



**Worcester
Municipal
Research
Bureau**

AN INDEPENDENT VOICE FOR RESPONSIBLE GOVERNMENT

PROPOSALS FOR REDUCING WORCESTER'S TAX RATE

Report No. 99-6
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EXECUTIVE SUMMARY

In order to reduce Worcester's extraordinarily high tax rate, which is a hinderance to attracting and expanding commercial and industrial development, the Research Bureau urges City officials to adopt a policy of gradually reducing the commercial/industrial and residential tax rates over a period of years. In order to achieve that goal, the Bureau requests that public officials give serious consideration to the following proposals:

- Use unanticipated lottery money of \$2.1 million to immediately reduce Worcester's residential and commercial property taxes in the current fiscal year.
- Limit borrowing and use \$2 million estimated "free cash" to establish a "rainy day" fund in order to increase reserves to improve the City's bond rating and to reduce the cost of borrowing.
- Avoid new spending proposals such as increases in pensions for retirees (beyond the amounts already granted by the City Council through cost of living increases) and adding a new firefighter class.
- Keep any salary increases at or below the rate of inflation. Any increases above inflation should be tied to productivity improvements.
- Renegotiate the City's share of health insurance costs. If the City's share were somewhere between 50%-75% of all plans, the City could save between **\$5.4** and **\$13.6 million**.
- Renegotiate the City's generous leave policy especially for public safety personnel so that four weeks of vacation after ten years of service equals 20 working days rather than the current 28 working days for police officers and 5 weeks for firefighters. Changing this policy would save the City about **\$500,000** per year in the Police Department alone.
- Negotiate a "light duty" alternative for those injured-on-duty, and found medically unable to perform their routine daily tasks.
- Request the City 's legislative delegation to seek a reduction in IOD compensation from 100% of salary, exempt from state and federal taxes, to 60% of pay which is granted to all non-public safety personnel under Workers' Compensation benefits. During FY99, IOD compensation cost the City about \$1.8 million. If the City had paid 60% of salary, the savings would have been about **\$720,000**.
- Negotiate changes in paid police details that are hired to direct traffic for a minimum of four hours at all government and private worksites. Off-duty police officers are paid an average of \$37.50 per hour whereas civilian flagmen used in communities throughout New England are paid an average of \$15 per hour. The City's savings from this change would be about **\$500,000**. The utility companies would also realize considerable savings.

- Reduce the number of supervisory personnel in the public safety departments to be comparable to similarly sized cities.
- Petition the City's legislative delegation to tighten the "cancer presumption law" so that disability pensions are not automatically granted to firefighters for all cancers such as bladder and prostate cancer, not usually thought of as work-related.

INTRODUCTION

The Research Bureau recently issued a report (#99-5) documenting Worcester's extraordinarily high commercial/industrial tax rate (\$37.63 per thousand of assessed valuation) compared to the rate in surrounding towns, other cities in the Commonwealth, and comparably sized cities across the nation. The Bureau also noted that during the last five years the growth in the total value of Worcester's commercial and industrial property was only half that of the Commonwealth's as a whole. One indication of the effect of the high tax rate is the City's inability to attract businesses to downtown: the vacancy rate for downtown office space is 20% at a time when the state and national economies are doing extremely well. The Bureau suggested that in order for the City to be able to compete more effectively in attracting new businesses, and thereby expand the tax base, public officials need to develop a multi-year financial plan designed to lead to a gradual reduction in each year's business and residential tax rate. While the Worcester City Council recently committed itself to maintaining the existing tax rate for the next three years, the Research Bureau does not believe that this pledge goes far enough in view of the City's lackluster economic growth. The purpose of this report is to suggest several ways in which the City's tax rate can be reduced immediately, the City's reserves can be strengthened, and expenditures for future years can be reduced so as to facilitate a gradual decrease in Worcester's tax rate.

Since 60% of municipal expenditures in FY00 will be spent on salaries and personal services such as overtime, and an additional 15% will be spent on municipal employee benefits, these are the areas where expenditure reductions should be focused. Furthermore, the expiration of contracts with all major municipal employee unions at the end of FY00 (June 30, 2000) provides the City administration with the opportunity to renegotiate salaries and benefits which would then affect the budgets for the next several years.

A. Health Insurance

For the last decade, the Research Bureau has documented the substantial savings that could be realized by restructuring the City's share of health insurance costs. The total health insurance budget for about 9,400 municipal employees, school personnel, and retirees for FY00 is about \$30 million. Blue Cross, one of the City's two carriers, insures 64% of all City employees and retirees. The FY00 enrollment and cost for each plan in Worcester are summarized in Table A on the following page. This table indicates that the City's share of the two most common plans is \$5,899 per year for Blue Cross/Blue Choice family membership, and \$5,110 for Fallon Community Health Plan family membership. (These rates have been locked in for two years as of FY00 with caps on the third year.)

According to state statute (MGL 32B Sections 7 and 16), the City is required to pay at least a fraction above 50% of an indemnity plan or a managed care plan, and the employee is required to pay at least 10% of a managed care plan. Through contract negotiations, the City currently pays between 75%-90% depending on the plan. (See Table A.)

Table A

FY00 HEALTH INSURANCE COSTS

	BC/Master Medical			BC/Blue Choice			FCHP		
	Ind.	Family	Medex	Ind.	Family	Care 65	Ind.	Family	Senior
Enrollment	30	4	2,237	1,625	2,119	452	843	1,278	774
City's Yearly Cost (per employee)	8,734	21,747	1,920	2,252	5,899	756	1,979	5,110	731
City's total cost per plan (millions)	.26	.08	4.2	3.6	12.5	.34	1.6	6.5	.56
% City pays of each plan	75%	75%	75%	87%	87%	84%	90%	90%	84%

Source: City Manager's Office of Human Resources
Prepared by: Worcester Municipal Research Bureau

The Research Bureau proposes that the City administration renegotiate the terms of the contract so that the City and its employees share the cost of health insurance more equitably. Table B shows the savings to the City under three options: the City pays 75%, 66.7%, or 50% of all plans. If one of those options were adopted, the City could save somewhere between **\$5.4-\$13.6 million**. (The town of Shrewsbury pays 50% of the most expensive health insurance plan for each employee and an equal dollar amount toward the other plans. Its total health insurance allocation is less than 4% of its budget while Worcester's allocation is almost 9% of the municipal budget. Shrewsbury has a single tax rate of \$13.45. Allmerica Financial pays two-thirds of each employee's health insurance, and will not provide health insurance during retirement for those who began work after 1994.)

TABLE B HEALTH INSURANCE SAVINGS

CITY PAYS	50%	66.70%	75%
BC MASTER MEDICAL	116,337	38,626	
BC BLUE CHOICE	8,040,395	5,328,621	3,980,853
FALLON	3,643,604	2,122,142	1,365,967
MEDEX	1,431,054	474,482	
BC/CARE 65	138,312	70,376	36,612
FALLON SENIOR	229,104	116,650	60,759
TOTAL	13,598,806	8,150,897	5,444,191

Source: City Manager's Budget Office
Prepared by: Worcester Municipal Research Bureau

It should also be noted that the Blue Cross/Medex plan for retirees costs more than twice that of the other two health insurance plans for retirees. The City's share of Medex is \$1,920 per year, while its share for Blue Cross/Care 65 is \$756 and for Fallon Senior is \$731. Sixty-five percent of retirees have chosen Medex. The City administration should develop proposals to encourage retirees to change from Medex to the less expensive plans.

B. Leave Policy

Since 1992, the Research Bureau has suggested that the City Manager review the leave policy for municipal employees to determine whether any savings can be realized from that benefit. The City has provided a very generous leave policy for its public safety personnel since 1984. In the Police Department, one week's vacation is treated as the equivalent of seven working days rather than the usual five working days. After ten years of service, police personnel have 28 working days' vacation rather than four calendar weeks (20 working days) of vacation. Fire personnel receive 5 weeks of vacation after 10 years of service. These extra days off require the City to hire additional staff. Non-public safety personnel get 20 days of vacation leave after 10 years of service.

Since twenty days' vacation is the norm in the private sector at this level of seniority, the Research Bureau proposes that the City administration renegotiate a uniform leave policy for all municipal employees consisting of 20 days of vacation after 10 years of service. According to the City Manager's Office of Human Resources, if this policy were in effect, the City would save about **\$500,000** per year in the Police Department alone. The Department would need about 12 fewer police officers at an average salary of \$42,700 per year.

C. Injured-on-Duty Compensation (IOD)

For the past decade, the Research Bureau has argued the need to negotiate changes in IOD compensation. According to MGL Chapter 41 Section 111F, employees of the Police and Fire Departments injured in the line of duty may be placed on the IOD list 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 negotiate a reduction in IOD compensation for public safety employees to 60% of salary, the same compensation that applies to all other municipal employees. The City Administration should work with the legislative delegation to develop proposals to discourage prolonged absences. During FY99, 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**.

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 if found medically unable to perform their routine daily tasks. Other municipal employee unions have agreed to this policy. The City Administration should also reform the injured-on-duty program by prohibiting employees receiving injured-on-duty compensation from doing any paid work for other employers during that period. This provision would be particularly effective in conjunction with a light-duty program. If employees are able to work at a light-duty assignment for the City, they should not be able to turn that down and go to work for another employer.

D. Paid Police Details

Since 1994, the Research Bureau has argued the need to negotiate changes in paid police details. Under contractual agreement with the International Brotherhood of Police Officers, off-duty police officers are hired to direct traffic for a minimum of four hours at all government and private worksites such as utility repairs. Off-duty police officers are paid a range of \$30.68 per hour for a patrol officer, \$35.51 for a sergeant, \$39.62 for a lieutenant, and \$43.21 for a captain in overtime pay. Civilian flagmen command about one-half that rate. Communities throughout New England such as Portland, Maine, Concord, New Hampshire, and Storrs, Connecticut are paying civilian flaggers between \$10-20 per hour. During FY99, police were paid \$4.5 million for police details. Almost \$900,000 was paid for police details at Department of Public Works worksites alone. Hiring off-duty police officers at construction sites is not required by law, but the practice has become widespread in Massachusetts. Flagmen are the rule in the other 49 states, including eight that use civilian flaggers exclusively. The Research Bureau proposes that the City administration renegotiate the contract so that civilian flagmen can be hired for duty at construction sites. The City's savings from this change could be about **\$500,000**. The utility companies would also realize considerable savings.

E. Supervisory Responsibilities

The Research Bureau found in a 1997 survey of eleven similarly sized cities (#97-1) that the Worcester Police Department was third highest in the number of deputy chiefs and captains, while the Worcester Fire Department ranked third in the number of deputy chiefs, and second in the number of captains and lieutenants. Both departments ranked third in the ratio of supervisors to uniformed personnel. (While Worcester had 3.68 patrol officers for every supervisor, Springfield had 5.25 patrol officers for every supervisor. In Worcester's Fire Department, there are 2.87 firefighters for every supervisor while Waterbury, Connecticut has 3.98 firefighters for every supervisor.) The Research Bureau proposes that the public safety departments be reorganized to reduce the number of supervisory personnel.

It should also be noted that the Fire Department uses 16 uniformed firefighters as aides to drive the Fire Chief, Deputy Chiefs and District Chiefs. (The Fire Chief has four aides; the other fire officials have one aide each.) Firefighters, who have been trained extensively in fire suppression and prevention, should not be used as aides. The cost of these aides is about \$800,000.

F. Salary Increases

In its recent report #98-7, the Research Bureau noted that salary increases of 3-4% that were granted in the last contract far exceeded the rate of inflation, which is currently averaging about 2% for the Boston Metropolitan area (including Worcester). In that report, the Bureau suggested that any salary increases should be kept at or below the rate of inflation. Furthermore, any salary increases above inflation should follow the private sector policy of connecting raises to productivity improvements.

G. Increasing Pensions for Retirees

Under MGL, Chapter 32, Sections 90 A,C,D, and E, which Worcester most recently adopted on March 22, 1994, a city or town, upon recommendation of the City Manager, may grant an increase of the retirement allowance to any former employee who was employed for not less than 25 years, or who is receiving a disability retirement pension. That increase may not exceed one-half the rate of regular compensation payable to employees of the city or town holding similar positions at the time of the increase in the allowance. If Worcester were to grant pension raises at this time to eligible retirees, the City Auditor estimates the cost would be somewhere between \$1.7 - \$3.8 million¹ in the first year. A survey of 24 cities in the Commonwealth indicates that 15 cities, or more than 62%, have not adopted this local option. These include Boston, Springfield, Cambridge, Chelsea, Fitchburg, Leominster, Lawrence, and Newton. In light of the City Manager's and the City Council's commitment to hold the line on taxes, the Research Bureau recommends that these added pension benefits not be adopted for the foreseeable future. It should be noted that the pension increases requested are in addition to the annual cost of living allowances (COLAs) approved by the City Council in 1998.

H. Heart and Cancer Presumption

According to MGL Chapter 32 Section 94 A and B, any police officer who contracts heart disease and any firefighter who contracts heart disease or cancer during employment or within five years of retirement is presumed to have developed this illness as a result of his employment. This "presumption law" applies to all types of cancers, including prostate and bladder cancer, which are not usually thought of as work-related. The law entitles the employee to receive a disability pension at 72% of salary which is exempt from state and federal taxes. The City's actuarial consultant calculated that an additional six cancer cases this year cost the City \$4 million more (or \$670,000 each) based on an annual payment to each retiree over the course of his estimated lifespan. The Research Bureau proposes that the City Council petition the legislative delegation to tighten the "presumption law" so that disability pensions are not automatically granted to firefighters for all cancers.

I. Bond Rating

A municipality's bond rating is determined by its debt ratio, its reserves, its development plans, its financial trends, and its property values. Municipal government has considerable control over the first two factors. The City's debt service (principal and interest) for FY00 is \$26.5 million, or 7.8% of the General Fund budget. This is considered a high debt ratio by the bond raters. In addition, the City has little in the way of a reserve fund (\$5.5 million or 2% of the budget), which has an adverse impact on its General Fund balance. These two factors contribute substantially to the City's low bond rating of Baa 1 (Moody's). A lower bond rating means that the City pays more to borrow. For example, when the City issued its pension obligation bond of \$220 million last year, it could have saved an additional \$15 million over the life of the bond (29 years) if the bond rating had been one notch higher.

¹ The cost would be \$1.7 million if retirees were granted an increase that amounted to 45% of the current salary for a position with a \$4,000 cap on benefit increases. The cost would be \$3.8 million if retirees were granted 50% of the current salary for a position with no cap on benefit increases. The first option would increase the retirement system's accrued liability by \$11.2 million; the second option would increase it by \$23.8 million.

The Research Bureau recommends that the City limit its borrowing, and increase its reserve account to at least 3% of the General Fund (or \$10.8 million), as proposed by the City Manager in his FY00 budget message. The City can begin to achieve this goal by using \$2 million in "free cash" in FY00 to establish a "rainy day" fund to facilitate an improvement in the City's bond rating.

J. Tax Rate for FY00

The City administration recently learned from state officials that Worcester will receive \$2.1 million in additional lottery money. The City's budget for FY00 includes revenues of \$132.9 million in property taxes to finance municipal expenditures. The Research Bureau suggests that public officials use the unanticipated lottery funds to reduce the amount to be raised in property taxes by \$2.1 million. If this proposal were accepted, the City's projected FY00 single tax rate of \$24.05 per \$1,000 in valuation would be reduced by \$0.37 per \$1,000. The average tax bill for businesses would be reduced by \$223 and for homeowners by \$31.41. (This estimate is based on last years' tax rate information and assumes that property values increased by 2.5%.)

The City Manager's proposal to hire a new firefighter class with the lottery revenues should be postponed pending the results of the consultant's study of the Fire Department, which is expected by the end of the calendar year. (If additional firefighters are needed in the interim, then the City administration should negotiate a change in the status of firefighter aides.) Reducing the tax rate should encourage the expansion and relocation of businesses to Worcester, and begin to make Worcester more competitive with surrounding communities.