

# **WORCESTER'S FY05 BUDGET: MORE TOUGH QUESTIONS**

**Report No. 04-06  
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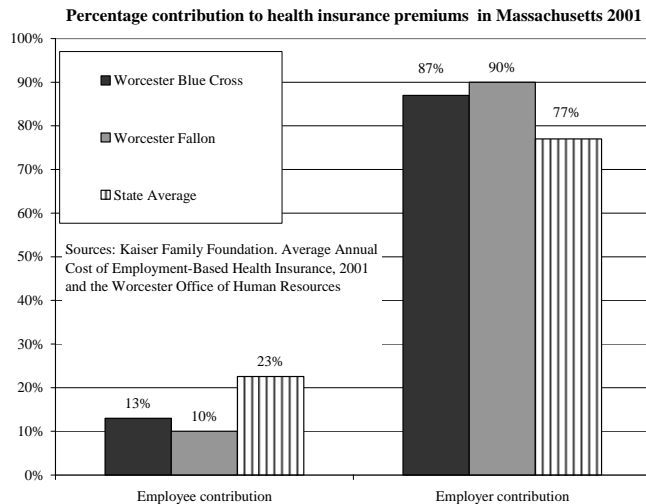
**Introduction**

While the City Manager merits praise for his forthright discussion in the FY05 budget message of the challenges posed by municipal employee health insurance and collective bargaining contracts, the proposed budget raises a number of questions about the City's long-term financial vitality. Springfield's fiscal woes, which have resulted in a junk rating for its bonds and the possible establishment of financial oversight by the commonwealth in exchange for a \$20 million state bailout and a \$30 million line of credit serve as a stark reminder (and a warning) that public financial decisions have real consequences. Responsible control of spending and prudent planning are necessary to keep Worcester fiscally sound. The theme linking all the questions raised by the Research Bureau's analysis of the FY05 budget is "What impact will these decisions have in the coming years?" We hope that the data provided below will assist the City Manager, the Council, and the municipal employee unions in developing policies that will improve the City's financial outlook for years to come.

**1) What is the impact of the City's current health insurance arrangements in FY05 and beyond?**

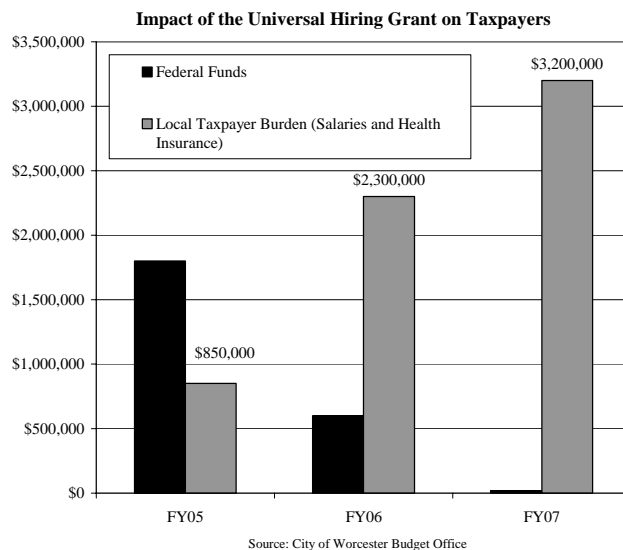
In the FY05 budget, the City Manager raises this question directly, and we echo it here due to its importance. The spiraling costs of health insurance make the current municipal employee agreement untenable over the long term. In FY05 the City's health insurance costs will increase by \$10 million to \$65 million, constituting 14% of the City's budget. This increase is the equivalent of a 4% raise for each employee.

As the Research Bureau has reported before, the current City employee health benefit structure is much more generous than those for state and municipal employees of other communities. Marlborough pays 60% and 70% of premiums for its two plans. The Commonwealth pays 75% of new employee premiums and 80% of older employee premiums<sup>1</sup> in contrast to Worcester which pays 87% and 90% of premiums for its two plans. Private employers in the Commonwealth averaged under 80% employer contribution in 2001 (see chart at right). The Research Bureau has consistently recommended that the City pay 75% of the lowest cost provider for health insurance, a change that could save the City well over \$12 million in FY05. Few citizens realize that 14% of the entire City budget—not merely personnel costs—is devoted to providing a higher level of health insurance benefits to its employees than other governments or most employers typically offer.



**2) The City is hiring 50 new police officers with a Federal grant. How will the City address the increased costs as this burden shifts to Worcester taxpayers?**

The City has used a Federal Universal Hiring Grant to hire 50 new police officers. Their salaries will cost \$2.3 to \$3.5 million annually



<sup>1</sup> The 80% contribution for state employees is set to expire in FY06 and will revert to 85/15.

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and health insurance will cost approximately \$355,000 to an estimated \$450,000 per year for the next three years. The City is taking on the health insurance cost and must assume additional responsibility for salaries in FY06 and still more in FY07 and after. As a result, while the police budget may not change dramatically over the next four years, the amount of that budget that falls on local taxpayers is projected to increase from the \$850,000 allocated in FY05 to \$2.3 million in FY06, and \$3.2 million in FY07. The City will need to properly plan for this annual increase in taxpayer burden. Quantifiable benchmarks should be established and evaluated by the Police Chief to determine the effectiveness of these new positions during this three-year period. The Police Department’s Five-Year Strategic Plan should then be reviewed to determine whether desired outcomes are being reached by the Department.

**3) The FY05 budget includes no funds for salary increases in union contracts which are yet to be negotiated. The current contracts expired June 30, 2003. How will the City pay for salary increases?**

The table below illustrates that the total for all non-school salaries is about \$100 million. Since firefighters’ salaries increase by an additional 1.1% whenever the base salary is increased because of the Hazardous Materials Stipend (discussed below in question 5A), a 1% raise totals \$1.3 million. A retroactive raise would multiply salary increases three times. First, workers must be paid the raise for the previous year; then, the FY05 salary must be increased to reflect the raises for FY05 and FY04. A 1% retroactive raise would add approximately \$1 million to the budget for FY04 and \$2 million for FY05 for a total impact of \$3 million, or 3% in FY05.<sup>2</sup>

Current salary levels	1%	2%	3%	4%
Police	\$325,604	\$651,207	\$976,811	\$1,302,415
Fire (additional 1.1%)	\$589,549	\$870,286	\$1,151,024	\$1,431,761
All others	\$393,659	\$787,318	\$1,180,976	\$1,574,635
All Non-school salaries	\$1,308,811	\$2,308,811	\$3,308,811	\$4,308,811
<b>FY05 impact if raises are retroactive</b>	<b>\$3,926,434</b>	<b>\$6,926,434</b>	<b>\$9,926,434</b>	<b>\$12,926,434</b>

Source: City of Worcester Budget Office

**4) What is the long-term fiscal impact of previously negotiated police contracts?**

As noted above, the unions have already received the equivalent of a 4% salary increase as a result of increased health insurance costs for FY05. For this reason, the City Manager has proposed that municipal employee unions forego raises to their base salary in FY05, or that salary increases be funded through cuts in service or personnel levels. Police officers receive other raises in addition to any base salary raise. Increases for years of service, increase in rank, and acquiring additional degrees (under the Quinn Bill), and extra-duty pay, are often left out of the public discussion about the pay “raise” in a union contract. Below are some figures documenting the raises police officers have received under the most recent 3-year contract, which called for base salary increases of 4% each year.

- Officers receive extra-duty pay for monitoring traffic at construction projects and other assignments. It is pay for these activities that places police officers among the highest-paid City employees. In 2002, police officers constituted 21 of the top 25 highest-paid City employees. Police officers were also 73 of the 92 City employees who earned \$100,000 or more, while more than one-quarter of the police officers made over \$85,000.<sup>3</sup>
- Officers with fewer than 5 years of service have received raises ranging from 7.6% to 9.25% combined base salary and step increases each year.

<sup>2</sup> The Worcester teachers’ union agreed to a 20-month contract with a retroactive 0.25% raise, and an additional 2.25% in September 2004, and 0.50% in January of 2005—a total of a 3% raise. As a result of increases in health insurance costs and salary increases, the Worcester Public Schools are laying off 120 teachers in FY05.

<sup>3</sup> Source: Worcester Executive Office of Human Resources report to City Council, November 18, 2003.

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- Officers with 5 years or more of service who moved up a rank, received raises in that year between 12% and 19% in combined rank and base salary increase.
- Officers with 5 years or more of service who did not move up a rank received 4% raises to their base salary in each of the last three years.
- In addition, officers are eligible for Quinn Bill payments if they earn relevant academic degrees. (Quinn Bill payments average \$10,000 per year for Worcester police officers and are paid out to approximately 75% of police officers.)

What raises did police officers receive in the last contract? (step increases and 4% base salary increase)				
Step (year)	3	4	5	6 or more**
officer	7.60%	7.56%	9.25%	4%
sergeant	6.98%	7.00%	6.77%	4%
lieutenant	6.36%	6.34%	6.28%	4%
captain	5.66%	5.57%	5.52%	4%

\* New officers receive a 36% raise when they graduate from Police Academy. We begin this chart with the raise between Years Two and Three, when all officers are at regular officer pay rates.

\*\* The 5th step is the top step in the salary schedule so there are no step increases after the 5th year.

Source: Salary schedules from City of Worcester Executive Office of Human Resources

### 5) How are firefighter salaries calculated?

#### Firefighter with associate's degree on first longevity step (5-10 years) in FY00

	FY01	FY02	FY03	FY04*	FY05*
Previous Base salary	\$47,134	\$49,559	\$52,108	\$54,789	\$57,607
Plus percentage raise (4%)	\$1,885	\$1,982	\$2,084	\$2,192	\$2,304
Subtotal--New Base Salary	\$49,020	\$51,541	\$54,193	\$56,981	\$59,911
Plus Hazardous materials stipend (1.1% of new base)	\$539	\$567	\$596	\$627	\$659
Base including Hazardous Materials Stipend	\$49,559	\$52,108	\$54,789	\$57,607	\$60,570
Plus education (2.61% for associates degree)	\$1,293	\$1,360	\$1,430	\$1,504	\$1,581
Plus longevity (1.53% for 5-10 years)	\$758	\$797	\$838	\$881	\$927
Total pay increase (all increases included)	\$4,476	\$4,707	\$4,949	\$5,203	\$5,471
Total Salary	\$51,611	\$54,266	\$57,057	\$59,992	\$63,078
Percentage increase over previous base salary	9.50%	9.50%	9.50%	9.50%	9.50%
Percentage increase over previous total salary		5.14%	5.14%	5.14%	5.14%

\* FY04 and FY05 are examples of how FY04 and FY05 would have looked if the existing contract continued for those years.

Source: City of Worcester Executive Office of Human Resources

The above table shows how firefighter salaries are calculated over the course of several years. First, the original base salary is increased by the percentage raise, then the hazardous materials stipend (see discussion below) is added to the base and included in the “base salary” for subsequent calculations, including increments for education, and longevity as well as the following year’s base salary increase. In this example, we include a hypothetical FY04 and FY05 which shows this salary moving in five years from \$51,600 to \$63,100, a 22% increase.

#### 5A) How does the Hazardous Materials Stipend affect salary calculations over the long term?

Firefighters received 4% raises in each of the last three years. Besides the 4% raise, they received an additional 1.1% raise called a “hazardous materials stipend.” This stipend becomes a part of the base salary for future raise calculations; it is—in effect—an additional raise to the base salary. The following table illustrates the difference in costs over three years among (1) not having the hazardous materials stipend; (2) applying the stipend to each year’s salary; and (3) the actual current formula under which the stipend is included in the base salary each year for raise calculations. Our research found no other contract in Worcester or the state that includes a hazardous materials stipend in the base salary for the following year’s raise calculations.

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**Costs of the Fire Department Hazardous Materials Stipend**

	FY99	FY00	FY01	FY02	% raise in three years
No hazardous materials stipend	\$47,134	\$49,020	\$50,981	\$53,020	12.01%
Hazardous Materials stipend applied as a stipend	\$47,134	\$49,559	\$51,542	\$53,603	13.05%
<b>Hazardous Materials stipend added to base for next year</b>	<b>\$47,134</b>	<b>\$49,559</b>	<b>\$52,108</b>	<b>\$54,789</b>	<b>15.45%</b>

Source: City of Worcester Executive Office of Human Resources

**6) Aggressive revenue projections by the City Administration in FY04 mean that it is unlikely there will be a substantial amount of “free cash” at the year end. What are the long-term implications of making those projections?**

Free cash is the funds remaining after all obligations have been paid at the end of the fiscal year. It can be used for expenditures in the following fiscal year or be added to the City’s reserves.<sup>4</sup> If added to reserves it can improve the City’s bond rating thus lowering its cost of borrowing.<sup>5</sup> In recent years, the City has been using its free cash for recurring expenses such as salaries rather than adding it to reserves, or using it for one-time expenses such as capital improvements or equipment purchases. If free cash is not available in successive years as is currently the case, then those expenditures must be absorbed by the following year’s budget. Employees funded with free cash last year must be paid now by other municipal revenues.

**Last four years of free cash**

FY02	\$7,996,823
FY03	\$3,420,700
FY04	\$4,502,753
FY05	\$720,000
FY06	?

Source: City of Worcester Budget Office

**7) How will Worcester market itself?**

How will Worcester take advantage of its recent development projects without some funding for marketing? The City Council is right to request funding for this item, but the City Manager should refuse to fund the item if it will not be a part of a genuine marketing strategy aimed not only encouraging tourism and conventions, but at enhancing the City’s ability to attract and retain local businesses.

**8) How will the City Manager’s proposed changes in the organization of City government promote the aims of efficiency and accountability?**

The City Manager has proposed a new organization with cabinet heads that oversee groups of departments. The new organization is intended to “infuse [the City administration] with new efficiency and accountability,” “improve service delivery and program results,” and improve “operational productivity while simultaneously generating reasonable budgetary savings” that would be used in other areas of the City government.<sup>6</sup> These are worthy aims but the reorganization proposal needs to outline specifically how they will be achieved and how their accomplishments will be measured. The Manager has indicated that he will present the specifics of his plan during the next couple of months before submitting the new organization to the City Council for approval.

**Conclusion**

Although Worcester’s financial condition seems stable for the moment, the questions posed above raise concern about its future. Union contracts, the Universal Hiring Grant, growing health insurance costs, and the absence of substantial reserves could all come together to put Worcester in a much more precarious financial position in a short period of time. In addition, rapidly rising residential property values coupled with a very modest increase in the value of commercial/industrial property means that more and more of the tax burden will fall on homeowners. While Worcester does not appear on the verge of a Springfield-like collapse, prudent decision making is necessary in order to steer clear of such a fate.

<sup>4</sup> While the aggressive revenue projections were met in most cases, the accompanying chart shows the large decrease in free cash between FY04 and FY05, thereby limiting the City’s flexibility to fund emergencies or build reserves.

<sup>5</sup> The City’s current policy of borrowing for items such as police cars rather than budgeting for them has a negative impact on the City’s bond rating. Nick Kotsopolous. “Some of the city’s finance practices defy sense or logic” *Worcester Telegram & Gazette*. Sunday, June 13, 2004.

<sup>6</sup> From the City Manager’s FY05 Budget Message.