



The Research Bureau

How Can Worcester Insure its Fiscal Health in FY07 and Beyond?

Report 06-02
May 16, 2006

EXECUTIVE SUMMARY

Based on an analysis of Worcester's projected FY07 revenues and expenditures, the City is facing an \$8 million deficit. An additional problem is that within the budgeted allocation of \$237 million to the Worcester Public Schools (WPS), consisting of funds from state and local revenues, the schools have a \$10.3 million shortfall, largely because of contracted increases in salaries and rising health insurance and energy costs. In order to address these deficits, which have a serious impact on the FY07 budget and the fiscal health of the City in years to come, The Research Bureau suggests that the City Manager and his administration implement the following recommendations:

Control Major Costs

- Restructure municipal employee health benefits, most importantly by increasing contribution rates to 25% for employees.
- Establish a trust fund to pre-fund Other Post-Employment Benefits (OPEB) such as retiree health insurance, which currently represents a \$1 billion liability for the City.
- Avoid unnecessary pension increases not required by law.

Restructure Services

- Hire a professional manager to supervise Worcester Police Department fleet operations.
- Include first responder service in EMS services provided by UMass Memorial Healthcare so as to reduce the burden on Worcester Fire Department personnel and equipment, and reduce fuel costs.
- Restructure the Code Division of the Fire Department to include less costly civilian engineers.
- Outsource custodial services for municipal and school buildings.
- Establish electronic bill payment to pay major vendors. Negotiate change in contractual arrangements to be able to issue checks to all salaried municipal employees either biweekly or monthly.

Increase Revenues

- Fund the Route 20 Sewer Project to create new opportunities for expanding the City's tax base.
- Review current listing of City-owned properties and sell unused ones at market rate.

Introduction

The frequent comment heard from many City officials as well as business and community leaders these days is that Worcester is a “city on the move.” Projects in progress include the new Regional Justice Center, Gateway Park, Worcester Technical High School, the parking garage at Union Station, the Route 146 Connector, and the Hilton Garden Inn. These follow the recently completed projects at Lincoln Plaza, the Marriott Residence and Plantation Towers.¹ A couple of weeks ago, the long-awaited agreement between the City Manager and Berkeley Investments was announced, which gives reason to think that the \$563 million CitySquare project is at last on track.²

With so many positive developments, the audience at The Research Bureau’s March 3 forum on state and local finances may have been surprised to hear Massachusetts Secretary of Administration and Finance Thomas Trimarco deliver a stern warning about Worcester’s finances:

“You are on an unsustainable road. Unless you turn around, you’ll be Springfield-like. Your stability factor is zero.”³ Referring to Mr. O’Brien’s statistics [in his Research Bureau presentation] as a “showstopper,” the secretary said, “If this is not a wake-up call, I don’t know what could cause people to realize that you have a problem. These numbers will have to be faced by the public service unions.” Mr. Trimarco has served on the five-member finance control board appointed by the Governor to save Springfield from going bankrupt. Now under virtual receivership, that once-prosperous city is besieged by fiscal mismanagement, debt, unaffordable union contracts, urban decay and loss of business. “They can’t beg people to invest in Springfield,” the Secretary noted.⁴

How can we reconcile Secretary Trimarco’s warning with the promising message cited above?

The purpose of this report is to analyze the proposed FY07 budget, describe the financial instability Worcester faces, and suggest steps that can be taken to mitigate these problems.

¹ “Development Projects,” *Executive Office of Economic Development*, <http://www.worcestermass.org/development/> (April 2006).

² Nick Kotsopoulos, “Project Developer Agrees with City – CitySquare Deal Near Completion,” *Worcester Telegram & Gazette*, April 2, 2006, p. A1.

³ “The municipal stability analysis provides historical data on recurring municipal revenues and employee benefit costs and uses a municipality’s historical experience to render corresponding estimates for the next fiscal year. The purpose of the analysis is to estimate the average annual percent change in available revenue, after providing for health and pension costs, that may be used for discretionary spending purposes such as salary increases, new services or capital purchases. The average percent change from the last fiscal years in recurring net revenue, after providing for employee health and pension costs, is referred to as the **municipal stability factor**.”

Source: Massachusetts Department of Revenue: http://www.mass.gov/Muni_dor/index.html

⁴ Robert Nemeth, “City on the Move? How Fast and Where?,” *Worcester Telegram & Gazette*, April 9, 2006, p. C2.

Part I: FY07 BUDGET PROJECTIONS

Table 1: FY07 Budget Summary

	FY06	FY07	Increase/Decrease	% Change: FY06-07
Revenues				
Property Tax	\$172,523,655	\$180,500,000	\$7,976,345	4.6%
Other Local	\$38,240,000	\$38,240,000	\$0	0.0%
Nonrecurring Revenues	\$2,860,000	\$0	-\$2,860,000	-100.0%
Medicare Part D	\$0	\$2,000,000	\$2,000,000	
Free Cash	\$7,471,148	\$4,000,000	-\$3,471,148	-46.5%
Total Local Revenues	\$221,094,803	\$224,740,000	\$3,645,197	1.6%
State Aid				
Chapter 70 (Worcester Public Schools)	\$161,059,359	\$165,279,336	\$4,219,977	2.6%
Charter Reimbursements	\$3,179,128	\$3,130,000	-\$49,128	-1.5%
Other School	\$157,604	\$140,441	-\$17,163	-10.9%
MSBA (Mass. School Building Authority)	\$14,203,657	\$14,200,000	-\$3,657	0.0%
Other Local	\$49,131,763	\$57,213,087	\$8,081,324	16.4%
Total State Aid	\$227,731,511	\$239,962,864	\$12,231,353	5.4%
Total	\$448,826,314	\$464,702,864	\$15,876,550	3.5%

	FY06	FY07	Increase/Decrease	% Change: FY06-07
Expenditures				
Public Safety	\$62,954,192	\$70,830,000	\$7,875,808	12.5%
Charter Schools, School Choice	\$15,682,793	\$16,759,296	\$1,076,503	6.9%
Worcester Public Schools	\$193,665,450	\$196,850,000	\$3,184,550	1.6%
Health Insurance Worcester Public Schools	\$36,513,485	\$40,200,000	\$3,686,515	10.1%
Health Insurance City Side	\$24,559,566	\$27,200,000	\$2,640,434	10.8%
Public Works and Parks	\$17,282,930	\$19,100,000	\$1,817,070	10.5%
Health and Human Services	\$8,735,932	\$9,552,000	\$816,068	9.3%
Debt (Principal and Interest)	\$28,236,236	\$29,100,000	\$863,764	3.1%
Pension Contibution and Pension Bonds	\$23,691,945	\$24,220,000	\$528,055	2.2%
Airport	\$1,155,126	\$1,600,000	\$444,874	38.5%
Development (Economic and Neighborhood	\$634,119	\$1,000,000	\$365,881	57.7%
Administration and Finance	\$5,168,812	\$5,500,000	\$331,188	6.4%
Worker's Compensation	\$1,287,260	\$1,352,000	\$64,740	5.0%
Legislative and Auditing	\$1,374,897	\$1,443,000	\$68,103	5.0%
City Manager Operations	\$2,160,524	\$2,448,000	\$287,476	13.3%
Union Station	\$1,860,000	\$690,000	-\$1,170,000	-62.9%
City Manager Contingency	\$6,093,826	\$4,000,000	-\$2,093,826	-34.4%
OPEB Liability Funding	\$0	\$2,000,000	\$2,000,000	
Streets and Sidewalks Tax levy Funding	\$0	\$2,500,000	\$2,500,000	
Snow Removal Deficit	\$3,491,468	\$2,000,000	-\$1,491,468	-42.7%
Other	\$14,277,753	\$14,212,408	-\$65,345	-0.5%
Total	\$448,826,314	\$472,556,704	\$23,730,390	5.3%

DEFICIT - \$7,853,840

Health insurance assumes no additional settlements in FY07.

Calculations of the savings if all remaining bargaining units settle for FY07:

	Status Quo	Reformed
City	\$27,200,000	\$24,860,000
Schools	\$40,200,000	\$35,200,000
Totals	\$67,400,000	\$60,060,000
Savings from Reform		\$7,340,000

Source: City of Worcester Budget Office

Prepared by: The Research Bureau

Revenues

Table 1 shows the projected revenues and expenditures for FY07. City revenues come primarily from three sources: property taxes, fees and charges, and local aid from the state:

- **Local Aid:** Local aid from the state consists of funding for the Worcester Public Schools plus additional aid for non-public-school services. The Chapter 70 aid, which is designated for the WPS, is estimated to increase by \$4.2 million, or 2.6%, based on the House-approved budget. Charter school reimbursements of \$3.1 million are to compensate the WPS for students lost to the charter schools, and to support facilities for the charter schools. Total state aid for FY07 is expected to be \$240 million, a \$12.2 million, or 5.4% increase from FY06.
- **Property Tax:** The amount of property-tax revenue that a city can collect is limited by Proposition 2 ½, the tax limiting amendment approved by voters in 1980. It states that the maximum annual increase in a city's property-tax levy is 2.5% of the previous year's tax levy limit plus the value of new construction. Property-tax revenue for FY07 is projected to increase by \$8 million (\$3.4 million of which is from new construction), from \$172.5 million to \$180.5 million. This represents a 4.6% increase.
- **Fees & Charges:** In addition to property-tax revenue, the City is allowed to collect fees and charges for certain services that it provides. Sources of this revenue include the motor vehicle excise tax, a hotel/motel tax, and fees for acquiring licenses and permits. Total FY07 local revenues are expected to generate \$38.2 million, about the same as last year.
- **Free Cash:** Free cash is excess revenue over expenditures. This arises when budget cost estimates exceed actual costs during the year. Free cash from FY06 may be around \$4 million, which is almost \$3.5 million less than last year.
- **Medicare Part D:** The Medicare Part D revenue is a reimbursement from the Federal government under the new prescription drug law. Any municipality that provides its employees with a prescription drug benefit that is equal to or of better quality (as certified by an actuary) than the Federal Medicare Plan D will receive reimbursement from the Federal government. Because the City of Worcester offers a prescription plan to its retirees that is more generous than Medicare Part D, it is estimated to receive \$2 million in FY07. If this law remains in place, the City will continue to receive reimbursements annually so long as it offers the current prescription plan.

In sum, the City's revenues will increase by almost \$15.9 million, or 3.5% in FY07.

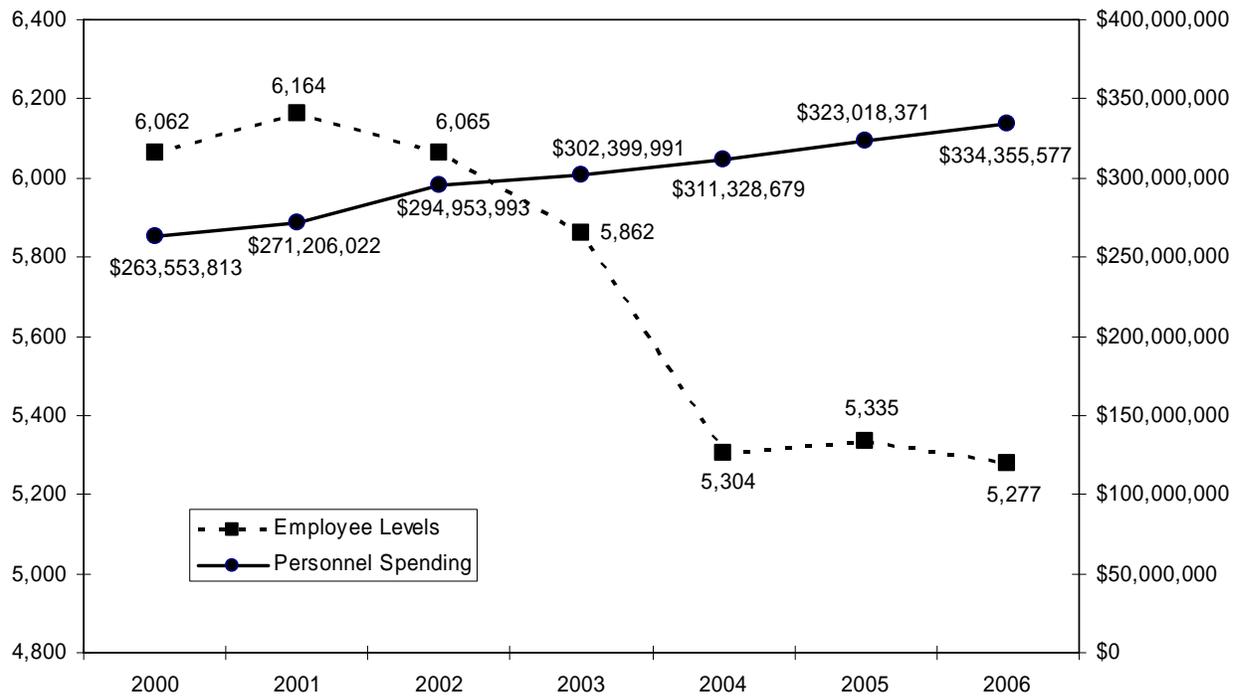
Expenditures

- **Worcester Public Schools:** The largest expenditure in the FY07 budget is \$237 million (\$40.2 million of which is for employee health insurance) for the Worcester Public Schools, which comes from Chapter 70 aid and the required contribution from the City. This is an increase of \$6.9 million or 2.9% over FY06. At this level of funding, the WPS are facing a deficit of \$10.3 million. Closing the deficit will require cutting about 140 positions, primarily teachers, art, music, athletic and after-school programs, enrichment classes, and professional development, and closing four schools. The WPS face almost \$15 million in mandatory cost increases, including \$5.1 million in salaries, \$4.1 million in health insurance costs, and \$2 million in increased energy costs. The increased salary and health insurance costs are the result of contractual obligations. Given this scenario, it is critical that the City Manager's proposal for increasing employee health insurance contributions be implemented (See Health Insurance section below), and that future salary increases be no greater than the rate of inflation. Maintaining an effective school system with enough teachers and academic programs depends on making these changes.
- **Charter Schools and School Choice:** The City is required to allocate \$16.8 million from its Chapter 70 funds to students attending charter schools and schools outside the district. The amount is determined by the state according to a per pupil spending formula for the district and is based on the number of students attending charter schools and out-of-district schools.
- **Health Insurance:** Health insurance for non-school employees is expected to increase by \$2.6 million, or 10.8%, while health insurance for WPS employees is expected to increase \$3.7 million, or 10.1%. The total FY07 budget for employee health insurance is expected to be \$67.4 million or 14.3% of the municipal budget, larger than any department except for the WPS. (In FY06 it was \$61 million, or 13.6% of the budget.)

These increases have had a serious impact on the City's ability to provide services to its residents, since it has had to reduce the number of employees in order to fund health insurance premiums for those remaining. Graph 1 shows that between FY00 and FY06, personnel decreased by 785, or 13%, while salary and benefit costs increased by \$71 million, or 27% during the same period. According to the City Manager's projections, if the health insurance benefit structure is not altered, it will consume 40% of the municipal budget by 2014.⁵

⁵ City Manager's presentation at The Research Bureau's Forum: "Reality, Reform, and Results: The Bright Future for the City of Worcester," March 2006.

Graph 1: City of Worcester Employee Levels and Personnel Spending: FY00-FY06



Source: City of Worcester Budget Office

Prepared by: The Research Bureau

Employee levels and personnel spending figures include the City of Worcester and the Worcester Public Schools.

In order to begin controlling health insurance costs, the City Manager has negotiated changes with the police union on the City’s contribution rate from 90% for the HMO and 87% for the PPO to 80% for both plans for existing employees and 75% for new hires after July 1, 2006. These changes will save the City \$2.14 million in FY07.⁶ The recent Joint Labor Management Arbitration ruling on the Worcester Fire Department supports the City Manager’s proposal for changing health insurance contributions.⁷ If all remaining unions settled in a similar fashion, total savings for health insurance would be \$9.5 million. The City has changed the structure of retiree health benefits to a 20% contribution rate as well to reduce the long-term liability and save funds in FY07. (Most private employers do not offer retiree health benefits at all.)

- Contract Negotiations:** In order to settle the remainder of the contracts the City Manager has allocated \$4 million in his contingency fund to finance the retroactive components of the “model wage contract” (for non-school departments). The proposed contract includes 9.25% in salary raises over the course of four years as well as the previously mentioned changes in health insurance contribution rates. Because all previous contracts ended in FY03, the new contract includes retroactive raises of .25% for FY04, 2% for FY05, and 2% for FY06. It also includes raises of 2% for FY07 and 1%

⁶ Source: City of Worcester Budget Office.

⁷ Milton J. Valencia, “Report May End Union Dispute,” *Worcester Telegram & Gazette*, May 7, 2006, p. B1.

on the last day of the contract in June 2007. In addition, employees receive a 1% raise in FY06 and 1% raise in FY07 in exchange for health insurance contribution rate changes.

- **Other Post-Employment Benefits (OPEB):** As part of their benefit plan, municipal employees are promised, upon retirement, both pensions and Other Post-Employment Benefits. OPEB benefits include health insurance and life insurance, in addition to benefits from defined pension plans. These benefits, unlike superannuation pensions, have never been shown on Worcester's, the state's, or any other city's balance sheet as an unfunded liability. The General Accounting Standards Board (GASB) is requiring all jurisdictions to report these projected costs (Worcester is required to report its OPEB liability in FY08) and to develop a funding plan to pay for them. According to the City Auditor, the current OPEB unfunded liability is approximately \$1 billion. The City Manager is including \$2 million in the FY07 budget to begin an investment fund for OPEB, just as it has for its pension liability. The difference between the City's pension liability and the OPEB liability is that pension costs are more predictable than OPEB costs. Pension liability is evaluated according to the number of retirees and their lifespans; OPEB costs are dependent on the cost of health care, which has been increasing rapidly in recent years. Nevertheless, establishing such a fund is a necessary component of demonstrating financial stability to the bond rating agencies and a recognition that these costs should be shared by current and future taxpayers.
- **Worcester Regional Airport:** Airport costs in FY07 will be \$1.6 million, an increase of 38.5%. As part of the current agreement between the Airport and MassPort, the Authority covered the entire deficit in FY05, which was about \$1.9 million.⁸ In FY06, the City covered 15% of the operating deficit, or \$1.1 million. In FY07, MassPort will cover 68%, with the City of Worcester paying the other 32%, or \$1.6 million. When the agreement expires next year, the City of Worcester will be responsible for covering the entire operating deficit of the Airport. Infrastructure Management Group, Inc. (IMG) issued a report in November 2005 proposing that the Worcester Regional Airport "implement an aggressive multi-faceted marketing strategy, build a regional coalition, and attract commercial air service."⁹ Leigh Fisher Associates is in the process of formulating a 20-year Master Plan for the Airport, the purpose of which is to assist the Airport in attracting additional airlines and increasing its revenue.
- **Street and Sidewalk Repair:** Each year, when The Research Bureau conducts its random sample citizen satisfaction survey and its in-depth tracking of twelve of the City's most challenged neighborhoods through its ComNET surveys, streets and sidewalks are consistently cited as the biggest problem with which residents are dissatisfied. According to an analysis by the Commissioner of Public Works and Parks, \$64.1 million would be required to bring the City's streets and sidewalks to a satisfactory level.¹⁰ The City Manager is allocating \$2.5 million in the FY07 budget toward this goal. In FY06, he originally allocated \$2.5 million for this purpose. However, \$1.5 million was

⁸ Worcester Regional Airport, *Airport Finances*, <http://www.flyorh.com/AirportFinances.html> (April 2006).

⁹ Infrastructure Management Group, Inc, *City of Worcester: Worcester Regional Airport*, November 2005.

Available at <http://www.ci.worcester.ma.us/>.

¹⁰ Estimate based on a 2004 analysis by DPW. The \$64.1 million assumes 2004 construction costs which are lower than 2006 construction costs. Source: City of Worcester Department of Public Works and Parks.

transferred to the WPS to restore teaching positions and reduce class sizes. In addition, in order to meet minimum requirements to receive state funding for the Worcester Public Library, \$150,000 of the street and sidewalk allocation was instead used towards increasing the Worcester Public Library's operating hours. The remaining \$850,000 was allocated towards health insurance reforms for retirees.

- **Snow Removal Deficit:** Each year the City under-budgets for snow removal and must then pay the difference in the succeeding fiscal year from free cash. Since snowfall during FY06 was considerably less than FY05, the deficit to be paid in FY07 is \$2 million rather than the \$3.5 million that had to be paid in the current fiscal year. The City Manager has said that the continued practice of under-funding the account needs to be reevaluated. The City budget should include annual increases that better represent the City's actual costs.
- **Waste Disposal:** For FY08, the City will face further bad consequences of a decision made in 1984 when it refused the offer by Norton Company's (now Saint-Gobain) 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.¹¹ Instead Wheelabrator Corporation built a disposal facility in Millbury, and the City contracted with it to dispose of Worcester's trash. The decision not to accept Norton Company's offer has cost the City more than \$100 million over the past 20 years.¹² Because the contract expires in December, 2007, the City has negotiated a new 20-year contract with Wheelabrator which the City Council must vote on by June 30. As part of the contract, tipping fees will increase to \$70.50 per ton, almost double the current \$36 per ton. Every year after that, tipping fees will increase by $\frac{3}{4}$ of the increase in the Consumer Price Index (CPI). Thus if the CPI increases by 4% in 2008, the tip fee will increase by 3%. In order to pay for its higher tip fees, the City will have to increase trash bag costs or divert funds from other City departments to trash disposal.

Shipping trash to another facility would ultimately be more costly than an agreement with Wheelabrator; Boston pays \$84 per ton for waste disposal and Springfield pays \$71 per ton.¹³ Worcester would benefit from building its own waste-to-energy facility, eliminating tipping fees and reducing transportation costs. The Massachusetts Solid Waste Master Plan, however, prohibits building new waste-disposal facilities in the state. Consequently, many cities in Massachusetts are forced to pay high tipping fees and transport costs to dispose of waste out-of-state. This adds to the cost of conducting business and of living in the Commonwealth. These rising costs should be

¹¹ Jordan Levy Show, WTAG AM580, April 11, 2005.

¹² This figure was determined by three factors: (1) The city has had to pay a tip fee averaging about \$1 million a year or \$20 million total. Had the plant been located in Worcester, there would have been no tip fee. (2) Lost water and sewer revenues to the City for running the plant was about \$1 million per year or \$20 million. (3) If the plant were valued at \$200 million, the City would have received at least \$3 million per year in property taxes, or \$60 million.

¹³ Nick Kotsopoulos, "City Trash Deal Shows Big Hike in Tipping Fees," *Worcester Telegram & Gazette*, May 4, 2006, p. A1.

noted in discussions of why the state is losing population, especially young people, and why the Massachusetts economy is recovering much more slowly than that of the nation as a whole.

- **Energy Costs:** Rising energy costs affect the FY07 budget and beyond. The cost of natural gas, gasoline, and diesel fuel has risen considerably and is expected to continue to do so in the foreseeable future. Because of the volatility of fuel prices and difficulty in accurately predicting future costs, the City Manager has proposed that the City Council establish a Worcester Energy Fund.¹⁴ The City and the WPS could access this fund if energy costs rise above fiscal year projections.

Summary

While total revenues are expected to increase by 3.5% for the coming fiscal year, expenditures are expected to increase by 5.3%, leaving the City with a deficit of about \$8 million. If the City were able to negotiate the contracts discussed above with the remaining unions, \$7 million of the \$8 million gap would be closed by savings in the health insurance account alone. Assuming the unions representing the WPS employees agree to these changes, savings from the health insurance account would still leave a \$5.3 million deficit in the overall budget of the WPS.

What this analysis makes clear is that mandated expenditures, including the cost of health insurance, OPEB, and trash removal will exceed anticipated revenues, necessitating cuts in services. The only alternatives are to reduce these costs, restructure operations to save money, or increase revenues. After discussing savings already achieved, the remainder of this report will make some suggestions for additional savings and increasing revenues.

¹⁴ City Manager O'Brien, "Recommendation to Create the Worcester Energy Fund Using New Construction Growth Tax Revenues," *City Council Minutes*, November 22, 2005.

PART II: ACCOMPLISHMENTS

During the past couple of years, the City Administration has made a laudable effort to improve the efficiency and effectiveness of municipal operations. Below is a description of some accomplishments in this regard which may serve as a model for other reforms and innovations.

Use of Technology

In its FY06 Budget Report (#05-02), The Research Bureau recommended that the City “establish online bill payment for property taxes, fees, and charges.”¹⁵ Table 2 lists the online services now available on the City of Worcester’s website. The City Clerk’s Office has seen the highest percentage of online transactions since the system was established in November, 2005. The City’s Technical Services Department is currently working on adding more payment and renewal options to the website, including payments/renewals for parking lot permits and various health and code permits.

In the upcoming months, the City’s Technical Services Department will be implementing a new system for automating the City Manager and City Council Calendars. Phase I of the Automated Agenda System project will automate the process of generating the City Manager’s calendar (agenda). Department and cabinet heads will electronically submit their agenda items to the City Manager’s Office and the City Manager’s staff will electronically post the items to an agenda. All manual processes will be eliminated, including the scanning of submitted items, a very paper-intensive and time-consuming task. The agenda and associated attachments will be automatically saved in the City’s document imaging system once the agenda is posted to the City’s website. These documents will be in PDF format and accessible to the public. Phase II will fully automate the City Clerk’s processes. Instead of viewing scanned documents in the current Laser Fiche system, users will be able to view all documents in PDF format. This means the elimination printing and scanning City Council documents, and a more user-friendly system for City residents.

Table 2: Online Bill Payments/Renewals

Description	Dept/Division
Motor Vehicle Excise Tax	Treasurer & Collector
Personal Property Tax	Treasurer & Collector
Real Estate	Treasurer & Collector
Water/Sewer	Treasurer & Collector
Birth Certificate	City Clerk
Certificate of Municipal Lien	Treasurer & Collector
Death Certificate	City Clerk
Marriage Certificate	City Clerk
Dumpster Permit	Fire Department
Pool Table License	License Commission
Liquor License	License Commission
Lodging House License	License Commission
WFD Licenses ¹	Fire Department

Source: <http://www.ci.worcester.ma.us/>

Prepared by: The Research Bureau

¹Licenses issued by the Worcester Fire Department are for garage, auto repair, auto body facility, and storage of flammable fluids.

The Worcester Police Department (WPD) has replaced paper reports with an automated system for morning and overtime reports, payroll, attendance, and work schedules, all of which can be accessed electronically. The system facilitates scheduling for major upcoming events and

¹⁵ The Research Bureau, *The FY06 Budget: Are Increasing Taxes and Reducing Services the Only Options?* p. 1.

measures overtime and personnel spending trends, thus promoting greater accountability for spending. The WPD previously introduced digital mapping technology to identify clusters of reported crimes and disturbances. The information has resulted in better-informed resource allocation, including officer deployment leading to arrests. The Department's five-member crime analysis team prepares incident information for electronic transmission to all divisions of the WPD.

Customer Service Center (508-939-1300)

The Customer Service Center, managed by DPW since it began operations in 2002, is a computerized service request/work order system which logs and tracks citizen requests, inquiries, and complaints. During FY05, the Center responded to over 110,000 calls, of which about one-quarter resulted in work orders. The Customer Service Center is staffed by a manager, a senior consumer service representative, three full-time customer service representatives, and a part-time representative. One of the representatives is bilingual, so as to assist with calls from the City's Hispanic population. When a call comes in requesting, for example, that a pothole be filled, a computerized work order appears on the screen in front of the customer service representative, prompting the representative to enter the appropriate information about the caller and the service request. The completed request then goes electronically to the appropriate DPW division. The DPW division accepts the work order, updates it as necessary, and closes it when the work is completed. The Customer Service Center has recently been experimenting with the use of handheld computers in the field by DPW personnel. This will allow workers to receive a request for action from the Customer Service Center, and report back to the service center after resolving the problem, all via computer. While the majority of requests to the Center are received by telephone, it is also open to the public for walk-in requests, and the Technical Services Department will be working on a web-based component to allow citizens to submit requests using the Internet and email to the City's website.

According to city officials, the Service Center saves thousands of dollars a year because fewer people are needed to answer phones. (Previously, there were 15 different service numbers for DPW.) It also has improved the way information is passed on to the public and has cut the response time of the DPW to residents' complaints. This state-of-the-art Service Center received the Massachusetts Municipal Association Innovation Award for 2005.

Capital Plan

One of the factors affecting the City's credit rating is having a well-thought out capital plan that establishes a funding system to pay the debt for major projects undertaken. This past year the City of Worcester established a Five-Year Capital Investment Program (FYCIP) for FY06-FY10. It describes in detail the City's projected capital expenses over five years, and how it will fund these commitments. Projected investment costs over the next five fiscal years are estimated at \$391 million.¹⁶ It is essential that the City follow its capital plan in order to demonstrate fiscal responsibility to credit rating agencies.

¹⁶ City of Worcester, *Capital Improvement Plan: Fiscal Years 2006-2010*, p. 2.

Outsource Services

The City outsources hundreds of city services because it is less expensive and some services can be delivered more effectively by those with expertise in delivering a particular service. Contracts with outside providers include trash removal from the WPS, golf course maintenance, roofing services, hydrant painting, and other services. (See Table 3 for a partial list of outsourced services and their cost to the City.) The Administration should review its services regularly to determine possible additional savings from outsourcing other services.

Table 3: Outsource Services

Selected Contacted Services	FY06 \$ Spent to Date
Trash Removal (schools)	\$277,449
Golf Course Upkeep	\$334,330
Pavement Marking	\$185,577
Roofing Service	\$96,348
Janitor Services	\$62,824
Hydrant Painting	\$18,625
Security Monitoring	\$25,755
Detainee Meals	\$46,972
Tire Waste	\$14,331
Elevator Maintenance	\$72,195
Rubbish Removal	\$30,883
Total Amount	\$1,165,289

*Source: City of Worcester Purchasing Department
Prepared by: The Research Bureau*

Energy Efficiency

The Division of Public Works and Parks, which is responsible for the City's buildings, has installed fuel-efficient lights and windows that trap heat and air conditioning. The DPW has also purchased some fuel-efficient hybrid vehicles.

PART III: THE WORK AHEAD

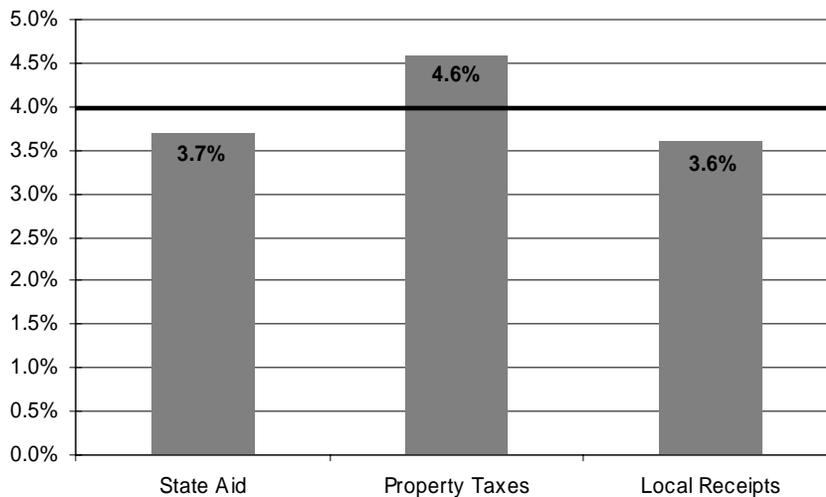
The above examples are models to be used for future innovations. What these accomplishments show is that cutting government costs need not entail reducing services. With initiative and technology, it is possible to control costs and increase productivity. The remainder of this report examines areas where further accomplishments in this direction may be possible, and even required.

Controlling Major Costs

Restructure Health Insurance Contributions

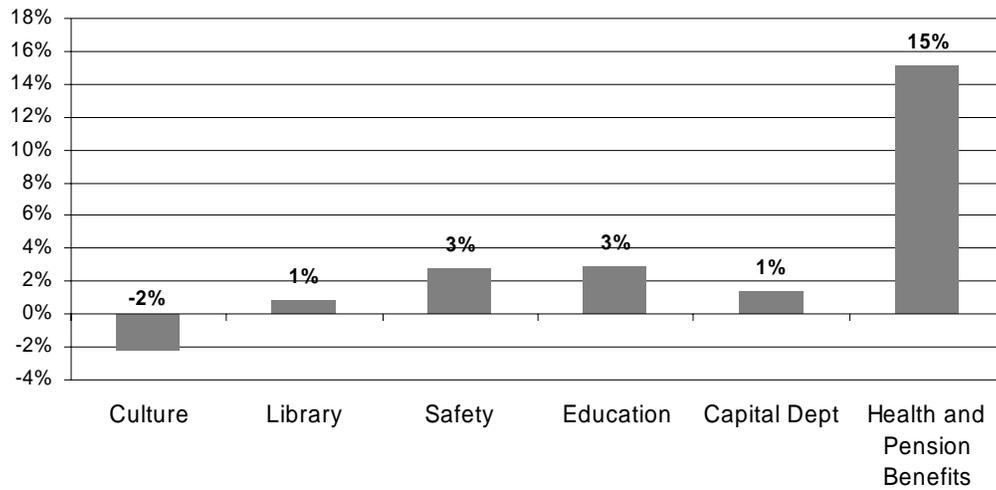
A review of the City’s revenues between FY00 and FY05 indicates that they have increased, on average, by 4% a year. (See Graph 2 below.) As indicated in Graph 3, however, health and benefits expenditures have grown during that period by about 15% each year. All other services, however, have grown by far less than the City’s average growth rate of 4%. Thus, the necessity for controlling health and pension benefits is obvious, and Secretary Trimarco’s warnings about “slouching toward Springfield” must be taken seriously. The City Manager’s negotiating strategy of increasing employee health insurance contributions to 20% for current employees and 25% for new hires is critical to the City’s long term fiscal health.

Graph 2: Revenue Growth Rates by Category: FY00-FY05



Source: City Manager’s presentation at The Research Bureau’s Forum: “Reality, Reform, and Results: The Bright Future for the City of Worcester,” March 2006.
Prepared by: The Research Bureau

Graph 3: City and School Expenditure Growth Rates: FY00-FY05



Source: City Manager's presentation at The Research Bureau's Forum: "Reality, Reform, and Results: The Bright Future for the City of Worcester," March 2006.
 Prepared by: The Research Bureau

It should also be noted, as shown in Table 4, that the City's contribution rates for health insurance for those unions that have not settled are the highest of all the Massachusetts cities surveyed.

Table 4: Health Insurance Comparison

City	% City Contribution (Individual Family): HMO	% City Contribution (Individual Family): PPO/POS	City Monthly Premium: Individual HMO Plan	City Monthly Premium: Family HMO Plan	City Monthly Premium: Individual PPO/POS Plan	City Monthly Premium: Family PPO/POS Plan
Boston	85%	75% 85%	\$451.09	\$1,213.39	\$667.98 \$481.04	\$1,723.39 \$1,293.97
Brockton	75%	75%	\$421.95	\$1,000.62	\$602.52	\$1,311.43
Fall River	75%	75%	\$453.00	\$1,215.00	\$479.00	\$1,280.00
Lowell	75%	75%	\$446.59	\$944.85	\$487.17	\$1,030.75
Lynn	90% 86.4% & 75%	75%	\$280.38 \$403.41	\$740.02 \$1,080.16	\$781.52	\$1,960.20
New Bedford	N/A	75%	N/A	N/A	\$449.50	\$1,123.38
Newton	80%	80%	\$359.46 \$465.65	\$978.79 \$1,260.45	\$670.12	\$1,606.99
Quincy	90%	75%	\$486.56	\$1,267.13	\$656.31	\$1,708.48
Springfield	76% & 73%	76% & 77% 30% & 28%	\$445.82	\$1,136.01	\$498.10 \$476.33	\$1,257.60 \$1,231.52
Worcester (unsettled)	90%	87%	\$445.39 \$486.77	\$1,149.11 \$1,255.85	\$547.74	\$1,434.83
Worcester (settled)	80%	80%	\$397.24 \$434.14	\$1024.24 \$1,120.9	\$524.19	\$1,373.10
Worcester (new hires)	75%	75%	\$397.24 \$434.15	\$1024.24 \$1,120.10	\$524.19	\$1,373.10

Source: City Human Resource and Personnel Departments
 Prepared by: The Research Bureau
 Some cities offer more than one PPO or HMO plan and thus have multiple contribution rates or premiums. Worcester's rates and premiums are divided into three different rows representing the current unsettled contracts, settled contracts, and new hires.

Adopt 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 (1655), switched to Medicare-supplemental plans (which cover costs not covered by Medicare), the City could save close to \$9 million in FY07. (See Table 5.)

Table 5: Estimate of Savings from Adopting Sec. 18

Types of Plans	Retirees over 65	Average Cost	Total
Conventional Plans	1655	\$8,882	\$14,699,710
Senior Plans	1655	\$3,434	\$5,683,270
Potential Savings			\$9,016,440

Source: City of Worcester Budget Office
Prepared by: The Research Bureau

Avoid Unnecessary Pension Increases

If the City is serious about controlling 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 allows the City (at the request of the Administration) to increase retiree pensions by amounts in addition to the annual Cost of Living Adjustment.¹⁷ 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 allowing 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 (especially since current increases are used as the base for future increases).

Table 6: Year of Last Sec 90 Increase

Cambridge	2000
Haverhill	2001
Lawrence	None
Lowell	1992
Needham	None
Newton	None
Peabody	None
Plymouth	None
Taunton	None
Springfield	None
Weymouth	None
Worcester	2005

Source: City Retirement Boards
Prepared by: The Research Bureau

Sec. 90 increases have never been approved in Lawrence, Needham, Newton, Peabody, Plymouth, Taunton, Springfield, or Weymouth. 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.

¹⁷ Massachusetts General Laws, Chapter 32, Sections 90A, 90C, 90D, and 90E are here referred to as “Section 90.”

Control Disability Pensions

Table 7 shows that the percentage of public-safety employees retiring with a disability is almost three times as large as those for Department of Public Works workers, and eight times more than other city employees. The first column in Table 7 shows the number of retirees on accidental disability, not ordinary disability. Accidental disability pensions are more costly than regular pensions for the City due to expanded benefits, expanded survivor benefits and the return

Table 7: Worcester Retirees by Department (As of 12/31/05)

Department	Accidental Disability Retirees	Superannuation Retirees & Ordinary Disability	Total	% Accidental Disability
Police	137	117	254	53.9%
Fire	182	164	346	52.6%
DPW	49	220	269	18.2%
Other Departments	81	1459	1540	5.3%

Source: City of Worcester Retirement Board

Prepared by: The Research Bureau

of the employee’s annuity contributions. Disability pensions can begin earlier in such cases as well. In addition, disability pensions pay 72% of the highest annual salary earned, tax free—the equivalent of full salary. The higher percentage of public safety retirees on accidental disability 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. The presumption clause in the state law is very costly to many cities, not just to Worcester. (See Table 8.) City officials and the region’s delegation to the state legislature should advocate changes to the law.

Because of the high number of public safety retirees on disability, public safety retiree and health insurance costs to the City are double the amount of other department retiree costs. Other cities, like El Paso, Texas, account for this cost discrepancy between departments by separating public safety pension contributions from the rest of its payroll. Because public safety employees are at a higher risk of retiring on disability, they have a higher pension contribution rate that covers the cost of retirees on disability. This mechanism encourages public safety employees in El Paso to be less tolerant of co-workers deceptively retiring on disability so as to receive a higher compensation package.

Table 8: Percentage of Accidental Disability Public Safety Pensions Compared with Other Departments

Cities	Public Safety Accidental Disability: % of Total	Other Departments Accidental Disability: % of Total
Lowell	47.1%	5.4%
Needham	22.4%	3.1%
Peabody	26.1%	5.8%
Taunton	29.8%	12.1%
Springfield	35.8%	7.6%
Weymouth	36.6%	4.4%
Worcester	53.2%	7.2%

Source: City Retirement Boards, Information dated 12/31/05

Prepared by: The Research Bureau

Control Fire Department Salaries

In a survey of eleven Massachusetts cities, Worcester firefighters were found to receive the third highest pay after Boston and Brockton. Their pay is higher than that of counterparts in Cambridge, Newton, Quincy, and Lowell, among others. These data do not reflect proposed increases in current contract negotiations and should be taken into account in future negotiations.

**Table 9: Firefighter Compensation
(10 yrs, without educational incentive)**

Municipality	Compensation
Boston	\$63,580
Brockton	\$58,380
Worcester	\$58,174
Cambridge	\$55,095
Quincy	\$54,058
Lowell	\$53,203
Lynn	\$50,402
Newton	\$49,486
Springfield	\$49,214
New Bedford	\$48,275
Fall River	\$46,207

Source: City of Worcester Budget Office
Prepared by: The Research Bureau

**Table 10: Firefighter Compensation
(10 yrs, associate's degree)**

Municipality	Compensation
Brockton	\$65,355
Boston	\$63,580
Worcester	\$59,636
Cambridge	\$57,469
Quincy	\$56,058
Lowell	\$54,275
Lynn	\$52,735
Springfield	\$51,482
Newton	\$50,986
New Bedford	\$50,896
Fall River	\$48,321

Source: City of Worcester Budget Office
Prepared by: The Research Bureau

Restructure Services

First Responder Calls

The Worcester Fire Department responded to 22,070 incidents in 2005. As Table 11 indicates, 66% of the Fire Department's responses were to First Responder calls. 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. UMass Memorial Healthcare has provided private advanced life support EMS service free of charge to Worcester since 1991. The City

Table 11: Worcester Fire Department 2005 Statistics

Types of Responses	#	% Response
Emergency Medical Rescue Responses	14,558	66.0%
Structure Fire Responses	749	3.4%
Vehicle Fire Responses	184	0.8%
Arson Fire Responses	21	0.1%
Hazardous Conditions	726	3.3%
Good Intent Incidents	1,322	6.0%
False Alarms	3,102	14.1%
Total Incidents	22,070	

Source: City of Worcester Fire Department
Prepared by: The Research Bureau

should investigate the possibility of expanding services provided through the UMass Memorial Healthcare 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. 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.¹⁸

If “EMS-first responder” 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 result in substantial savings, as the Fire Department could then meet its firefighting obligations with fewer companies. There would also be fuel savings from fewer runs and from not using fire trucks for EMS purpose. The City would then be in a position to implement the recommendations of the 1999 TriData study to close three engine companies.¹⁹

Restructure Fire Department Code Enforcement

Three officers and ten 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 for the civilian employees. Table 12 shows \$247,000 in savings from such a transition—enough to hire five civilian employees or three public safety employees.

Table 12: Estimates of Proposed Fire Department Code Enforcement Restructuring

Current Structure	13 positions at \$66,000	\$858,000
Civilian Code Structure	13 positions at \$47,000	\$611,000
Savings		\$247,000

*Source: City of Worcester Fire Department
Prepared by: The Research Bureau*

Reorganize Police Department Fleet Management

In a report on the Police Department fleet, Clark University MBA graduate students identified a number of problems with existing fleet management procedures, including a lack of written procedures for maintenance, record-keeping of fuel use, and replacement schedule for vehicles.²⁰ In their evaluation of garage operations, they recommended hiring more mechanics and implementing a fleet management information system to better track the condition and use of the fleet. The study recommended either contracting out fleet management or hiring a professional manager. Worcester’s Police Chief has requested funding in FY07 to hire a Professional Garage Manager. That individual would replace a police sergeant currently in charge and retiring in July. A professional manager needs to implement a fleet information system, a preventive maintenance schedule, and a vehicle replacement schedule. An alternative would be for the WPD fleet operation to become a satellite of the DPW fleet operation. The WPD would have its own garage but it would be operated by DPW employees. This arrangement might provide more flexibility in staff; if more mechanics were required at a given time, they might be available from the DPW garage.

¹⁸ Massachusetts General Laws, Chapter 111, Section 202.

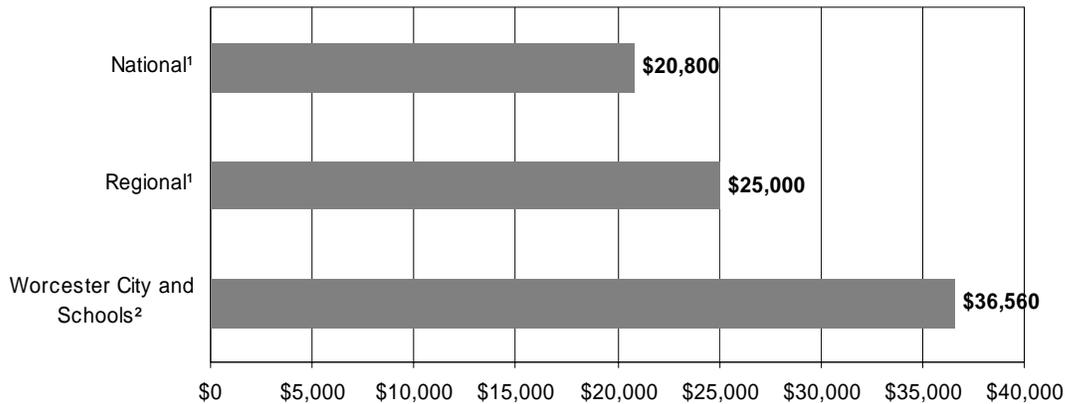
¹⁹ TriData Fire Department Operations Study, Worcester Massachusetts, December 1999, p. 33.

²⁰ Mehra, Mansi, Shao-Peng Kuan, Nicole Willoughby, and Paul Cahill. Clark University, *Study for Worcester Police Department Fleet Administration and Garage Services*, pp. 14-15.

Contract Out City and School Custodial Services

Together the City and the WPS employ 175 custodians at a total compensation cost of \$7.5 million. The average salary per custodian is \$36,560. Once retired, the custodian receives a pension and health insurance from the City. Custodians from the private sector are generally paid less with fewer benefits. As demonstrated in Graph 4, the WPS and City of Worcester custodians receive a higher salary than other custodians in the Worcester Metropolitan Statistical Area and nationwide.²¹ If the City and the WPS were to pay their 175 custodians the regional average salary of \$25,000 instead of \$36,560, estimated savings would be \$2 million.

Graph 4: Average Custodian Salary



¹Source: Bureau of Labor Statistics

²Source: City of Worcester Budget Office, Worcester Public Schools Business Office

Prepared by: The Research Bureau

Municipal Payroll and Bill Payments

The City of Worcester’s Treasurer’s Office issues three kinds of checks: employee checks, bill payments to vendors, and payroll withholdings. The City has attempted to negotiate electronic fund transfers for payroll withholdings. However, companies like Fidelity refuse to receive online withholding payments and will accept paper payments only. Currently the City of Worcester issues employee paychecks weekly, biweekly, and monthly. The City could realize savings if all checks for salaried employees were issued monthly only or by direct deposit. To date, however, employee unions have resisted any changes in the payroll method. In order for the City to pay its bills online, its software needs to be rewritten, which will require time and money but will result in savings over time. The City Manager should continue to press for these changes in its financial transactions.

²¹ Bureau of Labor Statistics, *Occupational Employment Statistics*, http://www.bls.gov/oes/current/oes_37Bu.h.htm (April 2006).

Increasing Revenues: Expanding the City's Tax Base

Fund Route 20 Sewer Project

The Route 20 corridor represents a prime area for economic development. Because it lacks a sewer system, however, Route 20 is populated exclusively by businesses and industries that have minimal water and sewer use. Installing sewers on Route 20 would facilitate development of office buildings, hotels, restaurants, and schools. Costs for the installation of a sewer system are approximated at \$10.6 million.²² The City Assessor estimates that “development could generate more than \$17 million in new tax revenues over an initial 10-year period.”²³

Sell City-owned Properties

The City is the largest owner of tax-exempt property in Worcester, holding approximately 559, or 34% of all tax-exempt parcels, with a total valuation of \$664.7 million. These properties require management and maintenance, from major rehabilitation to daily custodial services. In its FY06 Budget Report, The Research Bureau recommended that the City “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.” In the past year, the City has sold two significant properties—5 Pearl Street and 99 Shrewsbury Street. In the upcoming year, the City has new opportunities to benefit from selling property at market rate, specifically the recently-closed schools and the former fire alarm building in Elm Park. The City should work aggressively to sell these properties and continue to review its other holdings as well.

²² Nick Kotsopoulos, “Sometimes the City Must Spend Money to Make Money,” *Worcester Telegram & Gazette*, April 23, 2006, p. B2.

²³ *Ibid.*

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.



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