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**THE FY06 BUDGET:  
ARE INCREASING TAXES AND REDUCING  
SERVICES THE ONLY OPTIONS?**

Report No. 05-02  
May 16, 2005

## The FY06 Budget: Are Increasing Taxes and Reducing Services the Only Options?

### **Executive Summary**

The Research Bureau examined a number of municipal services as well as municipal employee benefits to determine if there were opportunities to reduce expenditures and/or increase productivity in FY06. The report details recent accomplishments, showing how the City has successfully reorganized departments to both reduce costs and improve services. The report then addresses major cost centers of the City budget in need of reform, and identifies areas where increased productivity may lead to better services for fewer tax dollars.

Among the Research Bureau's recommendations are the following:

### **Control Major Cost Centers**

- Restructure municipal employee health benefits. Increase contribution rates to 25% for employees and change plan design to save as much as \$26 million in FY06.
- Reform retiree health benefits to reduce the potential for a long-term liability to the City of \$1 billion or more.
- Establish a capital plan to guide long-term debt use and protect Worcester's bond rating.

### **Increase Productivity and Efficiency in City Operations**

- Establish electronic bill payment for the City to major vendors.
- Establish online bill payment for property taxes, fees, and charges.
- Review energy efficiency of all municipal facilities.
- Outsource custodial services for municipal and school buildings.
- Expand current private EMS services to reduce burden on Worcester Fire Department.
- Sell tax-title properties at market rates.
- Reorganize management of the Police Department fleet.
- Restructure the Code Division of the Fire Department to include less costly civilian engineers.

## I. Introduction

On October 3, of 2004, the *Telegram & Gazette* reported City Councilor Dennis Irish as noting that the City budget, not tax classification, is the determining factor in property tax levels. He added that neither City residents nor businesses leaders had taken up his invitation to attend budget hearings to “tell us where we should be cutting back.” Councilor Lukes has joined Mr. Irish in stressing the need to control municipal spending: “Given the financial situation facing this city, we need to try and convince the taxpayers that this City Council is serious about capping our expenditures.”<sup>1</sup> At the time the tax rate was set, *Telegram & Gazette* reporter Nick Kotsopoulos wrote, “City Manager Michael O’Brien and the City Council have to make a concerted effort over the next several months to hold the line on municipal spending . . . People will be paying more in property taxes because the city government is spending more money. . . If the city government spent less money, it would not have to collect as much in property taxes.”<sup>2</sup>

Comments such as those quoted above tend to be made around the time the tax rate is set (when it is too late to reduce municipal expenditures for the current fiscal year) rather than at the time the budget is being debated. Each year for almost two decades as the budget is being developed, the Research Bureau issues suggestions for reducing municipal expenditures, expanding revenues, and increasing City government’s productivity. Some of this year’s suggestions can be implemented immediately; others will require more long-term planning and financial investment.

Even though the City of Worcester is currently benefiting from an improved economy and expects revenues to increase by \$11 million for FY06, costs are expected to rise by \$15 million (see Figure 1). Since expenditures will increase by nearly \$4 million more than revenues, budget cuts of some kind will be needed. This report is intended to show that increasing taxes or reducing services are not the only options available to the City. There is a third way to improve services and finances simultaneously, through reforms that reduce costs while maintaining or improving service quality.

The first section of this report addresses accomplishments of the current and previous administrations. Then we consider major cost centers of the budget, that although difficult to address would, if reformed, yield the biggest savings for the City without entailing a reduction in City services: health insurance, pensions, and debt service. Finally, we recommend areas where the City could increase productivity and prudently reduce expenditures.

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<sup>1</sup> *Telegram & Gazette*, January 9, 2005, p. B2.

<sup>2</sup> *Telegram & Gazette*, November 21, 2004, p. B2.

**Figure 1**

**Worcester FY06 Budget Projection (in 000's)**

<b>Revenues</b>	<b>FY05</b>	<b>FY06</b>	<b>Difference</b>
Education Aid	\$160,761	\$163,918	\$3,157
Other Local Aid	\$59,684	\$60,554	\$870
Property Taxes	\$163,384	\$170,769	\$7,385
Other local Revenue	\$37,435	\$37,435	\$0
<b>Expected FY06 Revenue Increase</b>			<b>\$11,412</b>
<b>Expenditures</b>			
Schools	\$236,314	\$242,147	\$5,833
Debt	\$27,864	\$29,231	\$1,367
Health Insurance*	\$25,182	\$27,682	\$2,500
Pensions	\$11,536	\$13,136	\$1,600
Other increases	\$31,563	\$35,952	\$4,389
<b>Expected FY06 Expenditure Increase</b>			<b>\$15,689</b>
<b>Difference between Revenues and Expenditures</b>			<b>-\$4,277</b>

\* Health insurance amount is municipal costs only. The WPS health insurance costs are included in the Schools line item. Combined, health insurance costs are over \$70 million.

Source: City Manager's Preliminary Budget Report to City Council, February 1, 2005.

Other expenditures include snow removal, Worcester Police Department and Worcester Regional Airport.

Prepared by: The Research Bureau

**II. Accomplishments**

The City Administration has embarked on a reorganization of the City government. Part of that reorganization has involved a search for efficiencies and savings. The Research Bureau applauds this effort to improve government operations, and we encourage the Administration to assess its operations regularly. Below is a description of some accomplishments which may provide models for other reforms and innovations in City government this year and in the future:

**A. New Organization and Departmental Review**

The City Manager reduced the number of departments reporting directly to him from 24 to 8 and altered the structure of some departments. While there are no documented savings as yet from this reorganization, senior staff in the Administration report that the management structure and communication are both improved by this reorganization.

## **B. Technology and City Government**

The Administration has embraced the use of information technology, resulting in a number of significant improvements in the quality and efficiency of City services.

### **1) Management**

Most City Councilors and members of the City Manager's cabinet are now equipped with wireless Treo devices that allow them to access their email and phone 24/7. Schedules are visible to all senior management officials making it easier to arrange meetings; moreover, such enhanced communications may reduce the need for some meetings.

### **2) Police Department**

Technical Services has implemented a number of innovations improving the ease of communication and the quality and quantity of available crime information to the Police Department. The Department's new digital journals and GIS mapping of reported incidents has enhanced police productivity.

- a) **Mapping Crime**—The Police Department now uses digital mapping technology to identify clusters of reported crimes and disturbances. The maps are shown to all units and divisions and allow resources to be targeted to problem areas. The maps are produced regularly so commanders can watch for spikes of reported activity in a specific geographic area and respond quickly. Some of the information has been available without maps in the past, but the mapping ability was added in February and has already resulted in better-informed resource allocation, including officer deployments leading to arrests.
  
- b) **Sharing Information**—In the Police Department, divisions and shifts keep digital logs of events throughout the day that can be viewed by subsequent shifts, other divisions, or the Police Chief at any time of day. Previously, paper logs were maintained and not shared. Under the old system, traffic officers could have pulled over someone being sought by the Detective Division without knowing it. Now, officers can check other division logs and glean relevant information for their own work. Similarly, management has access to daily roll call information and can know how many officers are available for dispatch to an emergency.

### **3) City Clerk's Office**

- a) **Automated Services**—The City Clerk's Office has been a laboratory for City technical developments in recent years. Many of the services provided by the office were ripe for automation. Official city data on births, deaths and marriages were kept in large printed books. When residents wanted a record, a Clerk's Office worker would get the large book, look up the name, read the information and type it into an official copy of the document which was then stamped or signed and delivered to the resident. This process took between 15 and 20

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minutes. Today, much of the data have been entered into computerized databases which allow the staff to look up the name on the computer and print the record. Through the use of improved technology, the task was reduced to less than 20 *seconds*. Computerization has allowed the Clerk’s Office to reduce its staff from over 20 employees to 13 positions including the Clerk. (This transition took place over a number of years beginning in the early nineties as automation was added and expanded.) Figure 2 illustrates the magnitude of the change. The office increased the number of requests it processed by 5% while reducing staff by 40% and the time to do a job by 98%. The model illustrates how information technology can create real increases in productivity. The system currently in place at the Clerk’s Office saves time for the City and residents as well as money. Similar innovations have been made with the issuing and updating of dog licenses.

**Figure 2**

**Clerk's Office Innovations**

	1993 electric typewriters	2005 Automated	% change
Number of Requests	51,500	54,000	4.9%
Time (minutes) for one request	15	0.25	-98.3%
Annual time required	17,200 hours	300 hours	-98.3%
Positions needed*	6.2	0.1	-98.4%
Budgeted Total Positions	21	12	-42.9%

\* Number of positions working 40-hour-work weeks for a full year required to accomplish these tasks (and only these tasks).

Source: Worcester Office of the City Clerk Prepared By: The Research Bureau

**b) Eliminate or Outsource Services**—The Clerk’s Office improved one service by eliminating it. It stopped providing hunting licenses when the state permitted retail outlets to sell them, and notified all previous license holders of the new locations. Providing the licenses was both expensive and time-consuming. (The City received only \$1 out of the \$30 fee.) The office has yet to receive a complaint about the change. It is important for the City to examine other services it provides and determine if there are other providers of those services that can perform them equally well or better at a lower cost.

**4) Treasurer’s Office**

**a) Parking Ticket Collections**—Ticket collections will become a function of the Treasurer’s Office (it is currently under the Department of Public Works) in July 2005. Parking control officers will have handheld computers that transmit all ticket information directly to the City’s financial system, eliminating the need for parking ticket books, paper processing, and data entry (the handheld computers print out a small receipt which is left on the offending vehicle).

**b) Online Bill Payments**—The City is introducing an online payment option for Water and Sewer bills, which should reduce City costs and increase revenues. The

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City should expand online collections to other forms of City collections including taxes, and permit and license fees.

**5) Department of Public Works**

- a) **Customer Service**—The Department of Public Works (DPW) has introduced a customer service entry system. DPW reported problems are immediately entered into the DPW network through an online interface (no paper is involved), and the complaints are transmitted to the appropriate divisions to be addressed.

**6) Human Resources**

- a) **Online Payroll Timecard Entry**—Payroll clerks in most departments no longer need to manually record payroll information on paper worksheets. Time card changes are now entered directly into the system and electronically reviewed by auditing (no data entry is required for a work week without time off). This can result in cost savings due to personnel reductions and increased productivity. The School Department, for instance, has reduced its payroll staff by 40% since 2001 due to improved technology. The change also improves the School Department’s access to key financial data including number of employees, sick time use, and related costs. Once applied to the Police Department, payroll automation will also free up clerical staff there to begin eliminating a 6-8 week backlog of reports and citations. (The Police Department is among the next departments to receive automated payroll timecard entry. The Police Department’s unusual schedules make the set up more complicated than other departments.)

**C. Restructuring School Food Service**

The Worcester Public Schools food service system is in the middle of a restructuring designed to move students through lines faster and save money. The restructuring actually increases the number of people working in food service from 196 to 199, but over 80 positions are being converted through attrition from 25- and 30-hour positions to 15-hour positions, which are not eligible for benefits. The savings of over \$1.5 million will be used to add food service management positions in some schools, netting savings of over \$1.3 million (approximately \$800,000 of which is from health insurance). Figure 3 shows the restructuring of helper positions that will create this savings.

Figure 3

WPS Food Service Restructuring

	Old	Restructured	Salary	Health	Total	Old Costs	Restructured costs
40 hour helper	7	2	\$18,439	\$7,106	\$25,545	\$178,815	\$51,090
35 hour helper	9	0	\$16,443	\$7,473	\$23,916	\$215,244	\$0
32.5 hour helper	12	3	\$14,608	\$7,448	\$22,056	\$264,672	\$66,168
30 hour helper	<b>76</b>	<b>14</b>	\$13,774	\$7,391	\$21,165	\$1,608,540	\$296,310
27.5 hour helper	4	1	\$12,497	\$6,879	\$19,376	\$77,504	\$19,376
25 hour helper	26	4	\$11,404	\$6,332	\$17,736	\$461,136	\$70,944
20 hour helper	15	13	\$9,202	\$6,448	\$15,650	\$234,750	\$203,450
15 hour helper	<b>1</b>	<b>107</b>	\$6,497	\$0	\$6,497	\$6,497	\$695,179
	150	144				\$3,047,158	\$1,402,517
					<b>Savings</b>		<b>\$1,644,641</b>
					Cost of additional nine additional management positions and health insurance		\$272,795
					<b>Net Savings</b>		<b>\$1,371,846</b>

Note: Calculation uses current salary and benefit levels for old and restructured calculations.

Source: Worcester Public Schools.

Prepared by: The Research Bureau

**III. The Work Ahead**

The above examples are models to be used for future innovations. What these accomplishments show is that cutting government costs need not entail reducing services. With creativity and technology, a third way is available to city governments—increased productivity. The remainder of this report examines areas where further accomplishments in this direction may be possible.

The following recommendations fall into two broad categories, controlling major cost centers and increasing productivity. Some of these could be pursued immediately, while others will require further analysis. All are worthy of consideration as the City considers how best to use municipal and state tax dollars.

**A. Recommendation: Control Major Costs**

Containing City expenditures will require addressing the challenges of the major cost centers in City government: health insurance, pensions, and debt. Reducing the cost of health insurance is a priority of the City Manager in his current negotiations with municipal employee unions.

**1) Municipal Employee Health Insurance**

Worcester employee health benefits are higher than those of other large cities in Massachusetts, nearby towns, private industry, and national averages. They constituted \$65 million, or 15% of the City’s FY05 budget. The Research Bureau’s report, *Condition Serious, Prognosis Uncertain* (No. 05-01), calculated that if the City changed its contribution rate to be comparable with that of other cities and businesses (75% toward all plans, or 75% of the lowest cost provider), the City would save between \$8 and \$15 million in FY06.

That report also recommended plan design changes, which could generate more than \$9 million in savings. While under the control of a Financial Review Board, Springfield made changes to its plan design and co-payments (while leaving contribution rates at 75%) and saved \$11 million in FY06 alone. Similar changes could have a substantial impact in Worcester. Figure 4 shows that Worcester could save over \$9 million by altering the insurance plan design and increasing co-payments:

**Figure 4** **Plan Design Savings**

	Current	Reform A	Reform B	Reform C
Office Visit	\$ 5.00	\$ 10.00	\$ 15.00	\$ 20.00
ER	\$ 25.00	\$ 50.00	\$ 50.00	\$ 75.00
In Patient Hospital	\$ -	\$ -	\$250*	\$500*
Prescription drugs	5/10/10	10/20/40	10/25/50	100/200 deduct, then 10/25/50
<b>Percent Premium Savings</b>	<b>0.0%</b>	<b>7.0%</b>	<b>14.0%</b>	<b>18.0%</b>
Savings for Taxpayers	\$0	\$4,550,000	\$9,100,000	\$11,700,000
\$ Premium savings for Employees	\$0	\$679,885	\$1,359,770	\$1,748,276

\* up to maximum annual contribution of \$1000/\$2000 for B and \$2000/\$4000 for C

Source: Independent actuarial estimate      Prepared by: The Research Bureau



Reforming the City’s plan design will be good not only for the City’s bottom line, but for employees as well. They will share in the benefit of lower premium costs, and some may be encouraged to use their health care resources more prudently as a result. Studies have shown that low prescription and office co-payments can lead to excessive consumption of medical resources.<sup>3</sup> Holman Jenkins of the *Wall Street Journal* commented on the substantial over prescription of high cost drugs, claiming that “At \$2 per pill, Vioxx did nothing for millions of patients that a generic, nonprescription 15-cent pill wouldn’t do.”<sup>4</sup> If these savings were combined with those recommended in our previous report, the City could save between \$12 and \$26 million in FY06 (see Figure 5 below):

**Figure 5 Health Insurance Contribution Rate and Plan Design Savings**

	Current	Reform A	Reform B	Reform C
\$ Premium savings for Taxpayers	\$0	\$4,550,000	\$9,100,000	\$11,700,000
Combined with 75% contribution rate	\$8,000,000	\$12,550,000	\$17,100,000	\$19,700,000
Combined with 75% of lowest cost	\$15,000,000	\$19,550,000	\$24,100,000	\$26,700,000

Source: Worcester Regional Research Bureau report: Condition Serious, Prognosis Uncertain (05-01)

**2) Section 18 of Chapter 32B**

In addition to changing contribution rates, the City should evaluate the savings from adopting Chapter 32B, Section 18 of the Massachusetts General Laws, which requires eligible retirees to enroll in Medicare. This change would save the City millions of dollars in the short-term and more in the long-term. Springfield recently adopted Section 18, saving that city \$5.3 million in FY06. A preliminary analysis of Worcester shows that if all retirees over 65 currently enrolled in conventional plans (1,595), switched to Medicare-supplemental plans (which cover costs not covered by Medicare), the City could save close to \$8 million in FY06.<sup>5</sup>

**Figure 6 Estimate of Savings from Adopting Sec. 18**

	Retirees over 65*	Average cost**	Total
Conventional Plans	1,595	\$7,700	\$12,281,500
Senior Plans	1,595	\$2,800	\$4,466,000
Potential Savings			<b>\$7,815,500</b>

Note: This assumes that all retirees over 65 are eligible for Medicare.

\* Source: Worcester Executive Office of Human Resources

\*\* Source: Worcester Budget Office

Prepared by: The Research Bureau

<sup>3</sup> Stuart H. Altman, et. al. “Escalating Health Care Spending: Is it Desirable or Inevitable?” *Health Affairs: The Policy Journal of the Health Sphere*. Web exclusive. January 8, 2003. <http://www.healthaffairs.org>.

<sup>4</sup>Holman Jenkins, “Good Drug, Bad Customers-II,” *Wall Street Journal*, Business World Commentary, February 23, 2005, p. A17.

<sup>5</sup> If the City were to adopt Section 18 of Chapter 32B, the City would be obligated for any Medicare penalties associated with late enrollment. Employees hired before 1978 have not paid into Medicare and would not be Medicare-eligible regardless of their age unless they were employed somewhere else where they did pay into Medicare long enough to be eligible. In order to accurately calculate the savings (and penalty costs) associated with adopting Section 18, the City must determine who of the 1,595 people over 65 on conventional plans are, in fact, Medicare eligible.

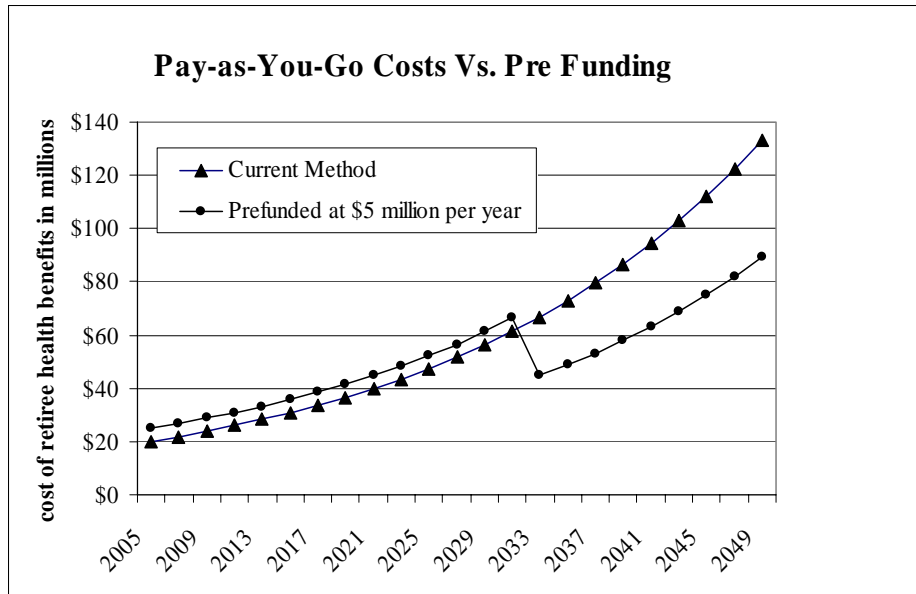
### 3) City Liability for Post-Employment Benefits

**a) Pre-fund the Liability**—Worcester’s City Auditor estimates the present value of the retiree health benefits liability to be between \$1 and 2 *billion*. The actual amount will have to be reported on financial statements starting in 2007, potentially damaging the City’s credit rating. (See below for additional discussion of the City’s credit rating.) Addressing the liability now means altering the structure of benefits and/or creating a funding mechanism for that unfunded liability. Adopting Sec. 18 as described above would help alleviate costs in the short- and long-term.

Other cities have addressed this future liability by establishing a Retiree Medical Trust, similar in some ways to the pension system in which funds are contributed by employer and employees, and investment returns sustain the fund and allow for disbursements to retirees in the future.<sup>6</sup> A trust fund could limit budget flexibility in the short-term, as resources would have to be committed to begin building such a fund, but the liability is real and the consequences of ignoring it could be serious.

Figure 7 shows an example of how a funding mechanism would increase costs in the short-term (in this example by \$5 million per year) but produce substantial savings in the long-term. By contributing millions of dollars each year now, the compounded interest from the trust fund investments can be used to pay for the liability in the future.<sup>7</sup>

**Figure 7**



<sup>6</sup> “Creating a Retiree Medical Trust: How Employers & Employees Can Use Pre-Tax Dollars to Fund Their Retirement,” National Conference on Public Employee Retirement Systems (NCPERS). NCPERS Task Force on Health Care Benefits 2005. See also, City Auditor’s report to City Council, March 8, 2005.

<sup>7</sup> Example based on City of Wellesley presentation to the Worcester City Council Committee on Municipal Operations, April, 12, 2005. Worcester’s actual numbers may be very different from these following an actuarial review of the liability.

**b) Change the Structure of Benefits**—Even with a pre-funding plan in place, retiree health benefits are a serious long-term financial problem and require a substantial investment in the short-term. A much less costly way to ease the fiscal burden of the retiree health insurance liability is to reform the structure of retiree health benefits by increasing co-payments and/or changing contribution rates. The Worcester Public Schools recently won an arbitration decision which confirms that the City can change retiree benefits without collective bargaining.<sup>8</sup> The City can change the structure of retiree health benefits now and both reduce the long-term liability and save funds in FY06. (Most private employers do not offer retiree health benefits at all. Thus, Worcester taxpayers, most of whom will not receive such benefits, are being taxed to provide them to municipal retirees.)

**4) Pensions: Avoid Unnecessary Pension Increases**

If the City is serious about reducing expenditures, it should refrain from authorizing benefit increases that are not required by law and that most communities do not offer. Massachusetts General Laws Chapter 32, Section 90<sup>9</sup> allows the city (at the request of the administration) to increase retiree pensions in addition to the annual Cost of Living Adjustment.<sup>10</sup> The increases are not required by law and increase the City’s long-term costs. The City Council voted to approve a Section 90 increase that took effect January 2005 that allows public safety retirees to increase their pension by as much as \$2,000 per year up to 50% of the current salary for the position they retired from. The City has initiated Section 90 increases three other times (in 1988, 1994, and 2000), accounting for \$1.2 million in the FY06 budget. The long-term fiscal obligation associated with even small pension increases is substantial.

**Figure 8**  
**Year of Last Section 90 Increase**

Lynn	2001
Newton	None
Framingham	None
Haverhill	None
Springfield	None
Cambridge	None
Taunton	None
New Bedford	None
Malden	None
Somerville	1996
Lawrence	None
Worcester	2005

Sec. 90 increases have never been approved in Newton, Waltham, Springfield, Cambridge, Taunton, New Bedford, Malden, and Lawrence. The City cannot revoke the pension increases it has already approved, but the Administration should resist pressure to recommend another increase, and the Council should be prepared to reject such a recommendation in the future.<sup>11</sup>

<sup>8</sup> Noah Schaeffer, “Lou’s Loss and the City’s Gain,” *Worcester Magazine*, March 17, 2005, p.3.

<sup>9</sup> Massachusetts General Laws, Chapter 32, Sections 90A, 90C, 90D, and 90E are here referred to as “Section 90.”

<sup>10</sup> Cost of Living Adjustments can be as high as 3%.

<sup>11</sup> The Research Bureau contacted cities with a population over 40,000 to request data on Section 90 increases.

**5) Disability Pensions**

In 2003, the Research Bureau examined in detail the City’s disability pensions, showing that the percentage of public safety employees retiring with a disability was twice as large as Department of Public Works workers, and 8 times more than other city employees.<sup>12</sup>

**Figure 9**

**Retirees by Department** (as of December 2002)

Department	Disability Retirees	Superannuation Retirees	Disability as percent of total
Police	143	104	57.9%
Fire	180	144	55.6%
DPW	64	217	22.8%
Other Departments	118	1394	7.8%

This is not entirely due to more on-the-job injuries being sustained in public safety work. State law allows public safety retirees to *presume* that certain common medical conditions (heart disease and prostate cancer, for instance) are job-related, resulting in larger numbers of public safety disability pension claims. Disability pensions are more costly than regular pensions for the City due to expanded benefits, expanded survivor benefits and the return of the employee’s annuity contributions. Disability pensions can begin earlier as well. In addition, disability pensions pay 72% of the highest annual salary tax free—the equivalent of full salary. The presumption clause in the state law is very costly to cities (not just Worcester—Figure 10). City officials and the region’s delegation to the state legislature should advocate changes to the law.

**Figure 10: Percentage of all Public Safety Pensions that Are Disability Compared with Other Departments**

	Public Safety Disability Percentage	Other Departments
Lynn	66.0%	34.7%
Newton	85.8%	27.5%
Framingham	69.4%	27.2%
Haverhill	70.7%	15.0%
Springfield	76.0%	28.9%
Cambridge	61.5%	22.5%
Taunton	25.9%	43.2%
New Bedford	71.8%	20.9%
Malden	86.7%	28.5%
Somerville	75.2%	31.5%
Lawrence	65.2%	28.4%
Worcester	57.2%	10.2%

Data provided by city retirement boards and dated 2004 year end or 2005.

<sup>12</sup> Worcester Regional Research Bureau report, “Tough Choices for Tough Times: The FY04. Budget,” March 27, 2003.

## 6) Borrowing/Credit Rating

The cost of municipal borrowing is substantial; in FY05, total principal and interest payments were over \$40 million, or almost 10% of the City's budget.<sup>13</sup> This will increase as future development projects are funded with bond issues. The cost of borrowing is determined by the City's bond rating, which determines the interest rates the City must pay on its borrowed funds. Bond rating agencies look at the City's entire financial status when setting a rating, but a number of factors are both important and at risk in Worcester:

- a) **Debt Ratios**—These show the amount of debt the City has compared with the amount of annual revenues. Rating agencies judge whether the City brings in sufficient revenue to afford the borrowing it is doing. As the City increases its borrowing faster than it increases its revenues, its debt ratios will increase, making the City look financially less favorable to credit-rating agencies.
- b) **Capital Plan**—Rating agencies expect the City to have a capital plan indicating current as well as future borrowing plans. The City has a number of major development projects in the works and in the planning stages. Without a long-term capital plan that addresses borrowing for large and small endeavors, bond rating agencies might downgrade the City's rating.
- c) **Unfunded Liabilities (Pension and Retiree Insurance)**—Rating agencies review unfunded liabilities to see if the City faces substantial costs in the future that are not being addressed in the short-term. The City's unfunded pension liability is currently \$160 million. In addition to the pension liability, accounting standards will require the City to report the value of its unfunded retiree health insurance liability in 2007 (potentially over \$1 billion). This will be another financial indicator used by bond rating agencies to determine the City's ability to support debt.

Controlling the costs of borrowing is done through fiscal discipline (avoiding irresponsible borrowing) and by maintaining a good bond rating (resulting in lower interest rates). The City can exercise fiscal discipline by borrowing only when appropriate. For instance, the City should avoid borrowing for recurring costs such as police cruisers. Such costs should instead be a part of the City's operating budget. City Councilors raised concerns about this issue in 2004: "[Some councilors] feel it would make more fiscal sense for the city to use tax-levy budget monies to purchase equipment and vehicles."<sup>14</sup> This is a prudent borrowing approach, particularly for vehicles and equipment with a short lifespan.

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<sup>13</sup> Worcester FY05 Budget. This includes municipal, schools, enterprise, and pension bonds.

<sup>14</sup> Nick Kotsopoulos, "Some of the City's Finances Defy Sense or Logic," *Telegram & Gazette*. June 12, 2004, p. B2.

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Figure 11 represents the City’s anticipated major bond expenses for FY06:<sup>15</sup>

**Figure 11**

<b>Major Bond Projects for FY06</b>		
	<b>Total Borrowed</b>	<b>FY06 Payments</b>
<b><u>Project Debt</u></b>		
Vocational School	\$33,850,000	\$846,250
Civic Center	\$2,735,000	\$68,375
Water	\$6,275,000	\$156,875
Union Station Garage	\$2,060,000	\$51,500
Offstreet Parking	\$1,140,000	\$28,500
Sewer	\$5,275,000	\$131,875
Various Citywide	\$16,165,000	\$404,125
<b>Project Total</b>	<b>\$67,500,000</b>	<b>\$1,687,500</b>
<b><u>Other Debt</u></b>		
Pension Obligation Bonds	\$200,000,000	\$12,000,000
City Square DIF bonds*	\$65,000,000	???
<b>Total</b>	<b>\$332,500,000</b>	

\*DIF funding subject to City Council approval and special Legislation

Source: Worcester Budget Office, Worcester FY05 Budget

Prepared by: The Research Bureau

The City is applying for District Improvement Financing (DIF) for the City Square project, which allows it to borrow against the anticipated future tax revenue from a development project. The estimated City financing for the public elements of the City Square project—including an underground parking garage, streets, and sidewalks is estimated at over \$90 million (approximately \$65 million of which will be provided by DIF bonds)—a substantial debt increase. (The intention is that these new bonds will be paid for by tax revenue and parking fees associated with CitySquare).<sup>16</sup>

**B. Increase Productivity**

In addition to pursuing reforms in the major cost centers, the Administration and City Council must increase productivity of municipal departments in order to reduce costs and improve services. Below we draw attention to some departmental targets for increased productivity and efficiency that will reduce expenditures or increase productivity.

<sup>15</sup> The City’s pension obligation bonds represent 40% of the City’s debt burden. That bond issue came in 1998 shortly before a major downturn in the stock market reduced the value of the borrowed and subsequently invested sum. As a result of the market downturn, state legislative changes that expanded benefit eligibility, updated mortality figures, and Section 90 increases, the City’s unfunded liability for pensions has grown since the issuing of those bonds to \$161 million. This unfunded liability could hurt the City’s bond rating if it continues to grow.

<sup>16</sup> City Manager Communication to City Council, February 8, 2005, item #8C.

## 1. Improve Productivity through use of Information Technology

As noted earlier, the City has been upgrading its IT capabilities over the last few years, and many new developments have been described in the accomplishments section of this report. (For a more complete list of accomplishments, see the March 2005 report submitted by the City Manager to the City Council.)<sup>17</sup> The following are areas where Information Technology may be deployed to increase productivity and/or thereby cut costs in City government.

**a) Customer Services: Online Requests, Permits, and Payments**—The City has improved the role of information technology in customer service, particularly in the City Clerk's Office and the Department of Public Works. All departments that have customer-service functions should be examined for increased automation. Permit applications and licenses from Code Enforcement and the Fire Department should be moved online for those with access to the internet to speed order processing and reduce clerical costs.

**b) Accounts Payable, Electronic Funds Transfer**—Currently, the City employs electronic fund transfers only for some employee paychecks and fund transfers that come directly out of paychecks (such as Educational Association of Worcester union dues and child support payments). The City does not pay any of its own bills via electronic fund transfers, which means that the City prints thousands more checks than it needs to each year. Where there are many checks to one vendor, as in the case of MassElectric, the City should arrange to perform such transactions electronically. Currently, the City processes, prints, cuts, and mails approximately 1,000 checks to MassElectric every year.<sup>18</sup> The current system pays multiple bills with single checks, but the system often results in confusion for both MassElectric and the City, requiring staff time to sort out the errors.

An electronic bill payment system could simplify the process of utility bill payment and reduce errors not only for Worcester and MassElectric, but for other major vendors as well. Also, private companies can be hired to manage utility relationships, simplifying payment processes, correcting errors, and improving efficiency. Cass, a Massachusetts company, and Facility IQ are two such vendors that work with large organizations to manage their utility bills.

Establishing such a system internally would require significant changes to the City's current financial software. Another approach might be to replace the City's current software (which is owned by the City and customized by the City's Technical Services staff) with a commercially available product. This would be a costly transition for the City and Technical Services, so the City should not pursue this option without a thorough

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<sup>17</sup> See also complete report of Technical Services accomplishments submitted to City Council, March 8, 2005, Item #25A.

<sup>18</sup> The City of Worcester cut 476 checks to Mass Electric from October 2004 to March 2005.

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examination of the costs and benefits of all options—including outsourcing. Regardless of the method, however, the City should make electronic bill payment a priority.

### 2. Energy Use

Currently, the Worcester Public Schools is working with the State Department of Energy Resources in collaboration with the Mass Technology Collaborative and the Federal Rebuild America program to complete an assessment of WPS energy use. The analysis, performed by the Department of Energy Resources, will identify the most and least efficient buildings in the School Department and begin to lay out a strategy for improving efficiency. A similar evaluation should be performed for all City facilities. Under the City's new organization, all non-school City facilities come under the direction of the Department of Public Works, whereas they were previously managed by each department. This consolidation should make system-wide evaluations and improvements easier to accomplish.

### 3. Outsource

The Administration has indicated that outsourcing is one of its strategies for addressing escalating costs.<sup>19</sup> The City currently has contracts for recycling, parking ticket processing, WPS trash collection, golf course maintenance, snow plowing, vehicle towing, custodial services (at the Memorial Auditorium), roofing services, hydrant painting, pavement marking, and other services (see Figure 12 for a partial list).

**Figure 12**

<b>Selected Contracted Services</b>	<b>FY05 \$ spent to date</b>
Trash Removal (schools)	\$398,476
Golf Course Upkeep	\$208,478
Pavement Marking	\$88,206
Roofing Service	\$72,111
Janitor Services	\$53,270
Hydrant Painting	\$52,969
Security Monitoring Service	\$25,171
Detainee Meals	\$20,757
Tire Waste	\$16,666
Elevator Maintenance	\$7,298
Rubbish Removal	\$6,234
<b>Total Amount spent in FY05</b>	<b>\$949,635</b>

Source: Worcester Purchasing Department

Prepared by: The Research Bureau

In addition, the Administration has outsourced negotiations for all municipal employee collective bargaining agreements—including public safety contracts—to outside counsel. When considering the decision to outsource, all costs must be considered, and given that City personnel costs are so high (once health benefits and pension costs are included), many services may be good candidates for outsourcing.

<sup>19</sup> City Manager Michael O'Brien presentation at Worcester Regional Research Bureau Forum, "Making Sense of Public Spending: Do We Owe Our Citizens Change?" March 3, 2005. p. 11. Available on the Research Bureau Website at <http://www.wrrb.org/Releases/forum30305.html>.



a) **City and School Custodial Service**—The WPS currently employs 153 custodians at a compensation cost of \$6.7 million, approximately \$37,000 per employee (not including overtime, retirement, or health benefit costs). Additionally, the City of Worcester employs 16 custodians at an average salary of \$31,000. According to data from the Bureau of Labor Statistics, custodians in Massachusetts and in the Worcester Metropolitan Statistical Area average about \$24,000 per year (approximately the same as the national average for elementary and secondary school custodians).<sup>20</sup> If Worcester average salaries were in line with those statewide and regional averages, it would save nearly \$2 million in custodial salary costs (and probably more as hourly overtime rates would decline as well). Further, while a private vendor will offer its employees health benefits, they are not going to be as costly as the City’s and it is likely that they would not include retirement health benefits. In Figure 13, we illustrate the potential difference between the City’s compensation costs and those faced by private vendors. Private vendors would pass on their costs to the City under the contract, but the vendors’ lower salary and benefit obligations should allow them to provide the service at a lower cost.

**Figure 13**

**Worcester Custodial Costs Compared with Regional Statistics**

	Employees	Average salary	Total Salary	Health Benefits	Compensation*
WPS Custodians	153	\$37,014	\$5,663,206	\$1,116,900	\$6,780,106
Worcester City Custodians	16	\$31,600	\$505,600	\$128,000	\$633,600
<b>Total of City and Schools</b>			\$6,168,806	\$1,244,900	\$7,413,706
<b>Regional Average Salary*</b>	169	\$24,500	\$4,140,500	\$929,500	\$5,070,000
<b>Difference from City of Worcester Costs</b>				<b>\$315,400</b>	<b>\$2,343,706</b>

\* Bureau of Labor Statistics Metropolitan Statistical Area statistics for wage information include public and private employers. The BLS reported salaries are applied to the Worcester Public School staffing levels for salary comparison. WPS overtime for custodians (\$740,000) is not included. Pension costs are also not included

Prepared by: The Research Bureau

In salary and health benefits alone, the private provider should have over a \$2 million advantage in providing the service under contract.<sup>21</sup> Other costs must be counted (administrative overhead, equipment, etc.) to have a complete picture of the costs, but it is likely that this substantial difference in personnel costs (which does not include the additional savings from pensions and retiree health benefits) would make outsourcing custodial services beneficial to the City.

b) **Payroll**—As noted earlier, improvements made to the payroll system have allowed the WPS to reduce its payroll staff by 40% since 2001 showing that the payroll system had significant inefficiencies in it. The City currently issues approximately 3,800 paychecks weekly and 2,700 biweekly, and it not only processes the payments, but prints the checks and distributes 50% of them (the other 50% are direct deposit). A number of major and local firms offer payroll services that the City could employ. Due to the

<sup>20</sup> 37-2011 Employment and wages, November 2003.

<sup>21</sup> Health benefit cost estimates are based on the Kaiser Family Foundation Employer Health Insurance: 2004 Survey.

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integrated nature of the City's homegrown financial software, outsourcing payroll may not be practical. However, the possibility should be investigated in order to free departments and Technical Services from the related duties and costs. Regardless of the method used for payroll, the City should move all employees to bi-weekly checks, which would cut down on administrative, printing, and paper costs.

**c) Property Management**—The City is the largest owner of tax-exempt property in the city, holding approximately 35% of all tax-exempt parcels, or 560 parcels valued at \$646 million. These properties require management and maintenance, from major rehabilitation to daily custodial services. The City should thoroughly review its property holdings to determine if any could be sold to generate revenue for the City and put properties back on the tax rolls. When the City takes ownership of tax-title property, it should be sold to the highest bidder at auction unless the City has a specific plan in place for the property in question. The City Council was recently informed that the value of the Worcester Police Headquarters is approximately \$4.4 million if sold for demolition and development (which may not generate net revenues for the City if another headquarters or precinct buildings are placed elsewhere in the City). Similar assessments should be made of other City buildings to see if the City can boost development by parting with City-owned properties.

**d) Emergency Medical First Response**—As the numbers in Figure 14 indicate, the majority of the Fire Department responses are to first responder calls or medical emergencies. This takes up firefighter time, and puts wear on Fire Department vehicles for jobs that can be (and often are ultimately) handled by private ambulance services.

**Figure 14**

<b>Worcester Fire Department 2004 Statistics</b>	
Structure Fire Responses	<b>417</b>
Emergency Medical/Rescue Responses	<b>15,383</b>

Source: Benchmarking Public Safety 2005 (CCPM-05-01)

The University of Massachusetts Medical Center has provided private advanced life support EMS service to Worcester since 1991. The City should investigate the possibility of expanding services provided through UMass Medical Center service. Such a change would require the positioning of additional UMass (or other private) ambulances around the City, in order to maintain the rapid response times currently provided by the Fire Department. The current relationship is beneficial to Worcester, as the EMS service is provided free of charge to the City. State law does not require that the Police or Fire Departments be designated "EMS-first responder" and nothing in the law would prevent the City from designating a private entity "EMS-first responder" for the City.<sup>22</sup>

If EMS services were moved to a private service, Worcester's Fire Department resources would then be free to focus on fighting fires and there would be no risk of needed engines being tied up on EMS calls or putting excess wear on expensive fire engines. This could

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<sup>22</sup> Massachusetts General Laws, Chapter 111, Section 202.

result in substantial savings, as the Fire Department could then meet its firefighting obligations with fewer companies.

**4) Reorganize—Restructure Departments for Efficiency**

**a) Worcester Police Fleet Management: Restructure or Outsource**—A recent examination of the Police and Department of Public Works fleet was performed by students from Harvard’s Kennedy School of Government. The following are some of the problems with the Police Department fleet management identified in that report:<sup>23</sup>

- Fleet managers do not have written policies and procedures regarding fleet management or maintenance.
- There are no accounting mechanisms and controls for the fleet. There is no separate budget or accounting record for the fleet.
- Key performance measures, such as cost per mile, average mileage per year, and gasoline spending are not defined or tracked, so the fleet managers lack data on these performance characteristics.
- There is no maintenance schedule for vehicles.
- There are no records of vehicle maintenance or fuel use.
- Vehicle utilization is low because vehicles are assigned to divisions or users rather than shared through the use of a motor pool (where smaller numbers of vehicles are shared by many users).
- There are no guidelines for when vehicles should be replaced.

Currently the Police Department fleet is managed by a sworn police officer and staffed by mechanics. The Police Department fleet information—including repair histories—must be tracked. Similarly, work and cost information must be tracked, so that the cost and estimated time of given repairs can be known. With that basic information, the City could then examine costs and benefits of combining the large City fleets (DPW and Police) or outsourcing fleet management to a private provider. Perhaps the Administration could request assistance in developing a fleet management plan from AMI or another major fleet management firm.

**b) Fire Department Code Enforcement**—Three officers and 10 firefighters staff the code enforcement office of the Fire Department, the work of which could be performed by civilian engineers. These firefighters could be reassigned to positions in the Fire Department made available through attrition and retirements, allowing the city to save on salary, benefits, and pension costs

**Figure 15**

<b>Fire Department Code Department Restructuring</b>		
<b>Current structure</b>		
13 positions	\$66,000	\$858,000
<b>Civillian Code Structure</b>		
13 positions	\$47,000	\$611,000
Savings		<b>\$247,000</b>

<sup>23</sup> Vlada Bogdanova, Taiyo Chen. “Efficiency Improvements to the Fleet Management Systems in the City of Worcester.” April 5, 2005. Harvard Univesity John F. Kennedy School of Government PAE report. pp. 23 – 32.

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for the civilian employees. Figure 15 shows \$247,000 in savings from such a transition—enough to hire 5 civilian employees or 3 public safety employees.<sup>24</sup>

**c) Fire Department Engine Companies**—The City commissioned an in-depth study of Fire Department operations in 1999, and has yet to implement one of its most important recommendations: to reorganize the fire company structure in Worcester. “Close down Engines 13, 16, and 10, and utilize the personnel to augment the staffing on other units.”<sup>25</sup>

**d) Waste Disposal for the City**—The City of Worcester is about to face further bad consequences of a decision made in 1984 when it refused Norton Company’s (now Saint-Gobain) offer to build a waste-to-energy plant. This plant would have taken the City’s waste to produce energy for the company. Although the City would not have had to pay Norton for this service, it was opposed by the City Council because some residents of the Greendale neighborhood objected. Jordan Levy, the mayor at the time, has said he regrets that decision, which, in retrospect, he believes failed to serve the public interest.<sup>26</sup> Instead, Wheelabrator Corporation built a disposal facility in Millbury, and the City contracted with it to dispose of Worcester’s trash. The contract expires in 2007, and the City’s rates are expected to go from \$33 per ton to over \$75 per ton, which will result in a huge increase in the cost of trash removal for Worcester residents.<sup>27</sup>

The decision not to accept Norton Company’s offer has cost the city more than \$40 million for the past 18 years. The City Council and the City Administration need to review the current options, including building (or finding a developer who will build) a solid waste disposal facility in Worcester, in order to minimize future cost increases.

### Conclusion

The City Council and City Administration should work with the region’s state legislators to make a priority of municipal employee benefits reform, including reform of health benefits contributions, retiree health benefits, and changes to the presumption clause for public safety disability pensions. A unified voice from city leaders across the state should get attention from state legislators. During the last session, state legislators changed the health insurance benefits structure for state employees by increasing premium contributions and co-payments—thereby improving the state’s finances. Local officials should have the same opportunity to do so for cities and towns.

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<sup>24</sup> Compensation amounts are based on averages for the entire department and include health costs.

<sup>25</sup> Tridata Fire Department Operations Study, Worcester Massachusetts, December 1999, p. 33. The report says that engine company reductions should be coupled with the addition of ambulances to the Fire Department. The Research Bureau contends that expansion of the City’s relationship with private ambulance services should be investigated as it is the most cost-effective way to provide this service to the community. See page 17 of this report.

<sup>26</sup> Jordan Levy Show, WTAG AM 580, April 11, 2005.

<sup>27</sup> Nick Kotsopoulos, “Worcester is Bracing for 2007: A Trash Odyssey,” *Telegram & Gazette*, March 23, 2003, p. B2.

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In this report we have identified some of the innovations already in place in City government and recommended a number of others that should result in increased productivity and taxpayer savings.

It would not be realistic to expect the City Council or the Administration to address all of these possible areas of reform in the current budget cycle. However, for the sake of improved fiscal stability in the future, it is appropriate to begin laying the groundwork for implementing these changes. As new opportunities present themselves, public officials should evaluate them and implement those that offer the promise of reducing expenditures and increasing productivity.

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