



The Research Bureau

Meeting the Fiscal Challenges of FY09 and Beyond Requires a Reform Agenda

Cities and towns across the Commonwealth are struggling to maintain services in the face of an economic downturn, increases in fixed costs such as health insurance and pensions, and declining revenue from the lottery (which constitutes a substantial part of state revenues allocated to cities and towns). As a result, the governments of more than 50 communities, including many that are much wealthier than Worcester (such as Shrewsbury, Newton and Brookline) have proposed Proposition 2 ½ overrides to fund basic expenditures. Without these overrides, services will be cut. The City of Worcester would have been in a similar situation had it not been primarily for a series of reforms to municipal employee health insurance initiated several years ago by the City Manager and approved by the City Council, the savings from which are now being realized.

Since lottery revenues are expected to remain flat or even decrease in future years, the problem of limited local aid from the state (from which Worcester receives 51% of its revenues) will be with us in FY10 and beyond. Therefore, the need for the City Manager to continue the reform agenda is imperative. Here are some additional suggestions, many of which are also applicable to cities and towns across the Commonwealth.

- The greatest savings can come from further reforms to municipal employee health insurance. The City Manager wants to negotiate a change to have all employees pay 25% of their premium, which would save about \$4 million. (All employees hired before July 1, 2006 are contributing 20%; those hired after that date, pay 25%.) If, however, the City paid 75% of the **lowest-cost plan only** for its employees (the norm in the private sector), and employees who opted for a more expensive plan paid the difference, the City could save \$22 million in FY09. (Currently, state employees pay only 15% of their premium for any plan offered. If The Research Bureau proposal were applied to them as well, savings to the Commonwealth would run into the hundreds of millions of dollars.)
- The City should divest itself of services and infrastructure that are not related to its core mission - public education, public safety, and public works. Real-estate management is not a core function, and the City lacks the expertise in this field that private firms possess. If the City could sell Worcester Regional Airport, Union Station, the DCU Center, the building housing the Senior Center (since the Center's functions are duplicated by other nonprofit institutions in the City), Hope Cemetery, and the Worcester Memorial Auditorium, it would save approximately \$4 million annually in subsidies for these facilities.

- The City Manager and the School Superintendent should contract out City and school custodial services. The regional average salary of custodians is \$25,220 in contrast with their current average salary of City and school custodians of \$40,220. If custodial services were contracted to a private firm, estimated savings could be about \$2.6 million.
- 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. 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 police and fire department employees 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.

Previous suggestions from The Research Bureau from such cost-saving moves as selling the building housing the Senior Center have been met with protests from supporters of that facility. The fact remains, however, 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.

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