



The Research Bureau

Worcester's FY09 Budget: Continuing the Reform Agenda

Report 08-02
May 8, 2008

EXECUTIVE SUMMARY

Cities and towns across the Commonwealth are in fiscal distress. Worcester's City Manager has been able to propose a balanced budget for FY09 through a combination of circumstances:

- Municipal employee health insurance reforms, some initiated two years ago, have already generated several million dollars in savings for the City;
- A increase in the Commonwealth's annual reimbursement to the City for new school construction; and
- The state appellate tax board's decision to allow cities and towns to tax telecommunications companies' equipment.

After providing a brief review of the City's somber fiscal outlook for FY09, this report will present some further suggestions for increasing revenues and reducing expenditures. These include the following:

- Divesting the City of services and infrastructure that require taxpayer subsidies and are not related to its core mission;
- Controlling the awarding of accidental disability pensions;
- Negotiating an additional change in public employee health insurance so that the City pays 75% of the least expensive plan;
- Contracting out municipal and school custodial services;
- Negotiating a change in the practice of using off-duty police officers at construction sites.

INTRODUCTION

Cities and towns across the Commonwealth – whether they are property-rich towns or cities where large swaths of the residents live below the poverty line – are in a fiscal crisis. West Boylston recently considered turning off street lights to balance its budget, Northbridge closed its public library, and Shrewsbury is asking its voters to override Proposition 2 ½ for the second year in a row, last year’s request having been defeated. Worcester is no exception.

In his March 13, 2008 presentation at The Research Bureau’s forum titled, “Balancing the FY09 Budget: Rolling the Dice with Your Tax Dollars,” Worcester’s City Manager Michael O’Brien offered a sobering picture of the City’s fiscal outlook for FY09 and beyond. The City’s revenues are expected to increase by 3.2%, down from the 4% growth rate common during the past decade. Local aid from the state, which constitutes 51% of the City’s revenues, will be level-funded except for a modest increase in education aid (\$6.1 million), and local receipts, which come from fees and charges, will decrease by more than \$100,000. The State’s reimbursement for recently-built school buildings will increase by \$1.1 million. In addition, the City will be able to release \$2.4 million from its existing overlay account for the FY09 budget which it can use because of the recent appellate tax board decision to allow the City to raise taxes on telecommunications companies’ equipment. Were it not for a number of reforms, especially in the area of municipal employee health insurance, which have already yielded millions of dollars in savings, the City would be facing massive layoffs and reductions in services in FY09.

This report will review some of the recent reforms and make additional recommendations that would enable the City to maintain its core municipal services and quality of life. The reforms and recommendations are applicable to all cities and towns in the Commonwealth.

FY09 BUDGET PROJECTIONS

Table 1 shows the City's projected revenues and expenditures for FY08 and FY09. City revenues come primarily from three sources: property taxes, local receipts, and local aid from the state. The City projects that growth in municipal revenues will grow about 3.2% from FY08 to FY09. The more common annual growth rate of has been close to 4% during the past decade.

Revenues

Property Tax: Property taxes, which are limited by Proposition 2 ½, constitute the second largest revenue source for the City (39%). The total property tax is projected to increase by 4.2%, from \$187.4 million in FY08 to \$195.7 million in FY09. Overall, new growth, or the value of new construction, which had been substantial in FY06 and FY07, has recently slowed down. Because of the recent appellate tax board decision, however, which allows the City to tax telecommunications companies' equipment, new growth will increase by almost \$2 million in FY09.

Local Receipts: The City also collects revenues for certain services it provides. Some of these fees and charges include: motor vehicle excise tax, hotel/motel tax, yellow bag fees (for trash), and fees for licenses and permits. The City began to make adjustments to City fees and charges in FY08 to try to align these with the actual cost of providing the services. Projections for motor vehicle excise taxes, the largest local receipt, have decreased over the last few years and are expected to remain level for the next few years. Total local revenues from these sources in FY09 are expected to generate about \$41.1 million, a decrease of about \$100,000, or .3% from FY08.

Free Cash: The FY09 budget does not include any projection of free cash, the excess amount of revenues over expenditures. In FY08, \$268,000 of free cash was appropriated into the FY08 budget and \$268,000 was appropriated into the bond stabilization fund. In future years, if there is free cash, it will be appropriated based on the policies outlined in the City's Five-Point Financial Plan; it will not be used for General Fund expenditures.¹

State Aid: Aid from the state comprises more than half of the City's budget. State Aid includes General State Aid (including lottery aid) and Education Aid (Chapter 70 and Charter School Reimbursements) to the Worcester Public Schools. State lottery proceeds have slowed as the popularity and sales of these games have declined. As a result, lottery aid projections for the next few fiscal years will not be able to provide cities and towns with level funding. A Joint Resolution from the House and Senate indicate that Worcester's shortfall of \$5+ million for FY09 will be made up by the state. (This will probably come from the Commonwealth's "rainy

¹ <http://www.ci.worcester.ma.us>

day” fund.) The City expects to receive about \$185.2 million from Chapter 70 in FY09, an increase of \$6.1 million from FY08.

Expenditures

Worcester Public Schools: The largest expenditure in the FY09 budget, or about 55% of the City’s total budget, is \$278 million for public education, almost \$22 million of which goes to charter schools and School Choice tuition, which is financed from Chapter 70 aid and the required contribution from the City. This is an increase of \$9.2 million, or 3.3%, over FY08. (This does not include any grant funding from the state or federal government.)

Health Insurance: The FY09 budget for municipal employee health insurance is about \$25.3 million, \$1.3 million less than in FY08. (This does not include insurance for Worcester Public Schools employees.) Health insurance had been the fastest growing municipal cost until major reforms (discussed later in this report) were instituted through collective bargaining agreements two years ago and other more recently-instituted consumer-driven reforms, which have reduced overall premiums – benefiting the City taxpayers, and employees. While the total cost of health insurance was expected to increase by 10%, it will decrease by 5% as a result of the reforms.

Snow-removal deficit: Each year the City under-budgets for snow removal and must then pay the deficit in the succeeding fiscal year. In FY09, the City expects to carry over \$1 million in snow-removal costs. The City has been slightly increasing the snow and ice removal budget in the past few fiscal years, with the goal of financing that service in at least an average snow season, which costs about \$3.1 million.

Overall, while expenditures on the City’s core municipal services will increase (public safety by 4.5%, public schools by 3.3%, and public works and parks by 9%), spending on economic development activities, which should be designed to facilitate the expansion of the overall tax base, will decrease by almost 28%. This is the result of reducing tax levy support for marketing.

As a result of an increase in school building reimbursement from the state and the appellate tax board’s decision to allow municipalities to budget for taxes from telecommunications companies, the City was able to balance its budget – but barely. The remainder of this report will make some suggestions for reducing expenditures and increasing revenues.

Worcester's FY09 Budget: Continuing the Reform Agenda

FY09 Budget Projections				
Table 1: FY09 Budget Summary				
Revenues	FY08	FY09	Increase/ Decrease	% Change FY08-09
Property Tax	\$187,431,381	\$195,687,884	\$8,256,503	4.2%
Other Local Receipts	\$41,226,685	\$41,114,905	-\$111,780	-0.3%
Free Cash	\$264,907	\$0	-\$264,907	-100.0%
Total Local Revenues	\$228,922,973	\$236,802,789	\$7,879,816	3.3%
State Aid				
State Aid General Government	\$57,724,046	\$58,798,859	\$1,074,813	1.8%
State Aid MSBA	\$14,203,657	\$14,203,657	\$0	0.0%
State Aid Education	\$179,107,581	\$185,202,708	\$6,095,127	3.3%
Total State Aid	\$251,035,284	\$258,205,224	\$7,169,940	2.8%
MSBA Reimbursement	\$3,496,679	\$4,624,447	\$1,127,768	24.4%
Other Available Funds	\$1,062,623	\$3,913,443	\$2,850,820	72.8%
Miscellaneous Revenues	\$2,971,096	\$0	-\$2,971,096	-100.0%
TOTAL	\$487,488,655	\$503,545,903	\$16,057,248	3.2%
Expenditures	FY08	FY09	Increase/ Decrease	% Change FY08-09
Legislative Offices	\$2,216,936	\$2,270,347	\$53,411	2.4%
City Manager's Offices	\$3,368,633	\$2,749,978	-\$618,655	-22.5%
Economic Development	\$2,035,126	\$1,593,771	-\$441,355	-27.7%
Law Department	\$1,390,278	\$1,464,122	\$73,844	5.0%
Public Safety	\$75,310,499	\$78,869,411	\$3,558,912	4.5%
Health and Human Services	\$9,872,688	\$10,505,958	\$633,270	6.0%
Public Schools	\$268,846,960	\$278,048,810	\$9,201,850	3.3%
Public Works and Parks	\$21,872,725	\$24,044,496	\$2,171,771	9.0%
Finance Department	\$6,310,987	\$6,547,995	\$237,008	3.6%
Health Insurance (City)	\$26,548,331	\$25,277,488	-\$1,270,843	-5.0%
Debt (Principal and Interest)	\$27,957,121	\$28,018,688	\$61,567	0.2%
Pension Contribution and Pension Bonds	\$24,976,913	\$25,483,750	\$506,837	2.0%
Worker's Compensation	\$1,054,989	\$1,191,522	\$136,533	11.5%
Unemployment Compensation	\$100,000	\$100,000	\$0	0.0%
Public Safety I.O.D.*	\$362,630	\$398,918	\$36,288	9.1%
Intergovernmental	\$3,013,573	\$3,098,442	\$84,869	2.7%
Transfers Out - Stabilization	\$11,401,852	\$12,402,696	\$1,000,844	8.1%
Transfers Out - Other	\$783,213	\$1,479,511	\$696,298	47.1%
TOTAL	\$487,423,454	\$503,545,903	\$16,122,449	3.2%
REVENUES LESS EXPENDITURES	\$65,200	\$0		
*IOD expenditures include medical bills only, and does not include salaries for these individuals				
Source: City of Worcester Budget Office Prepared by: The Research Bureau				

OBSERVATIONS AND RECOMMENDATIONS

In order to provide core services – public safety, public education, and public works (streets, sidewalks, public buildings, and water and sewer services), which are the City’s priorities, The Research Bureau makes the following recommendations:

The City should divest itself of services and infrastructure that are not related to its core mission. These include the following:

- 1. Worcester Regional Airport** - \$1.5 million tax levy subsidy – The City Manager is in negotiations with MassPort to transfer the facility to that Agency. The last contract with MassPort expired in July, 2007, but was extended another six months to January 2008; at that time, another six-month extension was put in place until July 2008. MassPort has made it clear to the City that any transfer agreement must include the City’s commitment to build better access to the airport.
- 2. Union Station** - \$577,000 annual tax levy subsidy – The City should sell this facility to a private entity or the Massachusetts Bay Transportation Authority (MBTA) and divest itself of responsibility for maintaining the structure and leasing the internal space.
- 3. Senior Center** - \$944,000 annual tax levy subsidy – This city-owned building should also be sold to a private developer or nonprofit agency for the market price. The Center shows few signs of becoming self-sustaining in the next 5-10 years, and its services are typically available at other agencies. Examples of duplicated services include exercise programs offered through the YMCA, crisis intervention by Elder Services of Worcester, elder rehabilitation from Vision Community Services, recreation through Friendly House and the Jewish Community Center Senior Adult Services, and college courses through Worcester State College (free tuition for seniors).
- 4. Hope Cemetery** - almost \$600,000 tax levy subsidy – The City should sell the cemetery and divest itself of responsibility for the grounds and sale of burial plots.² This is a service that is well-provided by the private sector, including religious organizations, and should not be duplicated by the City.
- 5. Worcester Memorial Auditorium** - \$120,000 annual tax levy subsidy –The Auditorium is now largely vacant. In order for the City to lease the space, it would probably have to make a substantial investment in renovations to suit new tenants. This would add to the City’s annual debt service, if not to the taxpayer subsidy for operational costs. Therefore,

² For a full discussion of the issues involved in privatizing Hope Cemetery, see Research Bureau report #04-05, “Respect for the Dead and Relief for the Budget: Can Privatization Improve Hope Cemetery?”

every effort should be made to sell the building while maintaining Memorial Hall, the area on the second floor that is a monument to the veterans of World War I.³

- 6. DCU Center** - \$250,000 annual tax levy subsidy – Government-owned convention centers rarely generate enough revenue to cover the cost of building them; even fewer cover their operating costs.⁴ Both are true of Worcester's DCU Center in spite of its being well-managed by SMG, a private firm. Since the successful operation of venues like Boston's Bayside Exhibition Center show that such buildings can be profitably operated by private developers, the City should sell the DCU Center to the highest bidder.

The savings from eliminating the taxpayer subsidy for all of the above-mentioned facilities is about \$4 million.

The City Manager and the City Council should work collaboratively to change procedures and operations that could yield considerable savings. The following are some examples:

Injured-on-duty Compensation (IOD)

According to MGL Chapter 41 Section 111F, employees of the Police and Fire Departments injured in the line of duty may be placed on IOD at full compensation, which is exempt from state and Federal taxes, even if they are only partially disabled. In effect, public safety personnel can earn up to 130% of their salary while on IOD status. Since public-safety employees can earn more on IOD status than otherwise, there is no incentive to be removed from that status.

By contrast with public safety personnel, other City personnel who are injured on duty are eligible for workers' compensation, which amounts to only 60% of their pay. Yet this category includes numerous positions that are susceptible to injuries in the line of duty. Their compensation system avoids providing incentives to remain out of work longer than is absolutely necessary.

The Research Bureau proposes that the City administration work with other cities and towns and their legislative delegations to reduce IOD compensation for public-safety employees to 60% of salary, the same compensation that applies to all other municipal employees. During FY07, IOD compensation cost the City almost \$1.8 million. If the City had paid only 60% of salary, the savings would have been about \$720,000. Currently, there are 21 firefighters and 12 police officers on IOD status.

³ For a discussion of a history of the Auditorium and obstacles to its reuse, see Research Bureau report #95-5, "The Future of Worcester Memorial Auditorium."

⁴ Jeff Jacoby, "Capping the Convention Center Money Pit," *Boston Sunday Globe*, May 6, 2007, p.E9.

In addition, the City Manager should negotiate a “light duty” alternative for public safety employees, particularly for long-term cases. Under this policy, employees would return to light-duty work, when able to, if found medically unable to perform their routine daily tasks. Other municipal employee unions in Worcester have agreed to this policy.

The City should take precautions to control the need for awarding accidental disability pensions. These should include fitness and wellness programs during employment and pre-employment physicals for each new hire (to be recorded in each employee’s personal file). As shown in **Table 2**, in 2006 and 2007, 17 and 21 disability pensions, respectively, were granted.

Department	2006	2007
Fire	7	8
Police (Officers)	8	5
Police (Civilians)	0	2
WPS	1	2
DPWP	1	4
Total	17	21
<i>Source: City of Worcester</i>		

In 2007, applications pending and evidentiary hearings for disability pensions are as follows:

- WPS 4
- Police (Officers) 4
- Police (Civilians) 2
- Fire 10
- DPWP 6
- Worcester Housing Authority 2.

The number of disability pensions is cause for concern and may reflect in part the questionable presumption in State law that for firefighters, all heart-, cancer- and lung-related illnesses, and for police all heart-related illnesses are to be attributed to work, automatically making all those suffering from these illnesses eligible for disability pensions.

Table 3 shows that the number of firefighters retired on accidental disability exceeds those who have retired on superannuation, while the number of police retired on accidental disability almost matches the number who have retired on superannuation pensions. (In Boston, 75% of public safety employees retire on accidental disability pensions.). Accidental disability pensions are much more costly than superannuation pensions. Chapter 32 of the Massachusetts General Laws mandates that disabled employees receive 72% of the highest annual salary earned tax-free, the equivalent of a full salary. These pensions can begin at an earlier age, and provide expanded

benefits, expanded survivor benefits, and the return of the employee's annuity contribution (all of the employee's contributions to the system in addition to 72% of salary).

Department	Accidental Disability Retirees	Superannuation Retirees & Ordinary Disability	Total	% Accidental Disability
Police	143	159	302	47.4%
Fire	179	162	341	52.5%
DPWP	46	211	257	17.9%
Housing	2	62	64	3.1%
Other Departments	75	1240	1315	5.7%

Source: City of Worcester

Because of the high number of public-safety retirees on disability, public-safety retiree and health insurance costs to the City are far greater than the costs for other departments. Other cities, such as El Paso, Texas, take account of 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, thereby raising other employees' pension costs.

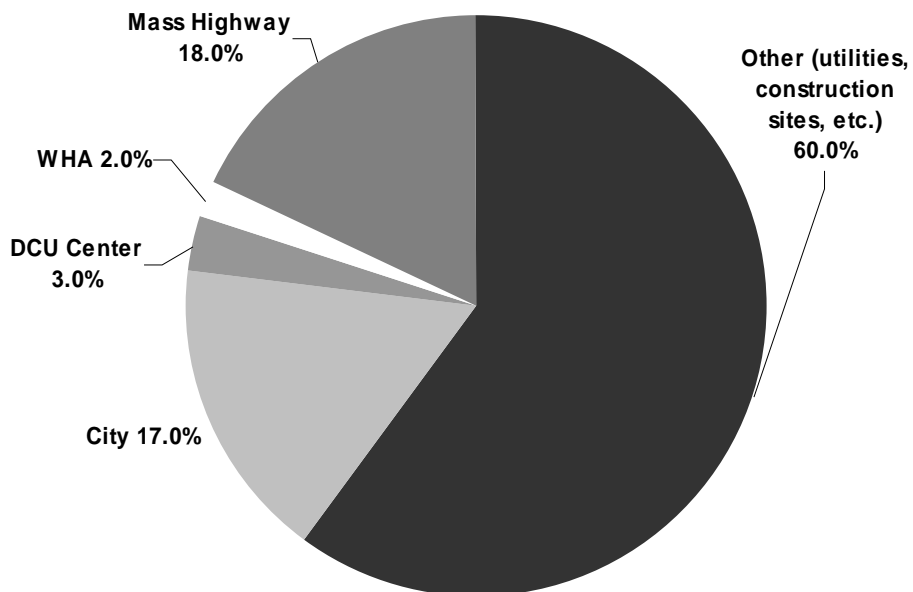
The City Manager and the City Council should work with other cities and towns, their legislative delegations, and the Massachusetts Municipal Association to change the practice of using off-duty police officers at construction sites. In April, the Governor signed legislation that authorizes state officials in the Departments of Transportation and Public Safety to develop a system of categorization of construction projects ordinarily requiring traffic details, to determine where police and civilian flaggers are appropriate, and to study the cost savings that would be associated with the use of civilian flaggers. The legislation stresses, however, that the authority for traffic control decisions lies with the project-awarding body, and it includes the significant caveat that such measures must not violate existing ordinances or collective bargaining agreements. Unless the legislation supersedes these agreements, it will have no impact on the expensive practice. According to a 2004 Beacon Hill Institute study, a change to civilian flaggers could save both the state and municipal governments \$37 to \$67 million a year.⁵ Flagmen are the rule in the other 49 states, including eight that use civilian flaggers exclusively.

Off-duty police officers in Worcester are paid for a four-hour minimum at about \$40.00 per hour for detail work at construction sites. The City Treasurer's Office collects an additional 10% from

⁵ "Police Details in Massachusetts: Protection or Perk?" *The Beacon Hill Institute for Public Policy Research, Suffolk University*, November 2004.

City departments and construction and utility companies for administrative costs. Civilian flaggers are generally employed at less than half the hourly rate paid to police officers. In FY07, Worcester police officers were paid about \$6.3 million for these off-duty assignments. As indicated in **Figure 1**, the City of Worcester (Department of Public Works and Parks and other departments) paid more than \$1 million to Worcester police officers for detail work. By using civilian flaggers, the City could have saved about \$500,000. In addition, private businesses such as the utilities and construction companies paid more than \$5 million for required Worcester police details. These costs are ultimately factored into utility rates paid by customers or rental rates paid by businesses or residents, thereby increasing the cost of doing business and living in Worcester.

Figure 1: FY07 Detail Payments, by Source (Total Paid to WPD = \$6.3 Million)



Source: City of Worcester

The City Manager should negotiate an additional change in public employee health insurance so that the City pays 75% of the least expensive plan. The City Manager and the City Council initiated a series of reforms in this area over the last few years which have yielded considerable savings. These include the following:

- All current City/WPS employees are paying 20% of yearly premium costs.
- All new employee and non-Medicare eligible retirees (on conventional, active-employee plans) are paying 25% of yearly premium costs.

- All employees are paying \$10 co-pays for doctor's office visits and \$50 co-pays for Emergency Room visits.
- All employees participate in a three-tiered prescription drug co-payment program of \$10, \$25, and \$35.
- The City eliminated the "middleman" in management of the prescription drug program and is saving nearly \$2 million annually.
- The City adopted Section 18 of M.G.L Chapter 32B and thereby transferred all Medicare-eligible retirees 65 years of age or older to the Federally-subsidized Medicare Supplement Plans. As a result, the City expects to avoid over \$5 million in costs for FY09 alone. The adoption of Section 18 also reduced by over \$100 million the City's retiree health care liability, which will ultimately be borne by taxpayers.

Future changes proposed by the City include the following:

FY08-09: All employees will be asked to pay a \$10 co-payment for doctor visits, \$20 co-payment for specialties, \$75 co-payment for emergency room visits, \$150 co-payment for outpatient surgery, and \$250 co-payment for inpatient surgery. These changes will save taxpayers over \$3 million annually in reduced premiums for City/WPS employees, and will also reduce employee premiums.

FY2010: All employees will pay 25% of the annual premiums. It is estimated that this will save the City taxpayers about \$4 million annually.

If the City Manager negotiated an additional change so that the City pays 75% of the least expensive plan only, a common practice among private-sector employers, and those who opt for a more expensive plan pay the difference, as The Research Bureau has been proposing for some fifteen years, the City could save about \$22 million in FY09 for both municipal and WPS employees (see **Tables 4 & 5**).

Plan		Employees Enrolled*	# of Employees paying 25% of Health Plan Premium	# of Employees paying 20% of Health Plan Premium	Monthly Employee Contribution (20% of premium)	Annual City Contribution (80% of premium)	Annual City Contribution under lowest cost plan (Fallon Direct) paying 75% of premium	Annual City Savings per participant	Annual Total Savings
Blue Choice	Individual	1723	99	1624	\$118	\$5,647	\$3,843	\$1,804	\$2,929,972
	Family	2240	47	2193	\$308	\$14,791	\$9,914	\$4,877	\$10,694,822
Fallon Health Plan Select	Individual	474	52	422	\$98	\$4,704	\$3,843	\$861	\$363,532
	Family	927	68	859	\$253	\$12,136	\$9,914	\$2,221	\$1,908,217
Fallon Health Plan Direct	Individual	276	21	255	\$85	\$4,099	\$3,843	\$256	\$65,323
	Family	371	20	351	\$220	\$10,575	\$9,914	\$661	\$231,997
Total									\$16,193,864

*Includes current City employees and excludes WPS employees
 Source: City of Worcester Executive Office of Human Resources

Table 5: City of Worcester Retirees Health Insurance Savings

Plan	Retirees Enrolled	Monthly Retiree Contribution (25% of premium)	Annual City Contribution (75% of premium)	Annual City Contribution under lowest cost plan (Fallon Senior)	Annual City Savings per participant	Annual Total Savings
Medex	1618	\$97	\$3,488	\$1,175	\$2,313	\$3,742,434
Managed Blue	756	\$106	\$3,831	\$1,175	\$2,656	\$2,007,724
Fallon Senior	655	\$33	\$1,175	\$1,175	\$0	\$0
Total						\$5,750,158

Source: City of Worcester Executive Office of Human Resources

The City Manager should negotiate a change in the police and fire contracts so that paid time off (PTO) benefits for those employees are the same as for other city employees. As shown in **Table 6**, firefighters have negotiated an average of 419 hours of PTO annually, and police officers have negotiated an average of almost 424 hours of PTO, while other city employees’ contracts give them about 317 hours of PTO. If employees of the police and fire departments averaged the same PTO as other city employees, the City could save \$1.6 million from the Fire Department budget and more than \$1.8 million from the Police Department, for a total savings of almost \$3.5 million.

Table 6: Municipal Employee PTO

	# of Employees	Total PTO Hours	Average Hours per Employee	Total PTO Cost	Average PTO Cost per Employee	PTO Cost per Hour	# of Hours to Reduce to get to Average Other City Employees	Reduction in Average PTO Costs per Employee	Total Savings w/ Reduction in PTO Hours
Fire	404	169,336	419	\$6,586,571	\$16,303	\$39	102	\$3,983	\$1,608,931
Police	453	192,011	424	\$7,330,553	\$16,182	\$38	107	\$4,089	\$1,852,301
Other City Employees	1,082	342,736	317	\$8,116,202	\$7,501	\$24			
Total	1,939	704,082	387	\$22,033,326	\$13,329				\$3,461,232

Source: City of Worcester, Executive Office of Human Resources

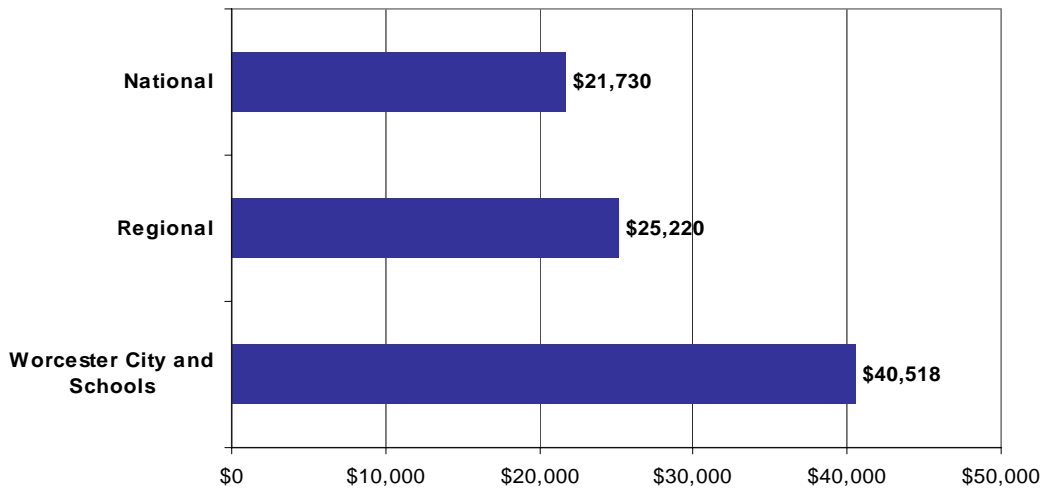
The City Manager and the School Superintendent should contract out City and school custodial services. (Following the example of Leominster, the City has put out the first bid for cleaning City Hall.) In FY09, the City and the WPS will employ 171 custodians at a total compensation cost of more than \$6.9 million, not including health benefits (see **Table 7**). The average salary per custodian was \$40,518. 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 indicated in **Figure 2**, the WPS and City of Worcester custodians received a higher salary than other custodians in the Worcester Metropolitan Statistical Area and nationwide.⁶ If the City and the WPS were to pay their 171 custodians the regional average salary of \$25,220 instead of their current average salary, estimated savings could be \$2.6 million.

⁶ Bureau of Labor Statistics, Occupational Employment Statistics, http://www.bls.gov/oes/current/oes_37Bu.h.htm (April 2006)

	WPS Custodians	City Custodians	Total
Number of Employees	152	19	171
Average Salary	\$40,871	\$37,700	\$40,518
Total Salary Costs	\$6,212,322	\$716,295	\$6,928,617
Health Benefits	\$1,320,000	\$152,154	\$1,472,154
Total Compensation Costs	\$7,532,322	\$942,966	\$8,475,288

Source: City of Worcester Budget Office, Worcester Public Schools

Figure 2: Average Custodian Salaries



Source: Bureau of Labor Statistics; City of Worcester and WPS Budget Offices

A question has been raised as to whether the Commonwealth’s prevailing-wage law would prevent the City from privatizing custodial services (or other municipal services), since the service would then cost considerably more than the current arrangement. The relevant section (26 of Chapter 149) reads as follows:

“[Prevailing wage] shall also apply to regular employees of the Commonwealth of a county, town, authority or district, when such employees are employed in the construction, addition to or alteration of public buildings for which special appropriations of more than one thousand dollars are provided.”

While it appears that this definition relates to construction work, and not to custodial work on public buildings, the courts have taken a broad approach which means it may require a further

challenge.⁷ Alternatively, the legislature should make clear that the prevailing wage law does not apply to privatized municipal services. If the Commonwealth does not have the revenue to assist cities and towns in times of fiscal distress, it should at least provide them with the tools to reduce their expenditures.⁸

The City Manager should consider redistributing the franchise revenue that the City receives from its cable TV operator, Charter Communications so that the City has an additional \$450,000 to spend on municipal services. The City is not required by state or Federal law to provide a public access channel. City officials and residents need to weigh the cost of providing this channel, which currently costs over \$600,000, against funding other important municipal services like public safety and public education. Other Massachusetts cities, through special legislation from the state, have been able to transfer franchise fee revenue into their General Fund revenues.

The City recently signed a new five-year contract with Charter Communications, under which Charter will pay the City a 5 percent franchise fee, and the three existing public access/education/government channels will be continued, and Charter will provide a 4th “PEG” channel by the end of the year. The contract also calls for Charter to provide a \$500,000 capital equipment grant for the PEG channels.

The City has the authority to determine how the franchise fee revenue is distributed. Since the PEG channels were established in Worcester, both the government channel and the education channel have successfully provided the community with programs using substantially less

⁷ One case, Felix A. Marino Co., Inc. v. Commissioner of Labor and Industries, 426 Mass. 458 (1998), held that employer’s road maintenance and repair work pursuant to municipal public works contracts constituted “construction of public works” to which prevailing wage law applied. Those were contractor’s employees. Another case, Receiver of Boston Housing Authority v. Commissioner of Labor and Industries, 396 Mass. 50, 60 n.15 (1985), indicated that the position of “groundskeepers/custodians” was not part of the construction industry. (The court dealt with this because, by statute (c. 121B), all positions in a housing authority are subject to prevailing wages. Ultimately, it may come down to drawing a line between custodial work that involves maintaining the building components of a school (heating, lights, etc) and other work (sweeping, cleaning, etc. that does not involve maintaining the building systems.

⁸ The case for restricting the kinds of workers who fall under the prevailing wage law, if not eliminating it entirely, becomes ever stronger on learning of its origins. The Federal Davis-Bacon Act of 1931, upon which all state prevailing wage laws or so-called mini Davis-Bacon Acts were modeled, mandates that contractors pay prevailing wages which are generally union wages to each of many classifications of laborers on Federal construction projects. (Walter Williams, “Repeal the Davis Bacon Act of 1931,” December 7, 2003.) According to Congressional debate at the time, the law was enacted in part to prevent African-American workers coming from the south to unionized northern cities, from competing for Federally-funded construction jobs by working for lower wages. (George F. Will, “‘Prevailing Wage’ Law Merits the Wrecking Ball,” *The Plain Dealer*, February 1995.) The effect of Davis-Bacon is that it discriminates against contractor employment of non-union and lower-skilled workers. (Thomas Sowell, “Confusion over Minimum Wage,” *San Antonio Express News*, May 1996.) Evidence shows that repealing Davis-Bacon would create hundreds of thousands of new jobs. For example, Ohio University economist Richard Vedder showed that when Michigan suspended its prevailing wage law from 1994 to 1997 (because the law violated Federal pension regulations), it created 11,000 new jobs. (David Y. Denholm, “Unions Turn to Public Sector as Membership Declines,” *Labor Watch*, April 2003.)

funding than the public access channel. Each one receives \$200,000 annually. The public access channel should be run with the same amount of funding as the education and government channels. The City could use the remaining franchise fee revenue for cable-related needs such as internet improvements within the municipal government network, or it could apply for special legislation to transfer the remaining 40% of franchise revenue to the City (about \$450,000), using the proceeds to support other more vital municipal services.

Concluding Note

Previous suggestions from The Research Bureau for such cost-saving moves as selling the Senior Center and transferring some of the receipts from the cable television franchise fee to general revenues have met with protests from a small number of supporters for the Senior Center and fans of public access television. The fact remains that at a time of fiscal crisis, when hard-pressed taxpayers have no desire to see their taxes increase more, the City has no choice but to make hard decisions necessary to maintain its core services.

Twenty-Third Annual Meeting

of

The Research Bureau

Monday, June 9, 2008

Meeting and Luncheon 11:45 am

Mechanics Hall

Worcester, Massachusetts

Featured Speaker:

John W. Rowe, President & CEO, Exelon Corporation

**To purchase a ticket or a table for the event, please contact The Research Bureau
at 508-799-7169 or info@wrrb.org.**

Presenting Sponsor

National Grid

Leadership Sponsor

Fallon Community Health Plan

Supporting Sponsors

Bowditch & Dewey

CitySquare

Fletcher, Tilton, & Whipple

NSTAR

Saint-Gobain

Unum

Media Sponsor

Telegram & Gazette, telegram.com

Mission Statement:

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



The Research Bureau

Worcester Regional Research Bureau
319 Main Street, Worcester, Massachusetts
Telephone: 508 799 7169 Facsimile: 508 799 4720
www.wrrb.org

Non-Profit Org.
U.S. Postage
PAID
Permit No. 272
Worcester, MA