industrial properties at different rates. In practice, this enables communities to shift much of the tax burden from residential property owners to commercial and industrial property owners. According to the Department of Revenue, 107 Massachusetts communities have adopted a "split" tax rate.

Worcester adopted this local option in FY84 as soon as it was made available. Currently, the City taxes commercial property owners at a rate more than twice the rate of residential property owners: \$33.28 vs. \$15.15 per \$1,000 valuation. Worcester's FY10 commercial and industrial tax rate is the sixth-highest in the Commonwealth. Worcester's dual tax rate unfairly burdens local business owners and, as **Table 13** indicates, places Worcester at a competitive disadvantage in attracting and retaining businesses relative to neighboring communities.

**Table 13: FY10 Commercial and Residential Tax Rates in Greater Worcester Region**

Municipality	Residential Tax Rate	Commercial Tax Rate
Shrewsbury	\$10.31	\$10.31
Leicester	\$11.73	\$11.73
Grafton	\$12.43	\$12.43
Uxbridge	\$12.55	\$12.55
Berlin	\$13.37	\$13.37
Millbury	\$13.46	\$13.46
Southborough	\$14.06	\$14.06
Harvard	\$14.33	\$14.33
Holden	\$14.80	\$14.80
Ashland	\$15.10	\$15.10
West Boylston	\$15.17	\$15.17
Paxton	\$16.30	\$16.30
Boxborough	\$16.53	\$16.53
Hopkinton	\$15.76	\$15.76
Westborough	\$16.98	\$16.98
Bolton	\$17.61	\$17.61
Auburn	\$14.34	\$24.06
Milford	\$14.08	\$24.40
Marlborough	\$13.41	\$25.42
<b>Worcester</b>	<b>\$15.15</b>	<b>\$33.28</b>

Source: Massachusetts Department of Revenue

Although the original justification for taxing commercial property at a higher rate was to keep residential rates low, Worcester's residential taxes have continued to increase every year and the residential tax rate is higher than that of two-thirds of the neighboring communities (Table 13).

Worcester does have one of the lowest single family tax bills in Massachusetts, but that is largely a function of the City's low residential property values. In a DOR survey of residential tax rates and property values in 320 municipalities, Worcester's average single family tax bill of \$3,129 was 231<sup>st</sup> out of 320, but the City ranked 54<sup>th</sup> in

residential tax rate and 282<sup>nd</sup> in single family home value.

Worcester's high commercial and industrial tax rate has led the City to rely on tax-incentive programs such as tax-increment financing (TIF) in order to attract new businesses. Tax incentives not only compound the unfairness of the City's tax policy towards businesses by giving an unfair advantage to some businesses over others, they don't even serve the purpose for which they were intended. The TIF was originally intended to help close the cost differential between locating in an economically depressed area and in a newer, undeveloped one. But, as reports by both MassINC and the *Boston Globe* have documented, virtually any community in the Commonwealth has been able to utilize the TIF, regardless of how economically depressed it is.<sup>21</sup> Adopting a single tax rate and thus lowering property taxes for *all* city business owners would be more fair and would lessen the need for tax incentives altogether. And the ultimate result may be to attract more taxpaying businesses to the City, thereby increasing revenues and lowering tax rates for homeowners as well as businesses.

### **Reducing Expenditures: Structural Reforms**

*The City Manager should develop a plan for addressing Worcester's long-term retiree health-care liability.*

According to its most recent actuarial valuation, Worcester's retiree health care liability is \$1.15 billion on a pay-as-you-go basis and \$606 million on a pre-funded basis. Currently, the City is funding its liability on a pay-as-you-go basis, meaning that each year it appropriates only enough funds to pay for current retirees' health benefits. As the \$606 million vs. \$1.15 billion gap illustrates, Worcester could save significantly if it began setting aside the funds in advance and investing them. The earnings on investment will reduce the City's annual appropriation for retiree health insurance from General Fund revenues.

Worcester is not alone in having such a large unfunded retiree health care liability. Only a few wealthy communities in Massachusetts such as Arlington, Wellesley and Boston, have begun to set aside revenues for this purpose. Technically speaking, the state Legislature did not even grant to municipalities the right to establish an independent retiree health care trust fund until 2008.<sup>22</sup>

***The City Manager should pursue regionalization of services.***

The City Manager is currently pursuing proposals to develop a pilot program that would establish regional capability and cooperative agreements with neighboring towns. This would enable the City to share resources and expertise, and also qualify the City for

grants from the state to use in updating technology and infrastructure.

The Commonwealth's Regionalization Advisory Commission, authorized by legislation signed by Governor Patrick in August 2009, recently issued a report containing a multitude of suggestions for regionalizing municipal services in different service areas such as schools, finance, housing and elder affairs.<sup>23</sup> The City Manager should work with the Central Mass Regional Planning Commission (CMRPC) and MORE (Municipalities Organized for Regional Effectiveness), to which CMRPC provides administrative support, to assess opportunities for collaboration and to access CMRPC's District Local Technical Assistance funds for implementation.

***The City Manager should pursue administrative consolidation.***

Because much of Worcester's personnel reduction will be driven by retirements, considerable uncertainty exists about numbers of personnel for FY12 and future years. Staffing levels will be permanently lower in many departments, since the early retirement program will prevent the manager from backfilling many positions.

According to the City Manager, administrative restructuring and consolidation is underway in a number of departments and divisions, such as inspectional services, fire prevention,

budget, purchasing, and treasury. For example, in areas where certification or specialized training is not mandated, the City Manager is seeking to cross-train sanitary inspectors in State Sanitary Code for Food Protection, Water Quality, and Housing Sanitation to help maintain staffing levels in the event of further layoffs. The WFD is also in the process of relocating the Fire Prevention Division to the Department of Inspectional Services. According to the City Manager, this will "allow for the operation of one 'point-of-sale' service desk for customers, shared administrative services for permits and licenses issuances, and cross-training of inspectors (both civilian and fire) to eliminate the need for multiple inspections at one site, and ultimately, to ensure that as many uniformed personnel as possible are on apparatus."<sup>24</sup>

***The City Manager should pursue privatization of services where appropriate.***

The City Manager is currently pursuing alternative solutions to deliver services as efficiently as possible, including the exploration of using permitting software and new financial applications to streamline critical departmental functions. He also continues to examine privatization and outsourcing "where it makes financial and reasonable sense."<sup>25</sup> Included in his FY11 budget is \$300,000 in contingency funds to support these efforts.

***The School Committee should privatize custodial and cafeteria services.***

There are many firms in the private sector fully capable of delivering particular school services at a lower cost. Privatization would reduce administrative costs and thus maximize the amount of money available for instruction. Leominster has achieved significant savings from privatization of food and custodial services in its school district. In 2008, Worcester's City Manager privatized custodial services in City Hall. The WPS could have saved \$2.2 million in FY10 in salaries alone (leaving aside overtime and health and retirement benefits) from privatizing custodial services (**Table 14**).

Additional savings would occur from privatizing cafeteria workers.

Number of employees	148
Average WPS Salary	\$41,145
Total Salary Costs	\$6.1 million
Average Custodial Salary in Area Labor Market	\$26,370
Total Salary Costs	\$3.9 million
<b>Savings</b>	<b>\$2.2 million</b>
<i>Source: WPS FY10 Budget, Bureau of Labor</i>	

**Reducing Expenditures:  
Employee Benefits**

Since Massachusetts law limits Worcester's options for raising revenues, the City Manager must

consider additional ways of reducing expenditures. The fact that 85% of the City's budget goes to employee salaries and benefits means that future deficits will continue to require the adjustment of personnel expenses through some combination of layoffs, furloughs, and restructurings of compensation.

*The City Manager should work with public employee unions to restructure compensation packages so that all "extras" beyond base salary take the form of stipends, not percentages.*

Several municipal employee bargaining groups, such as public safety and teachers, have negotiated numerous forms of compensation that add percentage-based increments to their base salaries (**Table 15**).

<b>Table 15: Examples of Percentage-Based Increases in Base Pay, 2010</b>	
Police Educational Incentive	Associate-10% Bachelors-20% Masters and Law-25%
Fire Haz Mat	1.6%
Fire Educational Incentive	Associate-2.61% Bachelors-3.37% Masters-3.99%
Fire Longevity Pay	5-10 years-1.96% 10-15 years-2.72% 15-20 years-2.81% 20-25 years-2.88% 25-30 years-3.43% 30+ years-3.68%
Source: City of Worcester Human Resources Department	

Seniority-based increases function as automatic raises. For example, in WPS, longevity and step bonuses for FY11 are projected to increase compensation by

\$2 million, independent of any raise the unions are able to negotiate with the City. These percentage-based bonuses also serve to compound the effect of any raise that is negotiated.

The City Manager recently succeeded in restructuring the Quinn Bill program. Instead of receiving automatic percentage increases for higher education degrees, all new hires will receive flat annual stipends: \$2,500 for an associate's degree, and \$5,000 for bachelor's. There will be no incentives for Master's or Law degrees; current police personnel will be grandfathered into the old, percentage-based system. In future negotiations with the firefighters and teachers unions, the City should consider doing the same for other percentage-based bonuses.

*The state Legislature should either grant municipalities health insurance plan design authority or eliminate the requirement of union approval for entry into the Group Insurance Commission.* As discussed earlier, over the last few years, the City Manager has enacted a series of municipal employee health insurance reforms that have reduced Worcester's structural deficit (**Table 9**).

The City Manager estimates that, overall, these reforms have saved taxpayers more than \$100 million since FY06.

Despite the reforms discussed above, health insurance continues to absorb a significant portion of Worcester's budget. According to a recent *Boston Globe* survey of the impact of public employee health insurance on municipal budgets, Worcester is doing about average in terms of keeping health insurance costs under control (Table 16).

**Table 16: Health Insurance Costs as % of Municipal Budget (FY09)**

Somerville	19.3%	Chelsea	13.6%
Peabody	19.2%	Brookline	11.9%
Fall River	18.1%	Boston	11.7%
Lowell	17.6%	Gardner	11.6%
New Bedford	16.3%	Revere	11.5%
Malden	16.1%	Wellesley	11.3%
Marblehead	15.6%	Medford	11.2%
Taunton	15.1%	Lawrence	11.1%
Framingham	14.7%	Milton	11.1%
<b>Worcester</b>	<b>14.1%</b>	Salem	11.1%
Lynn	13.8%	Cambridge	10.9%
Newton	13.8%	Brockton	9.9%
<b>Average: 13.8%</b>			
Source: <i>Boston Globe</i>			

All employers across the nation are grappling with the high and rising cost of health insurance. But Worcester has less flexibility to rein in health insurance costs than private sector employers, state government and other municipalities across the nation.<sup>26</sup> MGL Ch. 150 and subsequent decisions by the state Board of Labor Relations require municipalities to negotiate with their unions all elements of health benefits including contribution rates, rates for premiums, deductibles and copays, and even which carriers will offer benefits.

In other words, when faced with rising premium costs, it is harder for Worcester to restructure its plan offerings and shift more costs to deductibles and copays than it is for the state or for private-sector employers.

As health insurance absorbs more and more of municipalities' budgets, more organizations have been taking notice of the double standard that exists between state and municipal authority regarding management of health insurance costs, and calling for the state Legislature to grant plan design authority to municipalities.<sup>27</sup>

Alternatively, the state Legislature could eliminate the requirement for union approval for entry to the Group Insurance Commission (GIC), the health insurance system for state employees. Since 2007, municipalities have had the option to enroll their employees in the GIC. Because of the size of its pool, and because the GIC does not have to negotiate changes in plan design, it has been more effective than municipalities at controlling rising premium costs. According to the Commonwealth's Department of Revenue, between FY02 and FY08, Worcester's health insurance costs increased by 94%, while the increase was only 65% for the GIC.

Despite the advantages of joining the GIC, only nineteen cities and towns have joined it, because membership currently requires securing 70% consent

of a Public Employee Committee, composed of union and retiree representatives. Unions are reluctant to consent to joining the GIC without concessions by management, because membership would likely entail giving up their current preferred plan and relinquishing all the negotiating rights over plan design that they currently enjoy.<sup>28</sup> Such concessions would then reduce any potential savings to be achieved by GIC membership.

*The School Committee should negotiate a 25% contribution rate for all WPS employees.*

Due to a concerted effort over several years on the part of the City Manager, almost all City employees outside of WPS now pay 25% of their health insurance premiums. (The lone holdout under his jurisdiction is the International Brotherhood of Police Officers, Local 504, the police officials union.) This not the case for unionized WPS employees, none of whom are at 25%. In FY10 non-union WPS employees increased their contribution rate from 20% to 25%, saving the WPS \$250,000. If these changes were adopted for all other WPS employees, the school department would have saved \$3.3 million in FY10, including \$2.2 million from teachers alone.

*The City should encourage greater enrollment in its lower-cost health insurance plan by negotiating health insurance contribution rates with its unions such that the City pays 75% of the lowest-cost plan only. Those employees who opt for the higher-cost option would pay the difference between the two.<sup>29</sup>*

Even among those City employees who do pay 75%, Worcester pays a higher cost for health insurance for some employees than others, because it offers three different health plans that vary in price (Table 17).

**Table 17: Health Insurance Plan Costs in Worcester**

Family Plans	Total Annual Cost	Cost to Employer (75%)	Cost to Employee
BCBS Family	\$19,735.08	\$14,801.28	\$4,933.80
Fallon Select Family	\$16,116.12	\$12,087.12	\$4,029.00
Fallon Direct Family	\$13,369.92	\$10,027.44	\$3,342.48
Individual Plans			
BCBS Individual	\$7,526.64	\$5,644.92	\$1,881.72
Fallon Select Individual	\$6,248.88	\$4,686.60	\$1,562.28
Fallon Direct Individual	\$5,183.28	\$3,887.40	\$1,295.88

Source: City of Worcester Human Resources Department

Thus, the City compensates employees who opt for Blue Choice (BCBS) a larger amount than those who opt for Fallon Direct. In FY10, Blue Choice was both the most expensive plan and the most popular one by far among employees (Table 18).

**Table 18: Health Insurance Enrollment in FY10**

Family Plans	Enrollment	% of Total
BCBS Family	2057	62%
Fallon Select Family	919	28%
Fallon Direct Family	361	11%
<b>Total</b>	<b>3337</b>	<b>100%</b>
Individual Plans		
BCBS Individual	1598	68%
Fallon Select Individual	471	20%
Fallon Direct Individual	290	12%
<b>Total</b>	<b>2359</b>	<b>100%</b>

Source: City of Worcester Human Resources Department

It is common in the private sector for employers to pay 75% of the lowest-cost plan, a policy that would also achieve significant savings for the City. By paying 75% of Fallon Direct, The City would both reduce its share of the premium cost for Blue Choice and encourage employees to opt for lower-cost plans, since they would bear more

of the true cost of the more-expensive plans. While there is no way to know how many employees would enroll in the cheaper plan, the City would save the same amount regardless of how many employees enrolled in the less expensive plan.

Table 19 below shows that if the City paid only 75% of the lowest-cost plan, it would save almost \$15 million in FY11.

The "Differential" column represents the employees' pay reduction if they remained on their current Blue Choice or Fallon Select plan. If they opt for the lowest-cost plan (in this case Fallon Direct), their salaries would not be reduced at all (although they would experience increased copays and deductibles).

**Table 19: Potential Municipal Savings from Paying 75% of the Lowest-cost Plan**

Family Plans	Total Annual Cost	Cost to Employer (75%)	Differential Between 75% of Plan and 75% of Lowest-cost plan	Enrollment	Savings
BCBS Family	\$19,735.08	\$14,801.28	\$4,773.84	2057	\$9,819,788.88
Fallon Select Family	\$16,116.12	\$12,087.12	\$2,059.68	919	\$1,892,845.92
Fallon Direct Family	\$13,369.92	\$10,027.44	N/A	361	N/A
Individual Plans					
BCBS Individual	\$7,526.64	\$5,644.92	\$1,757.52	1598	\$2,808,516.96
Fallon Select Individual	\$6,248.88	\$4,686.60	\$799.20	471	\$376,423.20
Fallon Direct Individual	\$5,183.28	\$3,887.40	N/A	290	N/A
<b>Total Savings</b>					<b>\$14,897,574.96</b>

Source: City of Worcester Human Resources Department

## CONCLUSION

There is no end in sight to the fiscal crisis in Worcester. While the City Manager has acted responsibly to minimize the impact of the recession, the outlook for the City's finances suggests that Worcester will likely face deficits in FY12 and beyond.

Without enacting the kinds of changes suggested above, the City Manager will be forced to continue cutting much needed municipal services in order to balance the budget.

## ENDNOTES

<sup>1</sup> "Determination of the December 2007 Peak in Economic Activity," National Bureau of Economic Research, December 11, 2008, <http://www.nber.org/dec2008.pdf>.

<sup>2</sup> "CBO's Estimate of the Budgetary Effects of the President's Budget," Congressional Budget Office, March 5, 2010, <http://www.cbo.gov/ftpdocs/112xx/doc11231/03-05-apb.pdf>.

<sup>3</sup> Donald B. Marron, "America in the Red," *National Affairs*, Spring 2010, [http://nationalaffairs.com/doclib/20100317\\_Marron.pdf](http://nationalaffairs.com/doclib/20100317_Marron.pdf).

<sup>4</sup> Elizabeth McNichol and Nicholas Johnson, "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," Center on Budget and Policy Priorities, February 25, 2010, <http://www.cbpp.org/files/9-8-08sfp.pdf>. See also "Beyond California: States in Fiscal Peril," The Pew Center on the States, November 2009, <http://downloads.pewcenteronthestates.org/BeyondCalifornia.pdf>.

<sup>5</sup> Figures may not add up due to rounding, and because the FY11 "Pensions" figure reflects the true total appropriation. The budgeted amount is \$2 million less than the true amount. This \$2 million reflects the expected savings from the early retirement program in FY11. These funds will then, effectively, be transferred from the various departmental budgets where the retirements occur to the Worcester Retirement System.

<sup>6</sup> For reasons that will be discussed, cuts in local aid either in FY11 or FY12 are entirely possible. The City Manager has set aside \$2 million in proceeds from the transfer of the Worcester Airport (also to be discussed below) to mitigate the effect of future local aid cuts.

<sup>7</sup> The figures for this row include State Fiscal Stabilization Funds (stimulus).

<sup>8</sup> The 140 figure represents the gross number of layoffs at the WPS in FY11. The WPS also plans to hire 27 new teachers in FY11 for positions in elementary, special education, and ESL (the layoffs will be in secondary school positions). Thus the total net loss of employees will be 113, and the total net loss of full-time teachers 5 (all other layoffs are either in administrative or part-time positions). Source: Worcester Public Schools Office of Finance and Operations.

<sup>9</sup> In the last two fiscal years, Worcester's health insurance expenditures have actually decreased, by 5.4% in FY09 and 10.5% in FY10. This was the result of the City Manager's health insurance reforms (discussed below), and to personnel reductions.

<sup>10</sup> John J. Monahan, "Challenge boosts two cities' populations; new figures mean more federal money," *Telegram and Gazette*, November 20, 2009.

<sup>11</sup> This does not include students in charter schools.

<sup>12</sup> According to the Center on Budget and Policy Priorities, the average deficit for all states in FY11 is 16.9%.

<sup>13</sup> Worcester's proposal excluded teachers and public safety personnel; the Legislature's would apply to all tax-levy funded positions except teachers. Worcester's program would have granted up to five years.

<sup>14</sup> This figure takes into account the increased pension contribution that the early retirement program would require.

<sup>15</sup> Nick Kotsopolous, "Property tax hike is sought," *Telegram & Gazette*, April 28, 2010.

<sup>16</sup> "Moody's Assigns A3 to city of Worcester's (MA) \$38 Million GO Bonds," Moody's Global Credit Research, October 21, 2009; "City of Worcester, Massachusetts," Fitch Ratings, October 22, 2009; "Worcester, Massachusetts; General Obligation; Note," Standard & Poor's RatingsDirect, October 22, 2009.

<sup>17</sup> "Redeployment Plan for the Worcester Fire Department," February 2007, <http://www.ci.worcester.ma.us/reports/RedeploymentPlan.pdf>.

<sup>18</sup> Engine 12 went to the new Franklin Street Station and Ladder 5 went to the McKeon Road station.

<sup>19</sup> "Governor's 2011 Budget: The Worst is Yet to Come," the Massachusetts Taxpayers Foundation, March 1, 2010, <http://www.masstaxpayers.org/files/Gov%202011%20budget%20bulletin%20with%20header%20a.pdf>; "House Ways and Means Budget Proposal," Massachusetts Taxpayers Foundation, April 20, 2010, [http://www.masstaxpayers.org/files/HWM\\_2011\\_budget.pdf](http://www.masstaxpayers.org/files/HWM_2011_budget.pdf).

<sup>20</sup> Scott Croteau, "Police, fire stimulus aid gone in Nov.," *Telegram and Gazette*, April 19, 2010; City Manager's April 13, 2010 Communication to the City Council.

<sup>21</sup> Benjamin Forman, "Going for Growth: Promoting Business Investment in Massachusetts Gateway Cities," MassINC, July 2008, [http://www.massinc.org/~media/Files/Mass%20Inc/Research/Full%20Report%20PDF%20files/going\\_for\\_growth\\_biz\\_invest.ashx](http://www.massinc.org/~media/Files/Mass%20Inc/Research/Full%20Report%20PDF%20files/going_for_growth_biz_invest.ashx); Todd Wallack, "Rich towns get 'distressed' status," *Boston Globe*, March 15, 2010, [http://www.boston.com/business/articles/2010/03/15/tax\\_breaks\\_routed\\_to\\_disadvantaged\\_affluent\\_towns/](http://www.boston.com/business/articles/2010/03/15/tax_breaks_routed_to_disadvantaged_affluent_towns/).

<sup>22</sup> Chapter 479 of the Acts of 2008, "An Act Providing for the Establishment of Other Post Employment Benefits Liability Trust Funds in Municipalities and Certain Other Governmental Units."

<sup>23</sup> “Report of the Regionalization Advisory Commission,” Regionalization Advisory Commission, April 30, 2010, [www.mass.gov/governor/regional](http://www.mass.gov/governor/regional).

<sup>24</sup> City Manager’s April 27, 2010 Communication to the City Council.

<sup>25</sup> *Ibid.*

<sup>26</sup> Gerald E. Frug, et al., “Boston Bound: A Comparison of Boston’s Legal Powers with Those of Six Other Major American Cities,” The Boston Foundation, [http://www.tbf.org/uploadedFiles/Boston%20Bound\\_8.pdf](http://www.tbf.org/uploadedFiles/Boston%20Bound_8.pdf), p. 13; Bob Carey, “The Utility of Trouble: Leveling the Playing Field: Giving Municipal Officials the Tools to Moderate Health Insurance Costs,” The Boston Foundation, February 2010, [http://www.tbf.org/uploadedFiles/tbforg/Utility\\_Navigation/Multimedia\\_Library/Reports/UtilityOfTrouble\\_2010.pdf](http://www.tbf.org/uploadedFiles/tbforg/Utility_Navigation/Multimedia_Library/Reports/UtilityOfTrouble_2010.pdf).

<sup>27</sup> The many advocates currently promoting plan design authority include the Massachusetts Municipal Association (House Bill 2509), Republican gubernatorial candidate Charlie Baker (“The Baker’s Dozen: 13 Ways to Save Taxpayers more than \$1 billion,” <http://www.charliebaker2010.com/Bakers%20Dozen.pdf>), The Boston Foundation (“The Utility of Trouble”), the Massachusetts Taxpayers Foundation (“Foundation Testimony before the Special Municipal Relief Commission,” December 10, 2008, <http://www.masstaxpayers.org/files/Special%20Municipal%20Relief%20Commission.pdf>), and the *Boston Globe* editorial board (“Soaring municipal health costs cry out for a state overhaul,” March 2, 2010, [http://www.boston.com/bostonglobe/editorial\\_opinion/editorials/articles/2010/03/02/soaring\\_municipal\\_health\\_costs\\_cry\\_out\\_for\\_a\\_state\\_overhaul/](http://www.boston.com/bostonglobe/editorial_opinion/editorials/articles/2010/03/02/soaring_municipal_health_costs_cry_out_for_a_state_overhaul/); “Baker deserves support on plan to help cities cut health costs,” April 3, 2010, [http://www.boston.com/bostonglobe/editorial\\_opinion/editorials/articles/2010/04/03/baker\\_deserves\\_support\\_on\\_plan\\_to\\_help\\_cities\\_cut\\_health\\_costs/](http://www.boston.com/bostonglobe/editorial_opinion/editorials/articles/2010/04/03/baker_deserves_support_on_plan_to_help_cities_cut_health_costs/)).

<sup>28</sup> Priyanka Dayal, “Municipalities grapple with health insurance costs,” *Telegram & Gazette*, April 21, 2010.

<sup>29</sup> “Condition Serious, Prognosis Uncertain: The Impact of Municipal Employee Health Insurance on Massachusetts Cities,” The Research Bureau, Report No. 05-01, February 28, 2005, <http://www.wrrb.org/reports/05-01health.pdf>, p. 16; see also “The Utility of Trouble,” p. 10 and 63.

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## NOTES

*Mission Statement:*

*The Research Bureau serves the public interest of the Greater Worcester region by conducting independent, non-partisan research and analysis of public policy issues to promote informed public debate and decision-making.*



## The Research Bureau

Worcester Regional Research Bureau  
319 Main Street, Worcester, Massachusetts  
Telephone: 508 799 7169 Facsimile: 508 799 4720  
[www.wrrb.org](http://www.wrrb.org)

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