



The Research Bureau

Worcester's FY10 Budget: Challenges and Opportunities for Reform

Report 09-03

May 7, 2009

EXECUTIVE SUMMARY

State and local finances in the Commonwealth have been hit hard by the current recession. Worcester faces a deficit of \$31.4 million in FY10, the result of major cuts in non-school state aid, reductions in revenue projections, pension fund losses, and costs related to snow and ice removal. Were this deficit to be closed by layoffs alone, the City Manager estimates that 30% of employees would lose their positions. In order to minimize workforce reductions, the City Manager has proposed a number of revenue generating and cost-cutting measures, such as raising fees, reorganizing departments and seeking Home Rule legislation from the state for relief on pension contributions and for the authority to offer an early retirement incentive program. Nevertheless, the City Manager has had to eliminate 18% of the City's FY09 workforce in order to submit a balanced budget to the City Council. The brunt of the cuts will be borne by the operational departments of municipal government. Due to guarantees to level-fund school aid from both the Governor and the House, the Worcester Public Schools' budget will actually increase by 4% or more in FY10; no layoffs are anticipated.

After analyzing the crisis in public finance at the state and local level, and reviewing the measures the City Manager has taken to preserve vital services and minimize workforce reductions, The Research Bureau offers the following suggestions for further reform:

- Worcester's legislative delegation should support the legislation currently under consideration by the state Legislature to grant local government the same authority as the state to change health insurance plan design without approval by local unions.
- The City Manager and the City Council should develop a plan to adopt a single tax rate, which would make Worcester much more competitive with nearby communities in attracting businesses.
- The City Manager should continue to pursue the sale or lease of municipal assets in order to fund core municipal services.
- Worcester's legislative delegation should ensure that the sale of Worcester Airport is included as part of the comprehensive transportation bill expected to be passed this legislative session.
- The City Manager should negotiate public-private partnerships for park maintenance and Senior Center services.
- The City Manager and WPS Superintendent should contract out operations where appropriate, such as school custodians which could save about \$2 million.
- The City Council, City Manager, WPS Superintendent and School Committee should study combining selected operations of the WPS and municipal operations.
- The City Manager should continue to seek a zero percent increase in employee wages for FY10 and a 25% employee contribution for health insurance premiums for all employees.
- The state Legislature should implement measures to reduce abuse of accidental disability pensions as part of comprehensive pension reform this legislative session. These

measures should include requirements to monitor physical fitness on an annual basis during employment.

- The City Manager should negotiate a change in the police and fire contracts so that paid time off benefits for those employees are the same as for other city employees. This change could save the City \$2-3 million.
- Either the state Legislature should reform the Quinn Bill, which this year, if the Legislature reneges on its commitment to pay 50%, will cost the City \$5.6 million, or the City Manager should renegotiate the terms of its funding with the local police unions. The City cannot afford automatic 10-25% pay increases which increase with each contracted pay raise.

INTRODUCTION

The current recession has triggered a crisis in public finance across the nation and at all levels of government. According to a recent estimate by the Congressional Budget Office, the Federal government is projected to run a deficit of \$1.8 trillion this fiscal year. At 13% the size of the overall economy, this will be the largest deficit since World War II. The CBO also estimated that President Obama's proposed budget would run an additional \$1.4 trillion deficit in FY10, and projects a total \$9.3 trillion shortfall over the next decade.¹ Because almost all state and local governments are required, by statute or constitution, to balance their budgets,² the financial crisis is more difficult for them. According to the Center on Budget and Policy Priorities, at least 47 states are facing a shortfall this year or next, for a total budget gap (just at the state level, not including localities) of \$350 billion.³

The impact has been felt by municipalities all over the Commonwealth. Boston expects to lay off police officers for the first time in 27 years. Milton is buying fewer flags for its veterans' cemetery.⁴ Some municipalities, including Worcester, are considering cancelling preliminary elections, in order to save money.⁵

Worcester is facing the biggest shortfall in recent memory. For the first time in 18 years, municipal spending will actually decline from the previous year. While the FY09 budget was \$505.4 million, on March 31, the City Manager submitted an FY10 budget of \$491.1 million, a \$14 million, or 2.8% decline. In order to fund services in FY10, many of which are in greater demand during an economic downturn, the City Manager has had to make a number of difficult decisions, most notably eliminating 308 positions, or 18% of the municipal workforce, in order to produce a balanced budget within available revenues.

The City Council has to vote on the City Manager's budget by May 12, 45 days after he delivered it to them, although some aspects of the state and local fiscal picture will remain uncertain for several months. More state budget cuts are expected in FY09, and the budgets that the Governor and the House have submitted for FY10 differ drastically in their reliance on new taxes, spending cuts, and tapping into the state's rainy-day fund to balance the state budget. Since submitting the budget, the City Manager has been able to reduce the total number of layoffs by seventeen, due to concessions regarding wages and health insurance by two clerks' unions, Teamsters Local 170 and the Worcester Clerical Association, and by informing Local

¹ "A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook," Congressional Budget Office, March 2009, <http://www.cbo.gov/ftpdocs/100xx/doc10014/03-20-PresidentBudget.pdf>.

² Ronald K. Snell, "State Balanced Budget Requirements: Provision and Practice," National Conference of State Legislatures, 2004, <http://www.ncsl.org/programs/fiscal/balbuda.htm>.

³ Elizabeth McNichol and Iris J. Law, "State Budget Troubles Worsen," Center on Budget and Policy Priorities, March 13, 2009, <http://www.cbpp.org/files/9-8-08sfp.pdf>.

⁴ Jack Nicas and Camille Roane, "Mass towns struggle to cope with budgets," *MetroWest Daily News*, April 12, 2009, <http://www.metrowestdailynews.com/state/x978811017/Mass-towns-struggle-to-cope-with-budgets>.

⁵ Methuen has already voted to do so. (Mitch Evich, "Methuen City Council votes to eliminate primary election," Massachusetts Municipal Association, April 1, 2009, <http://www.mma.org/more-community-corner/3694-methuen-city-council-votes-to-eliminate-preliminary-election>; Nick Kotsopoulos, "Some see helpful savings in cancelling Sept. vote," *Telegram & Gazette*, April 9, 2009, <http://www.telegram.com/article/20090409/NEWS/904090626/1101/NEWSREWIND>.)

495, the largest non-school union, that he will exercise his right to raise employee health insurance contributions from 20% to 25%. (The City Manager reserves this right when negotiations have reached an impasse, and Local 495 has so far not agreed to the concession he is seeking.) In order to submit a balanced budget to the City Council, the City Manager has also assumed that the state Legislature will grant the City a Home Rule petition to extend the pension funding schedule of the Worcester Retirement System and allow him to offer early retirement incentives to 100 employees, which the Legislature has not yet done.

In short, the debate about the crisis in public finance will continue for months to come. The purpose of this report is to contribute to the debate by discussing the crisis in public finance at the state and local level, analyze the City Manager's proposed budget, and suggest some reforms for savings, both in the short and long term.

I. ORIGIN OF THE FY10 DEFICIT AND CLOSING THE GAP

The story of the budget crisis in Worcester begins with the effect of the nationwide recession on state finances. During FY09, state sales, capital gains, and personal and corporate income tax revenues have fallen far short of projections, requiring three rounds of cuts thus far to close a \$1.4 billion gap in October 2008, a \$1.1 billion gap in January 2009, and another \$156 million in April. The Governor's cuts in January included \$128 million in local aid, which translated into a \$5 million cut for Worcester. The cuts are not over. Before the end of the fiscal year on June 30, the Governor projects that the deficit could grow by \$400 million, bringing the state's total FY09 shortfall to over \$3 billion.

"House 1," the Governor's proposed budget for FY10, submitted on January 28, reduces non-school local aid to \$1.1 billion, a 16.7% or, a \$220 million reduction from the original FY09 amount (or \$92 million, taking into consideration January's cuts). According to the Massachusetts Municipal Association, the Governor's budget would bring non-school local aid levels down to what they were in FY98.⁶

The City Manager issued his budget based on many assumptions about state finances drawn from the Governor's budget. The House Ways and Means budget, released on April 15 and currently being debated in the Legislature, differs greatly from the Governor's proposal. Unlike the Governor's plan, it contains no new broad-based taxes and would not tap into the state's stabilization fund. Instead, it relies on major spending cuts, including \$424 million in local aid cuts, \$177 million more than the Governor proposed. The House proposes cutting local aid by 32% from FY09 levels. According to the Massachusetts Municipal Association, this represents the largest municipal aid cut in history, and would bring local aid down to 1987 levels. Including cuts to other programs such as community policing, Quinn bill reimbursements and sewer rate relief, the total local aid cut comes to over \$500 million in the House Ways and Means' proposed budget. Worcester would receive \$4.5 million less in local aid in the House budget, which, according to the City Manager, would result in the elimination of 90 more positions, in addition to the 308 he has already announced.⁷

With regard to education, by far the biggest expenditure in the City's budget, both the House and the Governor proposed level funding Chapter 70 state aid for schools, meaning maintaining the \$3.95 billion from FY09 (no school aid was cut in FY09). This will be achieved by the use of \$168 million in Federal economic stimulus money. Worcester Public Schools (WPS) will receive \$14-16 million from that revenue source.⁸ Including the state's commitment of these additional funds, WPS' proposed FY10 budget will be \$266.5-268.5 million, a 4% or more

⁶ "Massachusetts Municipal Association testimony to Ways and Means Committee regarding fiscal 2010 state budget," March 9, 2009.

⁷ Nick Kotsopoulos, "More layoffs expected for city?," *Telegram & Gazette*, April 16, 2009, <http://www.telegram.com/article/20090416/NEWS/904160649/1116/NEWSREWIND>.

⁸ Jacqueline Reis, "\$168M Stimulus Aids Schools," *Telegram & Gazette*, March 20, 2009.

increase from FY09. By contrast, the municipal budget will decrease by 4%, from \$248.8 million to \$238.7 million. As a result, unlike the other departments, WPS does not expect to make any layoffs, identify new revenues or institute cost-saving restructurings in FY10.

Thus depending on a number of decisions yet to be made at the state level, much could change before the City's new fiscal year begins in July. While this uncertainty has had the effect of delaying the budget process in some municipalities,⁹ Worcester's City Manager submitted his budget to the City Council earlier than usual in order to plan strategically for the next 18 months of continued fiscal turmoil, and to make the necessary layoffs within collective bargaining and civil service regulations.

In FY10, Worcester faces a non-school operational shortfall of at least \$31.4 million, or 24.3% of the operational budget.¹⁰ Over half of this is due to decreased local aid. The other three components are adjusted revenue projections relating to declining home values and foreclosures, increased costs related to snow and ice removal this past winter, and increases in pension fund payments as a result of poor investment performance in 2008. According to the City Manager, if the gap were closed by layoffs alone, over 30% of employees would lose their positions.¹¹

Both the components of the FY10 Budget deficit and the measures that the City Manager has taken to close it are listed in **Table 1** below.

⁹ John C. Drake, "On Town Meeting agendas: deferrals," *Boston Globe*, April 6, 2009,

http://www.boston.com/news/local/massachusetts/articles/2009/04/06/on_town_meeting_agendas_deferral.

¹⁰ As mentioned above, in the House budget, Worcester's local aid is reduced by an additional \$4.55 million (total reduction \$21.35 million), which would expand the FY10 deficit to \$35.95 million. If the City Manager's Home Rule Legislation does not pass (and it may not, according to Nick Kotsopoulos, "City budget faces more challenges," *Telegram & Gazette*, April 19, 2009.), the deficit could swell to \$42.45 million, a full 8.4% of the FY09 budget (and 18.5% of the FY09 city-side budget).

¹¹ City Manager's February 10, 2009 memo to the City Council.

Table 1: Closing the \$31.4 Million gap	
Causes of the Deficit	\$(in millions)
Governor's Proposed FY10 Reduction in State Aid & Other Cuts	16.8
FY10 Revenue Projection Adjustment	7.0
Snow and Ice Carry-Over from FY09	3.1
FY10 City-Side Required Pension Deposit	4.5
Total	31.4
Actions Taken:	Savings
Extension of Pension schedule and Offer of Early Retirement Incentive Program (pending Home Rule approval)	-6.5
One Time Revenues for Snow Removal Carryover	-2.5
One Time Revenues to Stabilize Services	-1.5
Freeze of 70 current and projected open positions	-2.5
Non-Union employees Wage and Benefit Changes	-0.85
Increase in Administrative Service Fee for Grants	-1.0
911 Grant to Communications Department	-0.62
Fee Increases (Parking, Permits, Records, etc)	-0.5
City Street Light Acquisition and Maintenance	-1.0
Reduce Capital Borrowing Cap to \$15 million	-0.3
Total	-17.27
Remaining Gap	=14.13
Eliminate Wage Increases in FY10	-2.0
Health Insurance Negotiations with Providers	-0.69
Establish FY10 Emergency Stabilization Reserve	+1.0
Total	12.44
Only option left- more eliminations	
<i>Source: City Manager's Power Point "Priorities in Perspective: The Fiscal 2010 Budget, Adapting to a Brave New World"</i>	

In order to minimize staff reductions, the City Manager took the following actions:¹²

- He filed Home Rule Legislation with the state Legislature to allow the City to offer early retirement incentives to one hundred employees and to extend the pension funding schedule an additional ten years. The Worcester Retirement System is currently required by State law to pay off its unfunded liability by 2028. If it were allowed to push the date back ten years, this would reduce the amount the City would be required to contribute in FY10. The City Manager's proposed early retirement incentive program would offer those senior staff already eligible for retirement an extra five years in service for their pension calculation if they agree to retire immediately. If the Legislature grants these petitions, the City would save **\$6.5 million** in FY10. This cost includes the additional \$1.6 million in annual payments due to the increased liability from the early retirement incentives, and the fact that 20 positions will have to be refilled. Eighty of the

¹² The following is from the City Manager's March 17, 2009 memo to the City Council.

positions will be permanently eliminated from the City's table of organization, which is the only way to achieve real savings. (Public safety and public school personnel would not be eligible for the early retirement program.) If the legislation does not pass, the City Manager will be forced to cut 190 more jobs.¹³

- In FY09, the City budgeted for \$2.3 million for snow and ice removal costs, but due to the unusually inclement weather this past winter, costs ran to \$5.1 million, exceeding available revenues by \$3.8 million. The City expects to receive a \$781,061 reimbursement from FEMA. The remaining deficit of **\$3.1 million** of the FY09 snow removal will be carried over into FY10.
- The City Manager proposes keeping open all current vacancies, as well as the 20 vacancies expected to arise in FY10. This would generate **\$2.5 million** in savings on salaries and benefits.
- The City Manager proposes a 0% wage increase in FY10 for non-union employees, and that they pay 25% of their health insurance premiums, up from 20%, saving a total of **\$850,000**.
- The City Manager proposes to increase the fee the City charges to administer Federal and State grants, from 1% to 3%. The City charges the municipal agencies receiving Federal and State grants for the service and personnel hours directly associated with their administration (payroll, procurement, auditing, and legal). (The WPS receives the largest number of grants.) According to the City Manager, the administrative service fee percentage has not changed since the 1990s, and the 2% increase properly reflects the City's actual costs to perform this work. The City Manager will return the **\$1 million** generated by this new funding to the departments that perform the work, restoring 17 positions.¹⁴
- Fees and charges on various municipal services will be raised, such as those for birth certificates, marriage licenses and parking fines. This will bring in an additional **\$500,000** in FY10.
- The Massachusetts State 911 Department will grant the City **\$627,138**. While these funds, generated from phone surcharges, are typically applied by the Communications Department to equipment upgrades and modernizing communications centers, this year they will be allocated to retain personnel. Fifteen layoffs will be averted with this funding.
- In the early 90s, fiscal challenges forced the City to turn off 1,065 street lights, and stayed off for years, serving as a visible reminder of the City's fiscal challenges. In order to avoid repeating this course of action, the City Manager has proposed changing the arrangement whereby the City funds streetlights. Currently, the City's streetlight budget is comprised of both annual costs for leasing the lights from National Grid and the cost of electricity. If the lights were purchased from National Grid, the Manager believes that the City would realize a

¹³ Nick Kotsopoulos "Home rule failure could cost 190 jobs," *Telegram & Gazette*, April 28, 2009.

¹⁴ City Manager's March 17, 2009 memo to the City Council.

net savings of **\$1 million**. The City Manager plans to devote these savings to mitigate service cuts within the Department of Public Works and Parks (DPWP).

- In the City Manager's Five Point Financial Plan,¹⁵ approved by the City Council in 2006, he allows for \$18 million in tax levy-supported borrowing for FY10. If this were reduced to \$15 million, the City would spend **\$300,000**, or 15%, less on capital projects in FY10.
- If all represented employees agreed to a 0% wage increase in FY10, this would save the City an additional **\$2 million**.
- The City Manager intends to negotiate a lower premium increase with the City's health care providers. He expects that these negotiations will net an 8.5% increase vs. a proposed 10% increase in premiums, saving the City **\$689,391**.
- Finally, in order to plan for future contingencies associated with the declining economy, such as further cuts in local aid in FY09 or FY10, the City Manager has proposed appropriating an additional **\$1 million** into an Emergency Stabilization Reserve account.

The rest of the savings must come from staff reductions. In sum, the City Manager's budget proposes to eliminate 308 positions: 208 through layoffs or not filling existing vacancies, (shown in **Table 2**), a net 80 through the proposed early-retirement incentive program, and 20 from not filling projected vacancies in FY10. This amounts to eliminating 18% of the municipal workforce.

Department	Eliminations (Layoffs plus vacancies)	% Departmental Reduction
Administration and Finance	20	21.50%
Fire	25	6.00%
Police	44	8.30%
Communications	2	3.10%
Law	2	13.30%
Inspectional Services	12	16.70%
Public Works and Parks	37	13.60%
Clerk	4	18.20%
Auditing	4	36.40%
City Manager	3	30.00%
Human Resources	2	11.80%
Health and Human Services (Library, Health, Elder Affairs, Human Services)	24	19.00%
Economic Development	5	14.30%
Subtotal	184	10.90%
Additional Police (funded by a grant through 9/30)	24	
Total	208	12.30%

Source: "Priorities in Perspective"

¹⁵ <http://www.ci.worcester.ma.us/reports/FiscalPolicyStrategy.pdf>.

The cuts described above will result in a combination of eliminating some services entirely, reducing other services, and reorganizing some operations. The Worcester Public Library will be closed on Sundays and Mondays. The Worcester Police Department (WPD) has closed its Central District office on Front Street (the downtown foot patrol) and reassigned those personnel to the patrol division in order to concentrate on the more primary objectives of handling violent crime and calls for service. The WPD has also made cuts in its Traffic Division, responsible for speed enforcement, curtailing drunken driving, handling fatal accidents and major accident investigations. The police chief is also considering eliminating community policing.¹⁶ The DPWP's capacity to provide street and sidewalk repairs, guardrail repair, curb/berm repair and bridge repair, and its ability to provide other services such as crosswalk painting, pavement markings and grass-mowing on median strips and traffic islands will be greatly reduced. The Department of Inspectional Services projects an increase in response times for annual inspections. A reduction in staff in the assessing department will reduce its ability to handle tax abatement applications.¹⁷ Health and Human Services will be eliminated as a separate department and its sub departments (Human Rights, Disabilities, and Veterans) reconfigured as the Human Services Division of the City Manager's office.

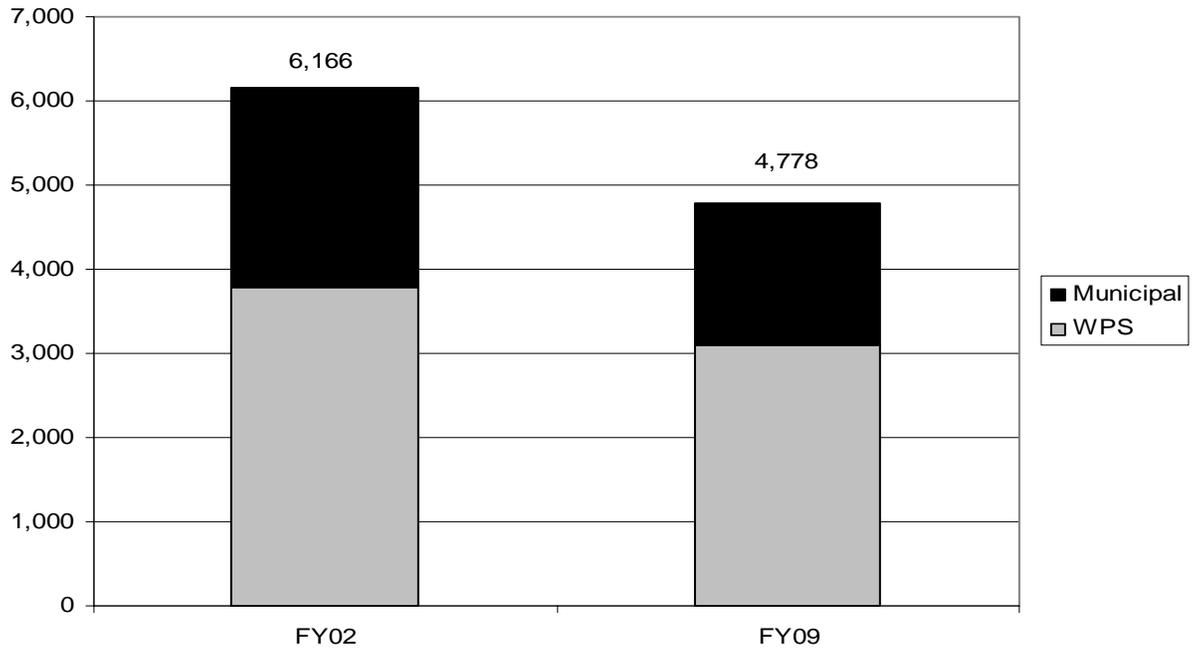
While this reorganization may lead to greater efficiencies, it should be noted that the City's total workforce has been in decline for several years.¹⁸ As **Chart 1** illustrates, Worcester's workforce decreased by about 22% between FY02 and FY09, even before the City Manager's cuts in FY10.

¹⁶ The House budget proposal eliminates state funding for community policing.

¹⁷ This is likely to be an important service in the upcoming year, as property owners will be taxed on assessments greater than their properties' current market value. The assessed values currently in use for FY09 were finalized on January 1, 2008 and based on property values determined in 2007. In FY09, 1,809 abatement applications were submitted to the City Assessor's office, compared with 967 in FY08. (Matthew L. Brown, "RE Tax Bills Prompt Surge in Complaints," *Worcester Business Journal*, April 13, 2009. <http://www.wbjournal.com/news43190.html> and City Assessor's Office).

¹⁸ "The position reductions set forth in FY08 are still in effect and we continue to operate at minimal staffing levels. All areas of government continue to do more with less." (City Manager's *FY09* Budget Message, p. 9).

Chart 1: Size of Worcester's Workforce, FY02 vs. FY09



The City Manager's FY10 budget reduces the municipal workforce from 1,681 to 1,380, an 18% decrease, as mentioned above. Ninety more layoffs would be required by the House budget, which would mean a 23% workforce reduction between FY09 and FY10, and an almost 30% decline from FY02. Worcester's reductions in personnel stand in sharp contrast with the personnel situation in Boston. Although Boston's workforce is slightly lower than it was in 2002, between 2004 and 2009, it grew by 7.5%.¹⁹

¹⁹ Boston Municipal Research Bureau, "Personnel Levels Unsustainable Amid Fiscal Stress," Special Report No. 09-1, March 20, 2009, <http://www.bmr.org/content/upload/sr091.pdf>.

II. CITY MANAGER'S SAVINGS INITIATIVES

The current fiscal crisis would have been worse were it not for certain reforms the City Manager initiated during the past few years. The reforms which have produced the greatest fiscal relief and thus have had the most impact on the FY10 budget are those relating to health insurance. As The Research Bureau and others have detailed,²⁰ the cost of providing health insurance to employees and retirees has become a major burden for municipal government. In response to the need to get health insurance costs under control, the City Manager initiated a series of reforms, including the following:

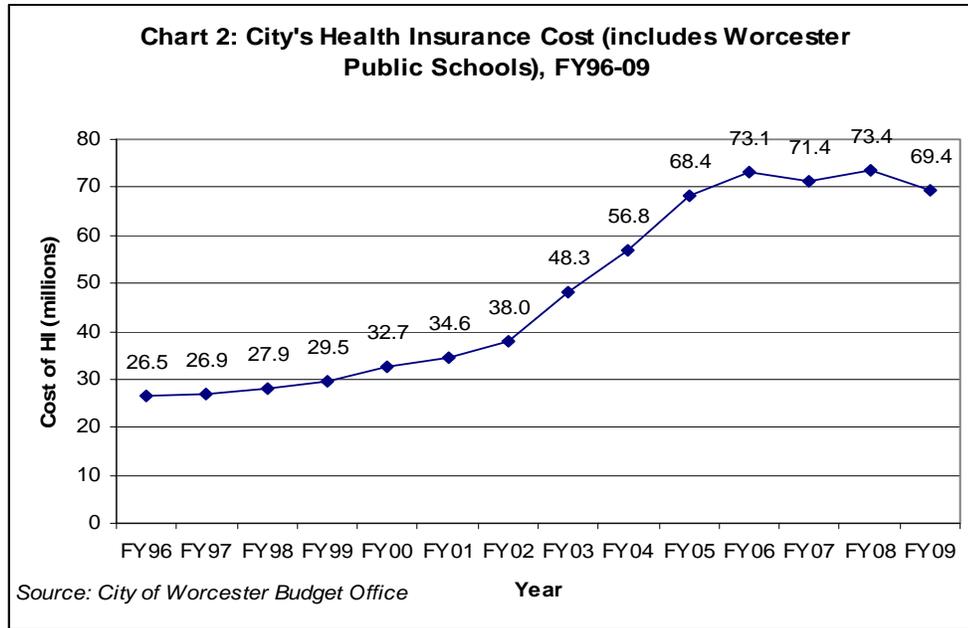
- Requiring all current municipal and school employees hired after July 2006 to pay 20% of monthly premium costs, and all employees hired after that date and non-Medicare eligible retirees (on conventional, active-employee plans) to pay 25% of monthly premium costs. When the City Manager initiated these reforms, City employees were paying only 10% or 13% of their premiums (depending on the plan) at the same time that health care costs were increasing by double digits each year, and employee contributions of 25% had become the norm in the private sector.
- Adopting Section 18 of Mass General Laws 32B in 2007. This mandated that all City retirees 65 years of age or older eligible for Medicare enroll in the Federally-subsidized Medicare Plans. By shifting retiree health care costs from the City to the Federal government, the City generated \$5 million in savings in FY09 and reduced its long-term retiree health care liability by \$100 million.²¹
- Introducing plan design changes including increased co-pays for doctor and Emergency Room visits, and a three-tiered prescription drug co-payment, making these comparable to private-sector plans.
- Managing the prescription drug program rather than contracting that service out, a change that has produced \$2 million in annual savings.

As of April 2008, the City Manager estimated that his health insurance reforms had produced over \$44 million in savings for the City.²² Before these reforms, the City was spending 15% of its total budget on municipal employee health insurance. Although premiums have continued to rise annually, as a result of transferring more of the cost from taxpayers to employees, health care costs for the City have plateaued in recent years, as **Chart 2** below shows. (The attrition illustrated in **Chart 1** has also played a role. In FY10 alone, workforce reductions will reduce health insurance costs by \$1.9 million.) In FY09, health insurance expenditures constituted 13.7% of the City budget, WPS included.

²⁰ "Condition Serious, Prognosis Uncertain: The Impact of Municipal Employee Health Insurance on Massachusetts Cities," Report No. 05-01, Worcester Regional Research Bureau, February 2005, <http://www.wrrb.org/reports/05-01health.pdf>, "Soaring Health Insurance Costs Threaten Boston's Competitive Edge," Boston Municipal Research Bureau, November 2006, and "Municipal Health Reform: Seizing the Moment," Boston Municipal Research Bureau and Massachusetts Taxpayers Foundation, August 2007, <http://www.bmr.org/content/upload/BMRBMTF.pdf>.

²¹ City Manager's April 1, 2008 memo to the City Council.

²² City Manager's "FY09 Budget Message," p. 7, City Manager's June 17, 2008 memo to the City Council, p. 3, and City Manager's April 1, 2008 memo to the City Council.



The FY10 deficit could have been over \$10 million greater had it not been for this series of health insurance reforms.²³ Rising health care costs are a challenge for all municipalities, but not all have faced up to it.²⁴

The City Manager has also initiated several reforms in the Worcester Fire Department (WFD). In order to make the Department more effective and reduce “over-responses” to 911 calls, in which fire trucks, police cars and ambulances all respond to a non-life threatening emergency, in 2007, the City Manager redeployed some personnel and closed two engine companies to “provide an equal or improved service at a reduced cost [to the City].”²⁵ The 24 firefighters of these closed companies have now been transferred to other fire stations. Also, the Brown Square station has been closed, and both fire trucks at the Providence Street station have been replaced with an ambulance.²⁶ This redeployment coupled with an 11% reduction in staff over eight years has resulted in approximately \$3.8 million in savings each year to the City. The FY10 budget continues these efforts by moving Emergency Management responsibilities (for floods or ice storms-not beetles) from the WFD to the Communications Department. During city-wide emergencies, the Communications Department will now coordinate efforts among various departments, the Federal Emergency Management Agency and Massachusetts Emergency Management Agency, and will be responsible for seeking disaster-relief reimbursements when available.

²³ City Manager’s “FY09 Budget message,” p. 7.

²⁴ In New York City, for instance, employees still pay nothing towards their health care premiums. (“Six-Figure Civil Servants: Average Compensation Cost of New York City Public Employees,” Citizen’s Budget Commission, January 2009, <http://www.cbcny.org/NYCEmployeeCostFINAL.pdf>)

²⁵ “Redeployment Plan for the Worcester Fire Department,” February 2007, <http://www.ci.worcester.ma.us/reports/RedeploymentPlan.pdf>.

²⁶ Engine 12 went to the new Franklin Street Station and Ladder 5 went to the McKeon Road station.

III. THE CITY MANAGER'S PROPOSED FY10 BUDGET

REVENUES²⁷

Property Tax: The second-largest revenue source for the City is property tax collections (41.5%). In Massachusetts, municipal property tax collections are limited by Proposition 2 ½, which limits the tax levy increase each year to 2.5% over the previous year, plus the value of new construction. Proposition 2 ½ also limits the total tax levy of a community in any given year to 2.5% the total taxable assessed value of the community. Worcester has not taxed to its limit since the early 1990s. The City has maintained an excess levy capacity of over \$10 million since FY01 and \$12 million since FY05.²⁸ Worcester's FY10 levy limit is \$215.8 million, but its actual tax levy will be \$203.9 million (the \$199.2 million base from the previous year, \$5.3 million in 2.5% increase from FY09, and a projected \$2.5 million in taxes on new growth). \$3.1 million will be set aside for the overlay reserve. (The overlay reserve is raised by the City Assessor in excess of appropriations to cover abatements, in cases where properties may have been overvalued, and also exemptions that are sanctioned by state law, such as those for the elderly, veterans and the blind.)

Local Receipts: The City has budgeted \$41.7 million, or 8.5% of the budget, in revenues from certain fees and charges. This is \$200,000 less than the \$41.9 million budgeted for in FY09. The fee which generates the most income for the City is the Motor Vehicle Excise Tax, at \$12.3 million.

State Aid: The City Manager's budget expects to receive \$224.7 million, or 45.7% of the total budget, in State Aid in FY10. Most of this (\$180 million) is Chapter 70 education aid. The City will also receive \$1.7 million for reimbursements for Charter School Tuition²⁹ and \$25.1 million for Unrestricted General Government Aid (previously known as "Lottery Aid"). This is \$14.8 million, or 37%, less than the original FY09 amount promised of \$39.9 million.

EXPENDITURES

Schools: The City's largest expense by far is public education. Including the \$14-16 million committed in the Governor and House budget proposals, the WPS FY10 budget will be \$266.5-268 million,³⁰ a 4% increase from FY09.

Health Insurance: Health Insurance is the second-largest expenditure, at about \$70 million, or 14% of the budget,³¹ including WPS.

Pension Costs: Retirement benefits are now the third-largest expenditure. Assuming the City Manager's Home Rule petition passes, the pension cost for FY10 will be \$39.4 million (\$17.1 for

²⁷ For a more detailed breakdown of revenues and expenditures, see Appendix.

²⁸ The practice of maintaining excess tax levy capacity has provided over \$115 million in property tax relief (about \$200 per year to the average single family tax bill) between FY01-10.

²⁹ The state budget provides funding for reimbursements for charter school tuition to lessen the impact of charter schools on the school district's operating budget. The City receives full reimbursement of any new charter-school costs each year based on the tuition formula, but gradually phases out the level of reimbursement over a three-year period.

³⁰ Source: City of Worcester Budget Office.

³¹ These figures are from FY09. The WPS did not have its health insurance estimate for FY10. But health insurance in FY10 is expected to be around \$70 million and again will be the second highest expense.

the City, \$5.7 for WPS,³² and \$16.6 million in debt service on the City's Pension Obligation Bond). This represents 8% of the total budget. Pension costs are followed by expenditures for Police (\$38.9 million) and Fire (\$32.2 million).

Table 3 shows a breakdown of the City Manager's expenditures comparing FY09 and FY10. The burden of the fiscal crisis will primarily be borne by the Municipal Departments. Funding for the WPS (when the additional contribution from the state is included) will actually increase by 4.6% while non-school fixed costs will increase by 8%. Spending for all other municipal departments, on the other hand, will decrease by 10.5% in FY10.

Table 3: Public Education vs. Non-school Fixed Costs vs. Municipal Departments, FY09 and FY10			
Education			
	FY09	FY10	Change
WPS (including \$16M from state)	256.6	268.5	4.60%
Charter and School Choice tuition	22.6	20.5	-9.30%
Total	279.2	288.9	3.40%
Other Municipal Departments			
Legislative Office	2.3	2	-13.04%
City Manager's Office	9.0	7.7	-14.44%
Human Resources	1.0	0.9	-10.00%
Economic Development	1.6	1.2	-25.00%
Law Department	1.4	1.3	-7.14%
Fire	34.9	32.2	-7.74%
Police	41.2	38.9	-5.58%
Communications	2.8	2.1	-25.00%
Inspectional Services	3.5	2.9	-17.14%
Public Works and Parks	21.2	17.7	-16.50%
Administration and Finance	6.5	5.4	-16.92%
Total	125.4	112.2	-10.52%
Non-school Fixed Costs			
Worker's Compensation	1.2	1.2	0.00%
Unemployment Compensation	0.1	1.9	1800.00%
Public Safety Injured on Duty	0.4	0.5	25.00%
Snow and Ice Removal ³³	3.4	5.6	
Pensions	14.5	16.8	15.86%
Health Insurance	24.6	23	-6.50%
Debt Service (principal and interest)	28.0	29.9	6.79%
Pension Obligation Bond	10.8	10.8	0.00%
Total	83	89.7	8.07%
<i>Source: City of Worcester Budget Office</i>			

³² This figure does not include teachers, who are part of their own statewide retirement system.

³³ Though technically part of the Public Works and Parks budget, Snow and Ice Removal (amount budgeted for current year plus carryover from previous year) has been moved to Fixed Costs, both for purposes of emphasis, and also because it is better understood as a fixed, not operating cost.

IV. OBSERVATIONS AND RECOMMENDATIONS

The City Manager has implemented many significant reforms, both prior to and during the FY10 budget cycle. In order to maximize scarce resources and preserve the City's ability to provide core municipal services, both in the short term and the long term, The Research Bureau makes some additional suggestions:

Worcester's legislative delegation should support the legislation currently under consideration by the state Legislature, which would grant health insurance plan design authority to local government.³⁴

Currently, municipalities in the Commonwealth are required to negotiate all significant changes in their health care plans with their collective bargaining units, although state government does not. This legislation would end this double-standard and grant municipalities the freedom to set charges regarding co-pays and deductibles outside of collective bargaining. According to the Massachusetts Municipal Association, "If cities and towns had the same authority as the state, they could quickly modernize their health plans to incorporate realistic co-pays, deductibles, and tiered networks (as the state has done)—and dramatically reduce the cost of municipal health insurance throughout the Commonwealth. Keeping the status quo means leaving this important cost containment measure to the agonizingly slow and ineffective collective bargaining process, which requires the agreement of all unions before affecting any change."³⁵ Incorporating such plan design changes quickly and efficiently would result in reductions in cost for both employer and employee, in terms of the monthly premium.

The City Manager should continue his efforts to stabilize Worcester's tax base.

Due to the downturn in the real-estate market, Worcester's total assessed value for all taxable property declined by 4.63% between FY08 and FY09 (\$12.7 billion to \$12.1 billion, as of January 1, 2008). This is the first time the City's total valuation has decreased since FY96, and is a serious cause for concern, since 42% of the City's total revenues come from property taxes. During these difficult economic times, it is essential that everything be done to stabilize property values. Although property values have held up well during previous recessions, some observers have voiced concern about the steep decline in real-estate values, which is at the heart of the current recession, and municipalities' great dependence on property taxes.³⁶ The City Manager has tried to stabilize the tax base through two programs, "S.A.V.E. our Neighborhoods," and "Buy Worcester Now." Both are aimed at addressing the foreclosure crisis in the City. The City Manager launched the former program, "An Action Plan to Stabilize, Assist, Value and Enforce to Preserve our Neighborhoods," in January 2008. It is focused on dealing with "problem

³⁴ This is in at least two different bills filed this legislative session: House No. 3486 (House Docket, No. 1073), and House No. 2509 (House Docket, No. 1082).

³⁵ Geoffrey C. Beckwith, "MMA letter to the Joint Committee on Revenue regarding health insurance plan design," April 7, 2009, <http://www.mma.org/advocacy-mainmenu-100/letters-to-state-leaders/3703-mma-letter-to-the-joint-committee-on-revenue-regarding-health-insurance-plan-design>.

³⁶ Penelope Lemov, "A Break in the Levy," *Governing*, February 2009, <http://www.governing.com/articles/0902tax.htm>.

properties,” which are either threatened by foreclosure, have already been foreclosed on, or have been simply abandoned. “S.A.V.E. Our Neighborhoods” also provides education and assistance to homeowners regarding the foreclosure process, and institutes receivership arrangements in the case of vulnerable properties, so as to ensure responsible management and allow any tenants to remain until the deed is formally transferred and rightful ownership established.³⁷ The Massachusetts Municipal Association presented the City Manager with an Innovation award in January 2009 for “S.A.V.E. our Neighborhoods,” in recognition of his early and efficient response to the foreclosure crisis in Worcester.³⁸

Buy Worcester Now³⁹ is a partnership among the City, various local banks, and local employers which provides information and incentives aimed at matching prospective homebuyers with the financing for buying a home in the City. Since its launch last July, Buy Worcester Now has resulted in 115 home sales in the City.⁴⁰

The City Manager and the City Council should develop a plan to adopt a single tax rate.

Although Berkeley Investments and Unum have signed a letter of intent for Unum to become the first tenant at CitySquare, and Forbes magazine recently ranked Worcester ninth in its list of “America’s Most Livable Cities,”⁴¹ expanding Worcester’s tax base will continue to be a challenge during the recession. In order to position Worcester to be more attractive to developers, the City Manager and the City Council should develop a plan to implement a single tax rate over the next several years. As The Research Bureau has argued in previous reports,⁴² the current “split” rate, in which residential properties are taxed at or near the minimum allowable rate, and commercial and industrial properties at the maximum, is inequitable and detracts from Worcester’s overall economic competitiveness. Worcester taxes commercial properties at over twice the rate of residential properties: \$28.72 vs. \$13.50 per \$1000 valuation in FY09. Worcester’s commercial tax rate is seventh-highest in the Commonwealth,⁴³ and, more significantly, as **Table 4** shows, is much higher than the rates of a number of surrounding communities with which it is likely to find itself in competition. Although the original justification for maintaining a high commercial rate was to keep residential rates low, as **Table 4** also shows, Worcester’s residential tax rate is higher than half of those of the neighboring communities. Taxing business at a high rate discourages business from locating or expanding in the City, thus reducing the tax base and increasing the burden for homeowners.

³⁷ See “Action Plan Summary,” <http://www.ci.worcester.ma.us/reports/SAVEPlan.pdf>, p. 21.

³⁸ “Worcester moved quickly to confront foreclosure crisis,” Massachusetts Municipal Association, February 2, 2009, <http://www.mma.org/economic-a-community-development/3526-worcester-moved-quickly-to-confront-foreclosure-crisis>.

³⁹ <http://www.buyworcesternow.com/>.

⁴⁰ Laura Crimaldi, “Worcester program entices homebuyers,” *Boston Herald*, March 8, 2009, http://www.bostonherald.com/news/regional/view/2009_03_08_Worcester_program_entices_homebuyers/.

⁴¹ Zack O’Malley Greenburg, America’s Most Livable Cities, *Forbes*, April 1, 2009, <http://www.forbes.com/2009/04/01/cities-city-ten-lifestyle-real-estate-livable-cities.html>.

⁴² See Report No. 08-07, “Benchmarking Economic Development in Worcester: 2008,” November 24, 2008, <http://www.wrrb.org/documents/Report08-07EconDvpt.pdf>, and Report No. 08-08, “What’s Up with Downtown: Prospects for Revitalization,” December 11, 2008, <http://www.wrrb.org/documents/WRRB-08-08.pdf>.

⁴³ Only Springfield (36.98), Holyoke (35.15), West Springfield (33.85), Framingham (29.45), Everett (28.98) and Pittsfield (28.88), have higher commercial rates. (Source: Department of Revenue, Division of Local Services)

	Commercial Tax Rate	Residential Tax Rate
Shrewsbury	\$9.68	\$9.68
Grafton	\$10.83	\$10.83
Upton	\$12.43	\$12.43
Berlin	\$11.66	\$11.66
Southborough	\$14.16	\$14.16
Holden	\$13.64	\$13.64
Harvard	\$13.43	\$13.43
Ashland	\$13.86	\$13.86
Northborough	\$13.76	\$13.76
Boxborough	\$14.84	\$14.84
Hopkinton	\$15.03	\$15.03
Westborough	\$15.50	\$15.50
Bolton	\$15.91	\$15.91
Milford	\$21.72	\$12.53
Hudson	\$22.49	\$11.34
Marlborough	\$23.72	\$12.76
Worcester	\$28.72	\$13.50

Source: Massachusetts DOR, Division of Local Services

Worcester’s high rate on businesses has led the City to rely heavily on various tax incentives to attract development to the City. The most common one is tax-increment financing, or TIF, a development tool Massachusetts makes available to cities and towns. Under the terms of a TIF, the City waives a portion of the increase in property taxes that accrues as a result of new investment in exchange for jobs added as a result of the project. A TIF also makes the recipient eligible for a 5% credit on the state corporate excise tax. The City has granted 43 TIFs, 17 of which are still active, such as those for the Hilton Garden Inn (2006) and the Hanover Theatre (2008). Another type of tax incentive is District Improvement Financing, which the City (with state approval) granted to Berkeley Investments’ CitySquare project. The DIF finances capital infrastructure improvements necessary for a development with future tax collections from that project.⁴⁴

Tax incentive programs give an unfair advantage to new businesses while leaving long-established businesses to fend for themselves. Adopting a single tax rate and thus lowering property taxes for *all* city business owners would be fairer and would lessen the need for tax incentives altogether.

⁴⁴ For a comprehensive explanation and critique of Massachusetts’ various tax incentive programs, see Benjamin Forman, “Going for Growth: Promoting Business Investment in Massachusetts Gateway Cities,” MassINC, July 2008.

The City Manager should continue to pursue the sale or lease of municipal assets in order to fund core municipal services.

As **Table 5** shows, the City owns a number of assets which require an annual subsidy, the total of which is around \$3 million. If those facilities were leased or sold, the proceeds could be used for maintaining public infrastructure and other core services.

Worcester Regional Airport	\$1,200,000
Union Station	\$450,000
Hope Cemetery	\$400,000
Worcester Memorial Auditorium	\$121,000
DCU Center	\$596,000
Senior Center	\$290,000
Total	\$3.1 million
<i>Source: City of Worcester's FY10 Budget</i>	

Last October, the City Manager asked the City Council to endorse his plans to explore long-term leases for some of the City's assets. The Manager has hired a company to assist in determining which assets would be attractive to private investors and to seek out those investors.

Municipally-owned parking garages and parking lots have been added to the list of public facilities for potential lease. Preliminary discussions indicate that the City may be able to lease these garages for about \$50 million. The City Manager wants to use the proceeds to repair the City's streets and sidewalks (the number one problem identified in The Research Bureau's ComNET surveys⁴⁵) and public school buildings.

Worcester's legislative delegation should ensure that the sale of Worcester Airport is included as part of the comprehensive transportation bill expected to be passed this legislative session.

Transferring ownership to MassPort would free up \$1.2 million the City needs for the annual subsidy for the Airport.

The City Manager should negotiate public-private partnerships for park maintenance and Senior Center services.

The Parks Division of the DPWP bears primary responsibility for maintaining and managing the City's 56 parks and playgrounds, along with 19 miles of grass median strips and 44 islands and squares. Due to a nearly 20% reduction in full-time staff, as well as cuts in temporary summer staff, the DPWP will have a reduced capacity to maintain the City's public parks, accelerating the steadily downward trend in parks funding since FY98. As discussed in The Research Bureau's report "Maintaining Municipal Parks: Thinking Outside the Picnic Basket," the City should develop partnerships for park maintenance with local businesses, non-profit institutions

⁴⁵ See, most recently, Report 08-09, "Measuring Downtown Worcester's 'Curb Appeal': ComNET Results," December 12, 2008, <http://www.wrrb.org/documents/WRRB-08-09.pdf>.

such as colleges, neighborhood associations, community development organizations, and residents.⁴⁶ In addition to developing public-private partnerships, the City and the DPWP should consider either increasing the fees charged for use of park services, and/or altering the fee structure to maximize fee collections. Perhaps similar partnerships could be developed to provide the services currently offered by the Senior Center. The Senior Center provides services that are also offered by various non-profit organizations in the City such as the YMCA, YWCA, Jewish Community Center, and churches and synagogues. The City's fiscal distress means that it cannot afford to provide services that are duplicated elsewhere in the community. This provides an opportunity for these non-profit organizations, which do not pay property taxes, to provide services-in-lieu of taxes by helping to maintain parks and senior services.

The City Manager and WPS Superintendent should contract out operations where appropriate.

Last year, the City Manager contracted out custodial services at City Hall. The Superintendent should do the same with school custodians. In FY09, the WPS employed 152 custodians at a total compensation cost of more than \$7.5 million (see **Table 6**). The average salary per custodian was \$40,518. Once retired, the custodian receives a pension and health insurance from the City. According to Bureau of Labor Statistics, the average salary of other custodians in the Worcester Metropolitan Statistical Area at the time was \$25,870.⁴⁷ If the WPS paid its 152 custodians the regional average salary instead of their current average salary, estimated savings in salaries alone would have been \$2.2 million.

Table 6: WPS Custodial Costs, FY09	
Number of employees	152
Average Salary	\$40,871
Total Salary Costs	\$6,212,322
Health Benefits	\$1,320,000
Total compensation	\$7,532,322
<i>Source: WPS FY09 Budget</i>	

The City Council, City Manager, WPS Superintendent and School Committee should study combining selected operations of the WPS and municipal operations.

As mentioned earlier, the City Manager has had to reorganize some services and eliminate others because of the lack of revenue. The Governor and other state officials are encouraging regionalization of services and MORE (Municipalities Organized for Regional Effectiveness) member communities have been developing such arrangements for inspectors, veterans agents, and purchasing, among others.⁴⁸ The School Department and the other municipal departments

⁴⁶ Report No. 08-04, August 8, 2008, <http://www.wrrb.org/documents/Report08-04.pdf>.

⁴⁷ "Janitors and Cleaners, Except Maids and Housekeeping Cleaners," May 2007 Metropolitan and Non-metropolitan Area Occupational Employment and Wage Estimates, Worcester MA-CT, Bureau of Labor Occupational Employment Statistics, http://www.bls.gov/oes/2007/may/oes_79600.htm.

⁴⁸ Marc Munroe Dion, "MSBA official: Now is the time to regionalize," *The Herald News*, April 12, 2009, <http://www.heraldnews.com/education/x1931071119/MSBA-official-Now-is-the-time-to-regionalize> and Jack Nicas and Camille Roane, "Mass towns struggle to cope with budgets," *MetroWest Daily News*, April 12, 2009,

should determine whether any of their functions can be combined, such as was recently accomplished in the town of Barnstable, which combined the personnel and finance departments of its schools and municipal government. The town of Harvard merged the finance departments of its town and school departments in 2000. (Both Harvard and Barnstable were awarded “Innovation Awards” by the Massachusetts Municipal Association for their novel efforts at greater administrative efficiency in municipal government.⁴⁹) Perhaps substantial savings can be achieved by combining purchasing, human resources and/or finance departments for the City and the Worcester Public Schools.

The City Manager should continue to seek a zero percent increase in employee wages for FY10.

The City Manager has rightly insisted that Worcester municipal employee unions agree to a 0% increase in FY10. The City Manager has also repeatedly stressed that any savings generated from these concessions will be returned to the members within that collective bargaining unit (such as the case with the clerks’ unions mentioned above). Concessions regarding wages and benefits will lead directly to preserving union members’ jobs as well as taxpayer services. This is an eminently reasonable proposal, especially at a time when many taxpayers are being asked to make sometimes greater sacrifices.

The City Manager should continue to seek a 25% employee contribution for health insurance premium.

All non-union employees will contribute 25% starting in FY10. The Manager is currently negotiating with municipal employee unions to increase union members’ contributions to 25% as well.⁵⁰ As noted earlier, this change would save the City \$3 million in FY10. The Research Bureau has proposed requiring all employees to pay 25% of the least expensive plan, which is in line with premiums for private sector employees. There is no justification for not requiring unionized employees to pay the same percentage of their premiums as non-union employees do.

The state Legislature should implement measures to reduce accidental disability abuse as part of comprehensive pension reform during the present legislative session.

MGL ch. 32 s. 7 provides special pensions for employees who, due to job-related injury, have become totally and permanently disabled such that they can no longer “perform the essential duties of [their] job.” When retired on an accidental disability pension, the individual gets 72% of his most recent salary, plus an annuity based on his contributions to the system, free of Federal taxes. As The Research Bureau documented in our recent report “Public Employee Pensions: Is it Time to Retire the System?,”⁵¹ in many retirement systems in Massachusetts,

<http://www.metrowestdailynews.com/state/x978811017/Mass-towns-struggle-to-cope-with-budgets> have some examples of recent efforts at regionalization amongst municipalities in the Commonwealth.

⁴⁹ “Harvard consolidates town and school finance departments,” Massachusetts Municipal Association, January 31, 2000.

“Consolidation in Barnstable leads to town-school cooperation,” Massachusetts Municipal Association, January 31, 2007.

⁵⁰ All 17 of Fitchburg’s public employee unions recently agreed to increase their contribution to 30%, in order to help Fitchburg close its budget gap. The House Ways and Means budget would also require all state employees to pay 30% of their health insurance premiums.

⁵¹ Report No 09-01, March 30, 2009, <http://www.wrrb.org/documents/PublicEmployeePensionReport.pdf>.

including Worcester, more than 50% of public safety personnel retire on accidental disability pensions, whereas in other such systems throughout the country, rates of 20% or lower are more common. Since the cost of accidental disability pensions are, on average, much higher than normal pensions (70% higher in Worcester), this results in large costs to the Retirement System and thus the City. In 2007, 20% of the cost of the Worcester Retirement System went to paying for accidental disability pensions.

State law determines the basic structure of all 106 retirement systems in the Commonwealth, which means that pension reform is almost exclusively a state, not a local issue. Both the Governor and Legislature have committed themselves to passing pension-reform legislation this legislative session. However, neither the Governor nor the Legislature has so far mentioned curbing high rates of accidental disability pensions as a priority. As The Research Bureau urges in its report, there are two measures the Legislature could enact to control accidental disability pensions. First, it should institute fitness standards including periodic physical examinations for public safety personnel as a requirement for continued employment. Second, the Legislature should reform the state's cancer-presumption law so as to eliminate the presumption that types of cancer that have no demonstrated link to the professional duties of firefighters are job-related. These should be part of any comprehensive pension reform enacted this session. The cost of accidental disabilities is borne exclusively by municipalities and their local retirement systems, even though only the state has authority to enact significant reforms to limit them.

The City Manager should negotiate a change in the police and fire contracts so that paid time-off benefits for those employees are the same as for other City employees. For most municipal employees, a week's vacation is five days; for police officers and firefighters, it is seven days. Firefighters have negotiated an average of 419 hours of paid time off annually, police officers an average of almost 424, while other City employees' contracts give them about 317 hours of paid time off. If employees of the police and fire departments averaged the same paid time off as other City employees, the City could realize an estimated \$2-3 million in total savings.

Either the Legislature should reform the Quinn Bill, or the City should renegotiate the terms of its funding with the local police unions.

The Police Career Incentive Pay Program, better known as the "Quinn Bill" (MGL Ch. 41, s. 108L),⁵² grants uniformed police personnel automatic, annual increases in their base salary by 10%, 20% and 25% for holding associate, bachelor's and master's degrees in criminal justice, respectively. It is a local-option program enacted by the state Legislature in 1970 and adopted by the Worcester City Council in 1987. The statute stipulates that the state will reimburse the municipality for half its cost (although all pension and overtime costs that result from the increase must be absorbed by the City). The Governor's FY10 budget proposal would cut half of

⁵² <http://www.osfa.mass.edu/quinnbill/default.asp>.

the state's Quinn Bill reimbursement, and the House Ways and Means budget would eliminate the reimbursement entirely.⁵³

If the state does not reimburse the City for half the cost of the program, Worcester must bear the entire cost of funding which this year is \$5.6 million.⁵⁴ The most desirable reform would be for the state Legislature to reform the statute. This could be done by changing the incentive from a percentage of salary to a fixed dollar amount, so that the bonus does not increase with each contractual pay raise. (Many of the more highly-compensated WPD personnel receive \$10,000 or more a year from the Quinn Bill, and some receive over \$20,000.) While police officers may deserve recognition and greater compensation for job-related academic accomplishments, as in other professions, an automatic 25% annual bonus for a master's degree is unheard of in other professions.

Failing this, the City should simply revoke the local option (as it has the right to do with any previously-exercised local option-MGL ch. 4, s. 4B), and renegotiate its contract with the local police union so that it will not be responsible for bearing the full financial burden if and when the state reneges on its commitment.

CONCLUSION: FY10 AND BEYOND

Two points should be stressed in conclusion. First, with major stock indices still down 40-50% from their 2007 peak and unemployment at 8.5% and rising, it is unlikely that the Commonwealth and City will be able to return anytime soon to the levels of spending in recent years. All decisions about how to resolve the budgetary crisis in FY10 should be made in light of the fact that no significant economic recovery is going to occur within the next year, and the FY11 budget cycle will likely be as challenging as FY10's.

Second, fiscal crises often provide opportunities for long-term reform. Measures that are politically unpopular in ordinary times become possible in extraordinary ones. As a result of sound financial management, Worcester will weather the current fiscal crisis, even if it lasts for several years. But we should use this crisis to implement reforms that will better position the City for prosperity when the tide turns upward.

⁵³ The legislature is debating an amendment to the House budget to restore all state funding for the program (Matt Viser, "Police Unions roll up votes to restore bonus," Boston Globe April 21, 2009, http://www.boston.com/news/local/massachusetts/articles/2009/04/21/police_unions_roll_up_votes_to_restore_bonus/).

⁵⁴ Nick Kotsopoulos, "More layoffs for city?," *Telegram & Gazette*, April 16 2009, <http://www.telegram.com/article/20090416/NEWS/904160649/1116>.

Appendix: FY10 vs. FY09 Revenues and Expenditures (\$ in millions)			
Revenues	FY09	FY10	Decrease/Increase
Tax Levy Base	190.5	199.2	4.57%
2.5% Allowable Increase	5.1	5.3	3.92%
New Growth	3.6	2.5	-30.56%
Overlay	-3.5	-3.1	-11.42%
Total Property Taxes	195.7	203.8	4.14%
State Aid Lottery	39.9	25.1	-37.09%
State Aid Other (City & Massachusetts School Building Authority (MSBA))	33.1	32.3	-2.42%
Total General State Aid	73.0	57.5	-21.23%
State Aid Education	180.5	180.5	0.00%
Charter Reimbursement	5.1	1.7	-66.67%
Total Education Aid	185.6	182.2	-1.83%
Free Cash Appropriation	2.8	0	-100.00%
Local Receipts	41.9	41.7	-0.48%
Subtotal Revenues	499.1	485.2	-2.79%
MSBA Reimbursement	4.6	4.6	0.00%
Other Available Funds	1.7	1.3	-23.53%
Total General Fund Revenue	505.4	491.2	-2.81%
Expenditure			
Legislative Office	2.3	2.0	-13.04%
City Manager's Office	9.0	7.7	-14.44%
Human Resources	1.0	0.9	-10.00%
Economic Development	1.6	1.2	-25.00%
Law Department	1.4	1.3	-7.14%
Fire	34.9	32.2	-7.74%
Police	41.2	38.9	-5.58%
Communications	2.8	2.1	-25.00%
Inspectional Services	3.5	2.9	-17.14%
Education (not including \$14-16 million from state)	279.2	272.9	-2.26%
Public Works and Parks	24.6	23.2	-5.69%
Administration and Finance	6.5	5.4	-16.92%
Pensions (City-side contribution) ⁵⁵	14.5	16.8	15.86%
Worker's Compensation	1.2	1.2	0.00%
Unemployment Compensation	0.1	1.9	1800.00%
Public Safety Injured on Duty	0.4	0.5	25.00%
Health Insurance (City)	24.6	23.0	-6.50%
Debt Service (principal and interest)	28.0	29.9	6.79%
Pension Obligation Bond (City-side contribution)	10.8	10.8	0.00%
Subtotal Expenditures	490.9	478.3	-2.57%
Stabilization Transfers Out	13.3	11.7	-12.03%
Airport	1.2	1.2	0.00%
Total Net Expenditures	505.4	491.2	-2.81%
<i>Source: City of Worcester FY10 Budget</i>			

⁵⁵ The figures for WPS' health insurance, pension contributions and debt service on the pension obligation bond are contained in the WPS budget.

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

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