



The Research Bureau

# Worcester's FY13 Budget: Post-Recession Observations

Report 12-03  
June 2012

## EXECUTIVE SUMMARY

### Observations on Worcester's \$542 million FY13 budget

- **Recent trends in expenditures**-Over the past decade in Worcester city government, spending has been up but staffing down, due largely to the increased cost of employee benefits. Between FY00 and FY11, Worcester's general fund budget grew by 18% (real dollars) and its workforce declined by 16%.
- **Worcester's finances and the local economy**-Worcester's fiscal position has improved because, unlike in all other recent years, the state did not have to cut non-school local aid. Declines in health care spending between FY12 and FY13 have also provided budgetary relief. The local economy has improved: Worcester's unemployment rate has declined by over 3.5 percentage points since peaking at 10% in January 2010. But improved economic conditions have played no direct role in stabilizing the city's finances.
- **Does Worcester adequately fund public education?** This question is likely to remain unsettled, since, relative to other Gateway Cities and Central Massachusetts communities, Worcester's ranking changes depending on what definition of adequate school spending is used.
- Causes for uncertainty in Worcester's **fiscal outlook** include continuing softness in the local housing market and the prospect of increased spending on employee health and retirement benefits.

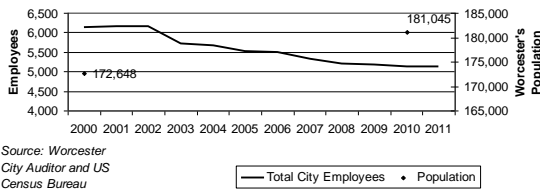
### Recommendations

- The City Council should develop a five-year plan for implementing a single tax rate.
- City officials, in conjunction with resident consultation, should regularly assess the importance and financial viability of non-core municipal assets such as Green Hill Golf Course, in light of the City's unsustainable commitments to pension and retiree-health care liabilities.
- Worcester city government should lobby the state's Special Commission to Investigate and Study Retiree Healthcare and Other Non-Pension Benefits for more authority to adjust retiree health care benefits.
- The state should continue to reform the Massachusetts retirement system in order to reduce the ever-increasing pension costs of local governments.

# TRENDS IN EXPENDITURES

Over the past decade, Worcester gained 8,400 new residents and lost 1,000 city government employees (**Chart 1**).

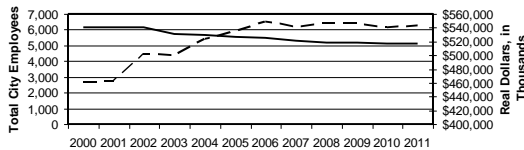
Chart 1: City Government Workforce vs. Population Trends in Worcester, FY00-11



Source: Worcester City Auditor and US Census Bureau

Though staffing is down, spending is not. Between FY00 and FY11, Worcester's general fund budget grew by 18% in real dollars as its workforce declined by 16% (from approximately 6,100 to 5,100) (**Chart 2**).<sup>1</sup>

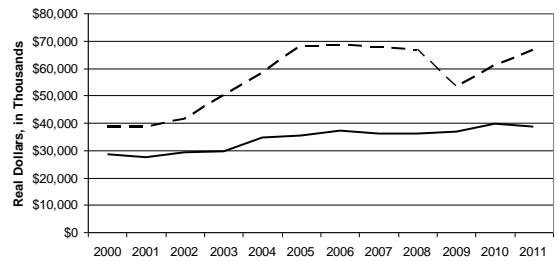
Chart 2: City Government Workforce vs. General Fund Budget in Worcester, FY00-11



Source: Worcester City Auditor

Staffing is down while spending is up because the cost of providing employee benefits has risen dramatically (**Chart 3**).

Chart 3: General Fund Expenditures on Fringe Benefits in Worcester, FY00-11



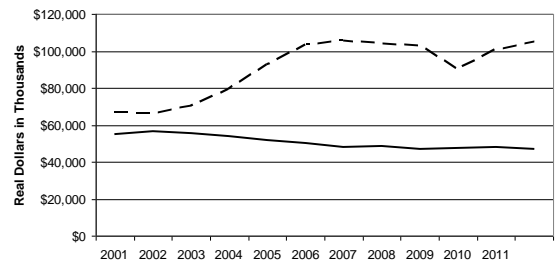
Source: Worcester City Auditor

— Health & Life Insurance  
— Pensions (including debt service on pension obligation bond)

In real (FY11) dollars, health and life insurance spending between FY00 and FY11 increased by 74% and pension spending by 35.7%. (Pension spending figures here do not include spending on teacher pensions, as teachers are part of a statewide retirement system).

The rise in the cost of fringe benefits has made providing basic municipal services more expensive. To put these figures into some context, over the same period, Worcester's annual debt service costs (also a cost of basic municipal services) have actually *declined* on an inflation-adjusted basis (**Chart 4**).

Chart 4: General Fund Expenditures on Fringe Benefits and Debt Service, FY00-11



Source: Worcester City Auditor

— Total Fringe Benefits — Debt Service

## TRENDS IN REVENUES

Worcester's main three sources of revenues are property taxes (FY13: \$235.2 million), Chapter 70 Education Aid (\$210.4 million), and Unrestricted General Government state aid (\$39.3 million). The recession had the biggest impact on General Government aid, which declined 32% since FY08, or a loss of over \$20 million in recurring revenues. Chapter 70 aid has increased and property tax revenues have been stable. FY13 will be the first year since FY08 where Worcester's non-school aid will not be cut significantly.<sup>2</sup>

## TRIENNIAL REVALUATION

Worcester recently completed a comprehensive revaluation of all 48,000 properties in the city. The revaluation made several new important findings about Worcester's tax base. First, many commercial and industrial properties have been drastically undervalued, in some cases by over 100%. As a consequence, 19 properties in Worcester will face a tax bill increase of over \$100,000 between FY11 and FY12.<sup>3</sup>

Second, growth in business property values has been much stronger over the past few decades than had been believed under the prior valuation. (Table 1). Third, the revaluation decreased the share of the value of residential properties in Worcester's overall tax base. Worcester is less of a bedroom community than had formerly been thought (Table 1). Residential

properties now represent about 72% of the total value compared with 78% prior to the revaluation.

**Table 1: Effect of Revaluation on Worcester's Tax Base Composition and Rate of Growth**

	FY11 (Pre-Revaluation)	FY12 (Post-Revaluation)	Change
<b>Value</b>			
Residential	\$8,495,190,076	\$8,157,508,825	-4%
Commercial	\$1,493,686,290	\$1,960,765,913	31%
Industrial	\$442,722,823	\$567,013,065	28%
Personal Property	\$425,262,900	\$592,328,500	39%
Commercial, Industrial and Personal Property	\$2,361,672,013	\$3,120,107,478	32%
<b>Total</b>	<b>\$10,856,862,089</b>	<b>\$11,277,616,303</b>	<b>4%</b>
<b>% Increase since FY84 (inflation-adjusted)</b>			
Residential	130%	121%	-7%
Commercial	26%	65%	153%
Industrial	-20%	3%	-114%
Personal Property	50%	109%	117%
Commercial, Industrial and Personal Property	17%	54%	225%
<b>Total</b>	<b>29%</b>	<b>34%</b>	<b>17%</b>
<b>Tax Base Composition</b>			
Commercial, Industrial and Personal Property as % of Tax Base	22%	28%	27%
Residential as % of Tax Base	78%	72%	-8%

Source: DOR and Worcester Assessor; FY12 Values are as of January 1, 2011.

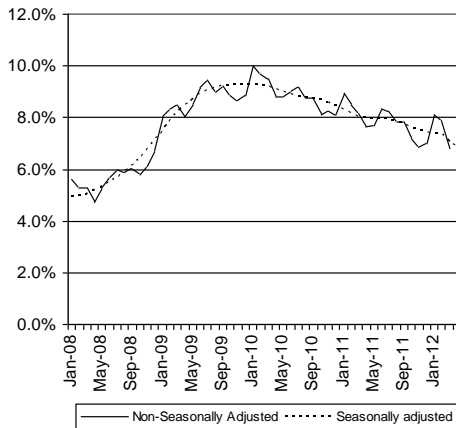
The total value of Worcester's tax base increased from \$10.9 billion in FY11 to \$11.3 billion in FY12. Notwithstanding this increase, values are still below what they were in FY08 (\$12.8 billion).

The triennial revaluation has not yet had any direct impact on the city's budget. The total tax levy is driven primarily by expenditures (the cost of city services), while the valuation, along with the tax rate, determines the distribution of the tax burden. In FY12, commercial and industrial properties will contribute 39.6% of the tax levy and residential properties 60.4%.

## THE LOCAL ECONOMY AND THE BUDGET

Worcester's economy, measured by local labor market conditions, has clearly improved (Chart 5 and Table 2).

Chart 5: Worcester's Unemployment Rate, January 2008-April 2012



Source: BLS

**Table 2: Worcester Labor Market Conditions, January 2010 vs. April 2012**

	Jan-10	Apr-12	Change
<b>Total Civilian Labor Force</b>	295.3	293.2	-0.7%
<b>Employment</b>	265.8	274.6	3.3%
<b>Unemployment</b>	29.5	18.7	-36.6%
<b>Unemployment Rate</b>	10.0%	6.4%	-36.2%
<b>Total Nonfarm</b>	235.6	245.3	4.1%
<b>Mining, Logging, and Construction</b>	6.9	7.1	2.9%
<b>Manufacturing</b>	25.1	25.1	0.0%
<b>Trade, Transportation, and Utilities</b>	43.6	45.3	3.9%
<b>Information</b>	3.4	3.5	2.9%
<b>Financial Activities</b>	13.3	13.4	0.8%
<b>Professional and Business Services</b>	24.4	27.4	12.3%
<b>Education and Health Services</b>	53.0	55.2	4.2%
<b>Leisure and Hospitality</b>	19.9	20.8	4.5%
<b>Other Services</b>	8.2	8.7	6.1%
<b>Government</b>	37.8	38.8	2.6%

Source: BLS; job numbers are thousands and are not seasonally-adjusted

Worcester's recession-era unemployment rate peaked at 10% in January 2010, and has declined by over 3.5 percentage points since then. In April 2012, it stood at 6.4%. The industry sectors that saw the greatest job growth over the past two years were

education and health services (Worcester's largest industry in terms of jobs<sup>4</sup>) and professional and business services.<sup>5</sup>

The unemployment rate is a function of total unemployed and total workforce. Worcester's unemployment rate has been reduced somewhat by the fact that the total labor force has apparently declined over the last two years. But job numbers are clearly up, increasing by almost 9,000 since January 2010.

The relation between the city's budget and the local economy is less direct than is sometimes assumed. The local economy is doing better, and the city's finances are improved, but there is no cause-effect relation between these two developments.

Worcester is in a better position in FY13 because the state's fiscal position has improved and health care costs are down. Worcester is a relatively poor community and is thus highly dependent on state aid to fund basic municipal services. The state pays for half of Worcester's budget and 70% of the total public education budget in Worcester. FY13 state revenues are projected to be about \$1 billion above what they were in FY08, before the onset of the recession.

Worcester's health insurance expenditure growth rates were in the double-digits earlier in the past decade, but in FY13 will actually decline by 3.6% (from \$66.2 to \$63.8 million). The main reason for this is the full implementation of a new range of health

plan offerings with higher co-pays and deductibles and lower premiums. The "GIC-like" plans, patterned off of the state's health insurance offerings, were the culmination of years of effort on the part of the City Manager to rein in health care spending.<sup>6</sup> All employee groups now pay 25% of their health insurance premiums, and employee co-pay costs have also increased.

It should also be noted that, nationwide, health care cost increases slowed during the recession. It is unclear if this is due to reduced utilization of the health care system or reforms within the system itself.<sup>7</sup> If the former, it stands to reason that health care costs will resume their earlier, more rapid rate of growth when the economy improves.

## SCHOOL SPENDING

58% of Worcester's total budget goes to public education (this figure includes spending on charter schools and school choice programs). Excluding Ch. 70 education revenues (which the city has no choice but to allocate to K-12), 32% of the budget is for education.

Public education has been supported more consistently than any other city service during the recession. Worcester's non-school departments have seen their workforce decline by 15% since 2008, but the school department has not been forced to make any major layoffs. This is largely due to decisions made at the federal and state level. Most of the federal stimulus funds distributed to local governments were earmarked for K-12. Since 2008, state budgets have cut Worcester's non-

school local aid by 32% while Ch. 70 aid for K-12 has increased by 20%.

Recently, some have questioned Worcester's commitment to providing adequate funding for public education. Certain members of Worcester's school administration and school committee, parents and other members of the community have urged city government to increase funding for the Worcester Public Schools (WPS). In response to this lobbying, the City Council appropriated an additional \$350,000 in new funds in FY13 for the WPS.

The question here is what *should* Worcester be spending on K-12? Despite Massachusetts' 1993 Ed Reform Law and the establishment of the Ch. 70 funding formula, the answer to this question remains in dispute.

In November 2011, the Massachusetts Department of Elementary and Secondary Education (DESE) formally informed the Worcester Public Schools that "the district did not meet its [net school] spending requirement in FY11." While no legal action by the state was or is forthcoming (the shortfall "[fell] within the five percent range allowed by law"), certainly it is cause for concern that Worcester would be put on notice by the DESE.

Following the DESE practice of using "net school spending" as a measure of a community's level of support for K-12, Worcester's local contribution level ranks low relative to both other Central Massachusetts communities and

Massachusetts Gateway Cities, (Tables 3 and 4).

**Table 3: Required vs. Budgeted Net School Spending (NSS) in Massachusetts Gateway Cities, FY12**

	Required NSS	Budgeted NSS	Amount over or under required NSS	Percent over or under Required NSS	Ranking
Quincy	\$96,661,212	\$116,749,898	\$20,088,686	20.8%	1
Salem	\$49,075,890	\$58,198,909	\$9,123,019	18.6%	2
Barnstable	\$51,917,318	\$60,852,323	\$8,935,005	17.2%	3
Pittsfield	\$63,704,269	\$70,079,999	\$6,375,730	10.0%	4
Westfield	\$57,206,253	\$61,884,534	\$4,678,281	8.2%	5
Holyoke	\$76,399,997	\$79,664,666	\$3,264,669	4.3%	6
Revere	\$69,977,546	\$72,616,916	\$2,639,370	3.8%	7
New Bedford	\$131,413,255	\$134,493,273	\$3,080,018	2.3%	8
Everett	\$68,020,957	\$69,139,398	\$1,118,441	1.6%	9
Chicopee	\$80,257,160	\$81,567,154	\$1,309,994	1.6%	10
Haverhill	\$71,678,180	\$71,984,482	\$306,302	0.4%	11
Fall River	\$113,992,340	\$114,067,524	\$75,184	0.1%	12
Leominster	\$64,506,038	\$64,532,515	\$26,476	0.0%	13
Springfield	\$310,594,725	\$310,357,449	-\$237,276	-0.1%	14
Lowell	\$157,898,865	\$157,561,248	-\$337,617	-0.2%	15
Worcester	\$287,203,774	\$286,492,173	-\$711,602	-0.2%	16
Fitchburg	\$55,048,365	\$54,780,636	-\$267,729	-0.5%	17
Lynn	\$157,281,066	\$156,512,736	-\$768,330	-0.5%	18
Malden	\$74,002,031	\$72,871,577	-\$1,130,454	-1.5%	19
Lawrence	\$152,346,057	\$149,642,391	-\$2,703,666	-1.8%	20
Taunton	\$77,321,455	\$75,308,043	-\$2,013,412	-2.6%	21
Chelsea	\$66,095,956	\$63,996,672	-\$2,099,283	-3.2%	22
Brockton	173,663,222	165,665,706	-7,997,516	-4.6%	23
Methuen	\$72,453,180	\$67,744,226	-\$4,708,954	-6.5%	24

Source: Massachusetts Department of Elementary and Secondary Education (DESE)

**Table 4: Required vs. Budgeted NSS in Other Central Massachusetts School Districts, FY12**

	Required NSS	Budgeted NSS	Amount over or under required NSS	Percent over or under Required NSS	Ranking
Westborough	\$30,385,771	\$45,851,976	\$15,466,205	50.9%	1
Southborough	\$13,143,550	\$19,694,109	\$6,550,559	49.8%	2
Northborough	\$15,050,049	\$22,368,097	\$7,318,048	48.6%	3
Hudson	\$25,384,241	\$37,246,558	\$11,862,317	46.7%	4
Berlin-Boylston	\$4,292,354	\$6,169,632	\$1,877,278	43.7%	5
West Boylston	\$9,165,074	\$11,996,364	\$2,831,290	30.9%	6
Auburn	\$20,783,322	\$26,577,229	\$5,793,907	27.9%	7
Marlborough	\$47,531,357	\$60,614,519	\$13,083,162	27.5%	8
Millbury	\$16,858,183	\$20,692,178	\$3,833,995	22.7%	9
Northborough-Southborough	\$13,868,511	\$16,433,229	\$2,564,718	18.5%	10
Mendon Upton	\$22,923,179	\$25,650,221	\$2,727,042	11.9%	11
Wachusett (Holden, Paxton, Rutland, Princeton, Sterling)	\$60,601,665	\$67,772,889	\$7,171,224	11.8%	12
Milford	\$39,488,612	\$44,084,770	\$4,596,158	11.6%	13
Shrewsbury	\$52,203,863	\$56,835,866	\$4,632,003	8.9%	14
Clinton	\$19,545,739	\$20,451,409	\$905,670	4.6%	15
Grafton	\$24,094,666	\$24,901,474	\$806,808	3.3%	16
Leicester	\$16,759,774	\$16,903,729	\$143,955	0.9%	17
Worcester	\$287,203,774	\$286,492,173	-\$711,602	-0.2%	18

Source: DESE

But these rankings do not account for the over \$40 million that Worcester

receives annually in special grants from the state and federal governments. The largest of these grant programs are Title I (\$10 million to support low-income and low-achieving students), Special Education IDEA (\$7.3 million for students with disabilities) and Head Start (\$5.8 million for pre-school for low-income children). When these funds are included in comparisons of per-pupil expenditures, Worcester's rankings change (Tables 5 and 6).

**Table 5: Per-Pupil Expenditures (PPE) in Massachusetts Gateway Cities, FY11**

Gateway City	Total PPE	Ranking
Holyoke	\$15,422	1
Springfield	\$14,635	2
Salem	\$14,628	3
Chelsea	\$13,708	4
Quincy	\$13,584	5
Fall River	\$13,550	6
Lawrence	\$13,422	7
Revere	\$13,347	8
Barnstable	\$13,291	9
Worcester	\$13,116	10
New Bedford	\$13,071	11
Lowell	\$12,780	12
Westfield	\$12,760	13
Lynn	\$12,693	14
Chicopee	\$12,684	15
Pittsfield	\$12,654	16
Fitchburg	\$12,447	17
Malden	\$12,358	18
Everett	\$12,040	19
Methuen	\$11,722	20
Haverhill	\$11,528	21
Leominster	\$11,458	22
Taunton	\$10,824	23

Source: DESE; Brockton not available

**Table 6: PPE in Other Central Massachusetts School Districts, FY11**

School District	Total PPE	Ranking
Berlin-Boylston	\$15,240	1
Marlborough	\$13,949	2
Northborough-Southborough	\$13,865	3
Southborough	\$13,831	4
Westborough	\$13,765	5
Worcester	\$13,116	6
Millbury	\$12,902	7
Hudson	\$12,567	8
Auburn	\$12,525	9
West Boylston	\$12,464	10
Northborough	\$12,324	11
Milford	\$12,212	12
Clinton	\$11,739	13
Leicester	\$11,012	14
Mendon Upton	\$10,816	15
Shrewsbury	\$10,804	16
Wachusett (Holden, Paxton, Rutland, Princeton, Sterling)	\$10,170	17
Grafton	\$9,898	18

Source: DESE

In evaluating whether or not Worcester should increase school spending, two final points should be considered. As with any other government service, there is no certainty that more money alone will improve public education in Worcester, especially if the sums in question are small. Drawing purely on local revenues and without a property-tax override, Worcester could raise slightly more than \$10 million in additional recurring revenues to provide to the public schools. This would not significantly change Worcester's school spending rankings relative to other Gateway Cities, Central Massachusetts communities, or the 300+ other districts in Massachusetts (Table 7).

**Table 7: Impact of Appropriating an Additional \$10 Million for K-12 in Worcester**

Average Increase in Residential Tax Bill (FY12)	\$142 (from \$3,363 to \$3,505)
Average Increase in Commercial Tax Bill (FY12)	\$697 (from \$16,754 to \$17,451)
Increase in Per Pupil Expenditure (PPE) (FY11)	\$366 (from \$13,116 to \$13,483)
Change in Worcester's Statewide Net School Spending (NSS) Ranking (FY12)	From #304 to #270 (out of 322 districts for which data are available)
Change in Worcester's NSS Ranking Relative to Other Gateway Cities (Table 4)	From #16 to #8 (out of 24)
Change in Worcester's NSS Ranking Relative to Other Central Mass Communities (Table 5)	From #18 to #17 (out of 18)
Change in Worcester's Statewide PPE Ranking (FY11)	From #140 to #126 (out of 322 districts for which data is available)
Change in Worcester's PPE Ranking Relative to Other Gateway Cities (FY11)	From #10 to #7 (out of 23)
Change in Worcester's PPE Ranking Relative to Other Central Mass Communities in Table 7 (FY11)	Remain at #6 (out of 18)

Source: Research Bureau calculations based on data from Assessor's Department and DESE; Per-pupil expenditure data for FY12 are not yet available

Two, where will it go? The Boston Foundation has documented that, although Ch. 70 local aid has steadily risen since 2000, the entire increase and more has been consumed by spending on employee benefits.<sup>8</sup> Health insurance and pensions have consumed a greater and greater share of school budgets, with the result that the amount left for items such as instructional materials and teacher training has been on the decline. According to DESE data, the average teacher salary in Worcester in FY11 was \$86,005, higher than both the state average and several other Gateway



Cities.<sup>9</sup> There is an obvious tension between trying to sustain both high levels of spending on teacher salaries and benefits and high levels of staffing. As discussed earlier, most city departments have seen their staffing levels decline as their compensation costs have risen (**Charts 1-3**).

## WORCESTER'S BOND RATING

Moody's rates Worcester A1 with a positive outlook, meaning that it is likely to upgrade the city in the near-term future (**Table 8**).<sup>10</sup>

<b>Table 8: Moody's Bond Rating Scale</b>
Aaa
Aa1
Aa2
Aa3
<b>A1 (Worcester's Current Rating)</b>
A2
A3
Baa1
Baa2
Baa3

This would be Worcester's first true credit upgrade in ten years.<sup>11</sup> If upgraded to Aa3, Worcester would still place within the range of other formerly industrial cities in Massachusetts,<sup>12</sup> but certainly the upgrade would have a positive effect on the city's borrowing costs.

## WORCESTER'S FINANCES: CAUSES FOR CONCERN

Worcester's finances are likely to remain under some strain for at least two reasons.

**First**, there is continued uncertainty in Worcester's housing market. Of all the sectors in the national economy, housing has been among the slowest to recover. But in at least some American cities<sup>13</sup> and Greater Boston communities,<sup>14</sup> values have shown signs of stabilizing. This could be evidence that housing in Worcester will soon stabilize, as Worcester's stock can offer attractive value to those priced out of cities and towns to the east. However, there are yet no signs that the local housing market has reached bottom.

The recent triennial revaluation judged that residential properties had actually been overvalued (as of January 1, 2011), and revised them down. Since assessments lag behind market valuations, Worcester's next assessment for FY13, as of January 1, 2012, will likely revise housing values down even further. According to Zillow.com, the median home price in Worcester peaked in September 2005 at \$243,400. It has since declined almost every month since the peak, and stood at \$157,000 in April 2012, which is exactly what it was ten years ago in the spring of 2002. 2002-12 was a "lost decade" for housing in Worcester. The median home price in Worcester has fallen 35% since the peak.

The local housing market remains depressed by elevated levels of foreclosures and vacant and abandoned properties.<sup>15</sup> Foreclosure rates in some Worcester neighborhoods rank among the highest in the state.<sup>16</sup>

This is a problem for Worcester's finances because, of all the sectors of the local economy, housing has the most direct impact on city government's finances. Worcester's residential properties comprise over 70% of the total value of the tax base, even after the triennial revaluation's increase to commercial and industrial values. Residential properties will provide 60% of Worcester's FY12 tax levy.

**Second**, it is unclear how long health insurance spending will remain under control. Worcester is recognized as a state leader in managing employee benefit costs,<sup>17</sup> but unsustainable trends in health care spending remain a national crisis.

To reemphasize: Worcester's finances have been under strain for two reasons: the recession and unsustainable trends in benefits spending. The recession has proved temporary. But, until we understand why health care costs have been growing more slowly, we cannot be confident that growth trends will remain low.

## RECOMMENDATIONS

**The City Council should develop a 3-5 year plan for reaching a single tax rate.** In FY12, Worcester's City Council voted to narrow the gap between the rates at

which residential and commercial and industrial properties are taxed and reduce Worcester's commercial-industrial rate. In FY11, Worcester had the 5<sup>th</sup>-highest commercial-industrial tax rate in Massachusetts. In FY12, this ranking declined to 28<sup>th</sup>. Worcester no longer has the highest commercial-industrial rate in Central Massachusetts (Table 9).

**Table 9: FY12 Tax Rates in Central Massachusetts Communities**

	Residential		Commercial-Industrial
Shrewsbury	\$11.11	Shrewsbury	\$11.11
Leicester	\$13.18	Leicester	\$13.18
Grafton	\$14.13	Grafton	\$14.13
Berlin	\$14.47	Berlin	\$14.47
Marlborough	\$14.80	Upton	\$15.03
Upton	\$15.03	Millbury	\$15.42
Clinton	\$15.28	Northborough	\$15.49
Millbury	\$15.42	Holden	\$16.53
Northborough	\$15.49	Westborough	\$19.21
Hudson	\$15.51	Auburn	\$23.93
Auburn	\$16.05	Milford	\$27.84
Milford	\$16.17	Marlborough	\$29.08
Holden	\$16.53	<b>Worcester</b>	<b>\$29.08</b>
<b>Worcester</b>	<b>\$16.98</b>	Hudson	\$29.55
Westborough	\$19.21	Clinton	\$29.77

*Source: Massachusetts Department of Revenue*

In order to continue to enhance Worcester's economic competitiveness, the city needs to go farther in narrowing the gap between its residential and commercial-industrial tax rates, with the ultimate goal of having a single tax rate. While one City Council cannot bind the next Council on a particular tax rate, some guidelines should be adopted similar to the City Manager's Five-Point Financial Plan that establishes a course for getting to a single tax rate in three to five years. A single tax rate in FY12 would have meant a \$664 tax bill increase for the average residential property owner and a \$5,041 tax bill decrease for the average commercial property owner.

**Table 10: Single Tax Rate in Worcester**

	Residential		Commercial	
	Rate	Average Tax Bill	Rate	Average Tax Bill
<b>FY12 Rates</b>	16.98	\$3,363	29.08	\$16,754
<b>Single Tax Rate</b>	20.33	\$4,027	20.33	\$11,713

*Source: Worcester Assessor's Office*

**City officials, in conjunction with resident consultation, should assess the importance and financial viability of non-core municipal assets.** The foregoing analysis of Worcester’s financial outlook indicates that the city will continue to be pressed for sufficient revenues to fund all of the services and amenities it has provided in the past. In light of this ongoing problem, the City should regularly assess the viability of these operations and prioritize which are essential to maintain and which we can no longer afford, and phase them out, sell them, or find some other use. Some of those non-core assets that are subsidized annually by Worcester taxpayers are Worcester Memorial Auditorium (\$121,506), Union Station (\$552,720) and Green Hill Golf Course.

A recent *Wall Street Journal* article questioned the viability of municipally-owned and operated golf courses in America.<sup>18</sup> Interest in the sport in general has declined, public courses often lack the features and amenities that would enable them to compete against newer private courses, and many have had to be shut down.

Recent examples of local golf courses that have experienced severe financial difficulties include The Sterling National Golf Course,<sup>19</sup> Indian Meadows in Westborough,<sup>20</sup> the

Ellinwood County Club in Athol,<sup>21</sup> Shaker Hills in Harvard,<sup>22</sup> and Pleasant Valley in Sutton.<sup>23</sup> The Gardner Municipal Golf Course made money in FY10, will break even in FY12, but ran deficits in FY09 and FY11. These deficits were covered by reserves built up from prior years, but, due to several years of net losses, this reserve fund has been significantly depleted.

Worcester’s Green Hill Golf Course turned a profit in only two years between FY02 and FY11 (**Table 11**).

**Table 11: Green Hill Golf Course Income, FY02-11**

Fiscal Year	Net Income
<b>2002</b>	\$121,697
<b>2003</b>	-\$19,360
<b>2004</b>	\$6,256
<b>2005</b>	-\$40,835
<b>2006</b>	-\$110,405
<b>2007</b>	-\$55,891
<b>2008</b>	-\$16,372
<b>2009</b>	-\$56,230
<b>2010</b>	-\$126,622
<b>2011</b>	-\$156,862

*Source: City Auditor*

General fund (taxpayer) subsidies have increased in recent years due to debt service payments associated with a new road connecting all parts of the park and making access to the Golf course easier. In FY12 and FY13, the golf course is budgeted to receive taxpayer subsidies of \$101,460 and \$150,000, respectively.<sup>24</sup>

Is this an appropriate use of taxpayer money? Given that the golf course is on land that must remain part of Green Hill Park in perpetuity, perhaps this is an appropriate expenditure. On the other hand, can the City continue to offer

these types of amenities in light of the unsustainable commitments to employee benefits? Hence the justification for our two final recommendations.

**Worcester city government should lobby the state's "Special Commission to Investigate and Study Retiree Healthcare and Other Non-Pension Benefits" for more power to adjust retiree health care benefits.** Anyone who works for the city of Worcester for ten years qualifies for retirement health benefits. These come in two forms. First, when an employee retires before they are Medicare-eligible, they are allowed to stay on the city's plan. Second, when they turn 65 and enroll in Medicare, Worcester pays for 75% of their Medicare supplemental plans.

The cost of providing these benefits has skyrocketed in recent years. Worcester now owes \$655 million for retiree health care, more than twice what the city owes for pensions. Worcester's bonded debt (what the city borrows to pay for things like street and sidewalk improvements and new police cruisers) now stands at about \$600 million, over \$50 million less than what it owes for retiree health care.

This is frustrating because Worcester city government has taken a highly proactive approach to addressing retiree health care costs. In 2007, the City Manager persuaded the City Council to require all Medicare-eligible retirees to move from the city's plan to Medicare. The City Manager also increased how

much retirees contribute to their premiums.

Unfortunately, city government has no authority to take any further actions, with the exception of the politically-hazardous step of raising the retiree contribution rate even farther. But the state Legislature could do a lot. It could provide authority to pro-rate benefits based on years of service, as is done with pensions. (Currently, a part-time school cafeteria employee who works for ten years gets exactly the same benefits as a retired police chief with 35 years of service.) Cities also need the authority to cap their contribution amounts (to avoid leaving their budgets at the mercy of medical inflation rates), eliminate spousal coverage, and increase eligibility ages.<sup>25</sup>

Practically no one in the private sector receives these type of benefits anymore. Only 14% of all Massachusetts employers offer any sort of retirement health benefits, and, in most cases, what they do offer is far less generous than what city and state government provides.<sup>26</sup> Even if Worcester started requiring retirees to pay half the cost of their Medicare supplemental plans, up from the current 25% contribution rate, their benefits would still be far more generous than those retired from private sector employment.

A state-level commission is currently meeting to address retiree health care policy. Because it has already taken every action in its power to address this problem, Worcester speaks with unique credibility on retiree health care and

thus has a special responsibility to take a lead role in lobbying state government for more local authority to adjust benefits.

**The state Legislature should consider more fundamental changes to the Massachusetts Retirement System-**In the past three years, the state Legislature has passed three public pension bills (Table 12).

<b>Table 12: Pension System Changes in Massachusetts Since 2009</b>	
<b>Legislation</b>	<b>Major Provisions</b>
<b>2009</b>	
"An Act Providing Responsible Reforms in the Pension System"	Narrowed definition of regular compensation, creditable years and creditable service; placed restrictions on out-of-grade disability pensions
<b>2010</b>	
"An Act Relative to Municipal Relief"	Allowed municipalities to extend their funding schedules and increase cost-of-living adjustments
<b>2011</b>	
"An Act Providing for Pension Reform and Benefit Modernization"	Raised retirement age; Increased creditable service base from three to five years; restricted pension spiking and double-dipping; increased cost-of-living adjustments for state retirees

The fiscal impact of these reforms will be minimal. The 2011 law, which had by far the largest fiscal impact, was projected to save "more than \$5 billion over 30 years." \$5 billion is a small amount, given that the size of the current state budget is around \$35 billion.

As The Research Bureau has discussed in prior reports,<sup>27</sup> further reforms that would provide more significant savings include adjusting benefits for current employees, transitioning from a defined-benefit system to a defined-contribution one, and addressing high rates of accidental disability retirement. (About half of Worcester's public safety personnel retire on accidental disability pensions, which are over 40% more expensive than ordinary pensions.)

Until recently, the conventional wisdom was that these elements of public pension systems could not be touched, and that pension reform could only mean revising benefits or contribution rates for future employees. Even the benefits of non-vested employees, who may have worked in state and local government for less than year, were believed to be sacrosanct. This conventional wisdom has been successfully challenged in other states, such as Rhode Island<sup>28</sup> and California.<sup>29</sup> More fundamental pension reform would provide more money for local aid and prevent increasing pension costs from crowding out other spending priorities.

<sup>1</sup> In nominal dollars, Worcester's FY01 budget was \$463,015 and its FY11 budget \$543,984. In this section, data from FY11 are used because FY11 is the last fiscal year which has been audited.

<sup>2</sup> Unrestricted Local Aid to Worcester will be increased by \$2.6 million from the original FY12 amount. During FY12, more funds became available and state government provided an additional \$2.6 million in aid to Worcester. So in a certain sense, local aid in FY13 will be flat. But the state instructed Worcester to treat the \$2.6 million in FY12 as one-time revenues, which it

did, using the funds on one-time costs such as police cruisers and crosswalk painting. Viewed solely as a *recurring* source of state aid to basic municipal operations, local aid will increase between FY12 and FY13.

<sup>3</sup> For comprehensive, property-by-property information on the revaluation's effect on commercial and industrial values, see the Worcester Business Journal's "Worcester Property Valuations," June 11, 2012.

<sup>4</sup> Worcester Regional Research Bureau, "Benchmarking Economic Development in Worcester: 2012," Report 12-01, March 2012.

<sup>5</sup> For an explanation of what occupations fall within the various categories listed in **Table 2**, see <http://www.bls.gov/iag/home.htm>.

<sup>6</sup> "Worcester's FY11 Budget and the Fiscal Crisis: No End in Sight," Worcester Regional Research Bureau, Report 10-02, June 1, 2010, pp. 13-4, and "Worcester Settles with its Unions: A Review," Worcester Regional Research Bureau, Report 11-07, November 2011.

<sup>7</sup> J. Lester Feder, "Economic woes one way to curb health spending," *Politico*, November 21, 2011; Annie Lowrey, "In Hopeful Sign, Health Spending is Flattening Out," *New York Times*, April 28, 2012.

<sup>8</sup> "School Funding Reality: A Bargain Not Kept," The Boston Foundation, December 2010.

<sup>9</sup> Cited in "Worcester Public Schools Fiscal Year 2013 Annual Budget," p. 315.

<sup>10</sup> Neither Standard & Poor's nor Fitch's, both of whom also rate Worcester's debt, have indicated that an upgrade is imminent.

<sup>11</sup> In 2008, Standard and Poor's improved Worcester's outlook from negative to stable. Moody's changed Worcester's rating from A3 to A1 in 2010, but this was because of a broad "recalibration" of its ratings criteria.

<sup>12</sup> "Worcester's Bond Rating and the Recession: What's the City's Credit Score?," Worcester Regional Research Bureau, Report 11-01, January 27, 2011.

<sup>13</sup> Brady Dennis, "Existing home sales and home prices ticked up in April," *Washington Post*, May 22, 2012; S. Mitra Kalita and Nick Timiraos, "Housing Market Crawls Back," *Wall Street Journal*, May 29, 2012.

<sup>14</sup> Scott Van Voorhis, "A refuge for home prices: Recovery seen along 128, but outskirts lag," *Boston Globe*, May 31, 2012.

<sup>15</sup> "Benchmarking Economic Development in Worcester: 2012"; Lisa Eckelbecker, "Foreclosures surge in Worcester county," *Worcester Telegram & Gazette*, May 29, 2012;

<sup>16</sup> Tim H. Davis, "Foreclosure activity edges up," Massachusetts Housing Partnership, Foreclosure Monitor 2.6, May 2, 2012.

<sup>17</sup> "The Crushing Burden of Municipal Retiree Health Care Liabilities," Massachusetts Taxpayers Foundation, January, 2012, p. 5.

<sup>18</sup> John Paul Newport, "Saying Goodbye to the Local Muni," *Wall Street Journal*, June 1, 2012.

<sup>19</sup> Bill Doyle, "Sterling chance to make mark," *Worcester Telegram & Gazette*, August 28, 2011.

<sup>20</sup> Elaine Thompson, "Tees to diamonds at Indian Meadows," *Worcester Telegram & Gazette*, June 6, 2012.

<sup>21</sup> Lisa Eckelbecker, "Ellinwood files for bankruptcy," *Worcester Telegram & Gazette*, April 14, 2012.

<sup>22</sup> Bill Doyle, "Shaker to be sold at auction Thursday," *Worcester Telegram & Gazette*, April 8, 2012.

<sup>23</sup> Bill Doyle, "Pleasant Valley rises from unpleasant past," *Worcester Telegram & Gazette*, October 9, 2011.

<sup>24</sup> Source: City Budget Office.

<sup>25</sup> For several suggestions for retiree health-care reforms, see "The Crushing Burden of Municipal Retiree Health Care Liabilities."

<sup>26</sup> "The Crushing Burden of Municipal Retiree Health Care Liabilities."

<sup>27</sup> "Public Employee Pensions: Is it Time to Retire the System?," Report 09-01, March 30, 2009 and "Massachusetts Pension Reform: What was accomplished? What remains to be done?," Report 09-01 Supplement, July 9, 2009.

<sup>28</sup> Girard Miller, "Rhode Island's Landmark Pension Reforms," *Governing*, December 8, 2011.

<sup>29</sup> Michael Cooper and Mary Williams Walsh, "San Diego and San Jose Lead Way in Pension Cuts," *New York Times*, June 6, 2012.

*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

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