



The Research Bureau

# Worcester's FY14 Budget: Making Ends Meet

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## **Executive Summary**

Worcester's FY14 budget continues the trend that began with the Great Recession: expenditures for public employee health insurance (especially for retirees who are growing in number) and pension benefits are growing faster than the City's revenues from property taxes and State aid. This situation places the City on an unsustainable financial course. To begin to rectify this problem, The Research Bureau makes the following suggestions:

- The City Manager and the City Council should endorse the Governor's bill to reduce OPEB (Other Post-Employment Benefits, primarily retired employees' health insurance) expenditures. The bill's provisions pro-rate benefits so they are based on years of service and hours worked and increase minimum eligibility from age 55 to 60.
- Worcester Public Schools (WPS) should contract with a private company for all of the WPS transportation needs. Currently, the WPS owns some of the system's school buses and hires the employees to maintain and drive them, which adds to the City's health care and pension obligations.
- The City Manager and the City Council should ask the legislative delegation to reconsider the State's reimbursement formula for non-taxable property. The State should develop a new formula to reimburse cities and towns that host hospitals, colleges, museums, and other institutions that benefit the entire region.
- The City Manager should continue to explore public/private partnerships to help fund the operation of non-core assets. Currently these assets cost the City over \$2 million a year.
- The City Council should continue to move toward a single tax rate for commercial and residential properties to make Worcester more competitive for attracting businesses and ensuring fairness to all taxpayers. Expanding the City's tax base is the best way of increasing revenues to pay for the services that benefit all residents.

## **Introduction**

Each year the City Manager prepares a budget which details anticipated revenues and expenditures for the City of Worcester for the coming fiscal year. Since the City's budget must be balanced, the budget process requires the Manager and City Council to set priorities as they decide how to spend the City's limited resources. 49% of the City's revenues currently come from State aid. Since the State's budget is often not finalized until July 1 (the start of the fiscal year), or later, the City's budget must be based on assumptions about how much the City will actually receive from the State.

Since FY08, State aid to Worcester's municipal departments has decreased by 30%, or \$15.7 million. Over the same period, Chapter 70 aid for Worcester Public Schools (WPS) has increased by 24.6%, or \$44 million.

In order to address cuts in local aid, the City in recent years has raised fees on services such as parking, permits, and records, offered early retirement to employees, and implemented hiring and wage freezes.

The City’s workforce has been reduced by 500 people since FY01 and municipal departments now rely heavily on technology to accomplish their work.<sup>1</sup> The Manager has contracted with a private company to clean City Hall. To help reduce the WPS budget, the City has engaged in energy auctions enabling the City to lock in lower prices for future energy costs. The biggest savings to the budget have come from changes in employee health care contributions. City and school employees now pay 25% of their health care premiums up from as little as 10% for some plans. This change and others in plan design have saved the City upwards of \$150 million since FY06.<sup>2</sup>

This year, the City Manager’s office forecast a \$5.8 million deficit.<sup>3</sup> To balance the budget, the Manager deferred FY14’s deposit into the OPEB Trust Fund and reduced the Contingency Fund by \$1 million.<sup>4</sup> He also reduced contributions to the Capital Campaign Stabilization Fund and deferred the police and fire recruit class from July 1, 2013 until at least September 2013. This report will look at trends in revenues and expenditures in the FY14 budget and offer suggestions about how to keep Worcester’s budget balanced while maintaining core services.

## Revenues

The City has three main revenue streams: property taxes, local receipts from various fees and charges, and local aid from the State. State aid consists of unrestricted funds for municipal departments, funds designated for specific purposes (e.g., veterans’ benefits), and funds for education, which constitute the largest part of revenue from the State.

<b>Table 1: REVENUES (In millions)</b>	<b>FY10</b>	<b>FY11 Actual</b>	<b>FY12 Actual</b>	<b>FY13</b>	<b>FY14</b>	<b>% Change</b>
Property Tax Levy	199.1	216.3	227.3	236.6	245.8	23.4
State Aid Unrestricted	41.2	39.4	32.6	34.1	35.9	-12.8
State Aid Restricted	4.5	4.4	4.6	4.1	3.1	-31.1
State Aid Education (Chapter70, Charter, MSBA)	182.2	213.5	220.1	230.2	238.1	30.6
Local Receipts (Permits/Motor Vehicle)	41.9	39.1	35.3	35.9	39.4	-5.9
<b>TOTALS</b>	<b>468.9</b>	<b>512.7</b>	<b>519.9</b>	<b>540.9</b>	<b>562.3</b>	<b>19.9</b>

Source: City of Worcester Annual Budget FY11, FY12, and FY14

Property tax revenues have slowly increased over the last five years as the local economy has recovered from the recession and the value of new construction has increased. Local receipts decreased by 5.9% over the last five years. General State aid for municipal services has decreased by almost 13% since FY10 and by 30% since the beginning of the recession in 2008. Meanwhile State aid for education has increased by 30.6% since FY10.

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The City Manager is currently predicting a \$10 million deficit for FY15. The City expects to lose \$4 million in recurring revenues for reimbursements for school projects and \$1 million in Urban Renewal Reimbursements.<sup>5</sup>

**PROPERTY TAX LEVY <sup>6</sup>**

The property tax levy is the revenue a community can raise through real and personal property taxes. Proposition 2 ½, a voter referendum passed in 1980, limits the amount that a city can raise through property taxes and also limits how much property taxes can be increased from year to year. Under this law, Worcester cannot tax more than 2 ½ % of the total cash value of all taxable real and personal property in the City. In addition, the amount of taxes that the City assesses for real and personal property each year cannot increase by more than 2 ½ % of the previous year's taxes. The two ways that the levy limit can be increased are by adding the value of new growth in the City to the assessed property values or by a voter override referendum.

Property values are determined by the Assessor's Office. State law requires the Assessor's office to keep the value of properties current. Every three years the Office conducts a comprehensive revaluation of all properties in the City by sampling properties. On-site evaluations of all the properties are required by the MA Department of Revenue every nine years.<sup>7</sup> The Assessor's Office is currently in the process of sending Data Collectors to all properties in the City to gather information for the on-site evaluations.

<b>Table 2: Property Tax Revenues (In millions)</b>						
	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>% Change</b>
Prior Year Levy	199.1	207.5	218.2	229.2	239.6	
Levy Limit	211.1	219.5	228.2	239.6	250.1	
2.5% Increase	5.2	5.4	5.7	5.9	6.2	
New Growth	2.5	3.2	5.6	4.4	2.9	
New Limit	219.0	228.2	239.6	250.1	259.2	
Use of Unused Capacity <sup>8</sup>	0	2.0	(.431.8)	.019	0	
<b>New total Levy</b>	<b>207.0</b>	<b>218.2</b>	<b>229.2</b>	<b>239.6</b>	<b>248.8</b>	<b>20.1</b>
Less Overlay <sup>9</sup>	(3.1)	(3.1)	(4.6)	(3.0)	(3.0)	
<b>Available Tax Levy</b>	<b>203.8</b>	<b>215.1</b>	<b>224.6</b>	<b>235.1</b>	<b>245.8</b>	<b>20.6</b>

*Source: City of Worcester Annual Budget FY12, FY13, and FY14*

Worcester is taxing \$10 million below the allowable property tax levy. If the City wanted to access some or all of the \$10 million, it could do so by a majority vote of the City Council. No override vote by the voters would be needed.

In FY84, Worcester adopted a dual property tax rate, a local option under State law which enables the City to tax residential and commercial properties at different rates. Last year the City Council voted to narrow the difference between the residential and commercial rate.<sup>10</sup> Even with this vote, as Table 3 indicates, Worcester's commercial tax rate of \$30.85 in FY13 is the second highest in the region. Shrewsbury, which is contiguous to Worcester, has a commercial rate of \$11.67. This leaves Worcester at a competitive disadvantage when trying to attract business. In addition, higher commercial tax rates have not guaranteed Worcester's residents the lowest residential tax rate. Worcester has the sixth highest residential tax rate in Central Massachusetts.

<b>Table 3: FY13 Commercial and Residential Tax Rates in Greater Worcester Region (Per \$1000.00 of valuation)</b>		
Municipality	Residential Tax Rate	Commercial Tax Rate
Auburn	16.70	23.43
Berlin	21.06	21.06
Bolton	20.96	20.96
Boxborough	17.69	17.69
Boylston	17.20	17.20
Clinton	15.59	29.18
Fitchburg	19.05	25.26
Grafton	15.55	15.55
Harvard	16.68	16.68
Holden	17.37	17.37
Hopkinton	17.32	17.32
Hudson	16.38	32.90
Leicester	13.62	13.62
Leominster	17.96	17.96
Marlborough	15.00	28.46
Milford	16.95	29.21
Millbury	16.48	16.48
Northborough	16.11	16.11
Paxton	19.22	19.22
Princeton	17.50	17.50
Shrewsbury	11.67	11.67
Southborough	16.54	16.54
Spencer	12.77	12.77
Upton	16.72	16.72
Uxbridge	16.28	16.28
West Boylston	17.45	17.45
Westborough	18.97	18.97
<b>Worcester</b>	<b>18.58</b>	<b>30.85</b>

Source: MA Department of Revenue

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Currently, to attract new businesses, the City often negotiates a tax-increment financing, or TIF agreement. A TIF waives a portion of the increase in property taxes that accrue from 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.<sup>11</sup> Since 2010 the City has negotiated six new TIF agreements. These agreements raise issues of fairness: Why do some businesses get a tax break and not others? What about businesses that rent rather than own the facilities in which they do business?

<b>Table 4: Businesses Granted TIF's since July 2010</b>
Beechwood Hotel
Unum
180 Main Street Associates, LLC
50 Prescott Street, LLC
VHS Acquisition Subsidiary # 7, Inc. d/b/a Saint Vincent Hospital
Magmotor Technologies, Inc.

*Source: City Manager's Office*

### **PILOT PROGRAMS**

Twenty percent of Worcester's land is owned by nonprofit organizations such as churches, colleges, and hospitals which are exempt from property taxes. To try to capture some of the foregone revenue, the City administration has negotiated payments from some of the colleges for items such as park improvements and maintenance and library improvements. Payment-in-lieu-of-taxes, or PILOT programs, are a hotly contested political issue. The nonprofit institutions argue that they provide social, cultural, and economic value to the City that compensate partly for taxes the City would have received from them. City Council members, who are trying to fund the City's core services with decreasing aid from the State and increasing costs for pensions and health insurance, are not entirely convinced by that argument. PILOT programs, such as the agreement between the City and WPI which helps fund improvements and maintenance of Institute Park, generally benefit both the City and the participating institution.

<b>Table 5: CURRENT PILOT AGREEMENTS</b>				
<b>Institution</b>	<b>Date Effective</b>	<b>Duration</b>	<b>Contribution</b>	<b>Beneficiary</b>
MCPHS University	November, 2008	25 years	20% of assessed value of properties Increasing by 2.5% per year	Worcester Public Libraries
WPI	July, 2009	25 years	Annual payment \$450,000 - Increasing by 2.5% per year	Worcester Public Libraries
WPI	July, 2009	One-time payment	\$50,000	Institute Park
UMassMedical	March, 2013	5 years	Annual payments of 32,000	Unrestricted
Clark University	September, 2010	20 years	Annual payment \$262,000 - Increasing by 2.5% per year	Worcester Public Libraries and enhancing Main South and Crystal Park
Holy Cross	May, 2012	5 years	Annual payments of \$80,000.	Mobile Library

Source: The City Manager's Office

## GENERAL STATE AID

General Revenue Sharing, formerly known as Lottery Aid or Additional Assistance, represents the majority of **non-educational** State aid to cities and towns. This revenue source has been reduced by 30%, or \$15.7 million between FY08 and FY13. The other monies the City receives from the State are earmarked for specific programs and services e.g., urban renewal.

<b>Table 6: State Aid Category (In millions)</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12 Actual</b>	<b>FY13</b>	<b>FY14</b>	<b>% Change</b>
General Revenue Sharing	36.9	35.1	32.6	34.1	35.9	-2.7
Urban Renewal	2.4	2.4	2.4	2.4	.945	-60.6
Veterans' Benefits	.788	.912	.780	1.1	1.1	39.5
Vet/Elderly Abatements	.665	.650	.701	.217	.594	-10.6
State-Owned Land	.594	.466	.446	.417	.418	-29.6
<b>TOTAL</b>	<b>41.37</b>	<b>39.5</b>	<b>36.9</b>	<b>38.2</b>	<b>38.9</b>	<b>-5.9</b>

Source: City of Worcester Annual Budget FY13 Revenue and Expenditure Summary and City of Worcester Annual Budget FY14

## LOCAL RECEIPTS

Local receipts are the money that the City generates from local fees, charges, and fines. These monies, like those from General State Aid and property taxes, are used to fund the core services that the City provides to its residents and to pay its fixed costs, such as debt service.

<b>Table 7: Total Revenue Local Receipts (In millions)</b>						
<b>Category</b>	<b>FY 10 Budget</b>	<b>FY11 Actual</b>	<b>FY12 Actual</b>	<b>FY13 Budget</b>	<b>FY14 Budget</b>	<b>% Change</b>
Motor Vehicle Excise tax	11.0	11.4	10.9	11.5	12.5	13.6
Hotel and Meal Tax	1.7	2.8	2.9	2.8	3.0	76.4
Penalties and Interest	2.2	2.2	2.8	2.3	2.7	22.7
Payment-In-Lieu-of-taxes	1.1	1.7	1.1	.750	1.0	9.0
Charges Trash	3.5	3.3	3.2	3.2	3.2	-8.5
Other Charges	.268	.284	.369	.200	.100	-62.6
Fees	1.6	1.6	1.7	1.4	1.8	12.5
Federal Reimbursement Medicare	7.1	2.6	3.4	2.9	3.2	-54.9
Dept. Rev. Cemeteries	.230	.263	.260	.250	.249	8.2
Dept. Rev. Recreation	.072	.068	.075	.065	.073	1.3
Other Departments	.214	.279	.294	.279	.279	30.7
Licenses and Permits	4.8	4.8	5.2	4.7	4.8	0
Special Assessments	.332	.376	.325	.370	.350	5.4
Fines and Forfeitures	3.1	2.8	2.8	2.9	2.6	-16.1
Investment income	.613	.635	.578	.600	.600	-2.1
Miscellaneous Recurring	3.0	3.5	5.7	2.4	2.3	-23.3
<b>TOTAL</b>	<b>40.829</b>	<b>38.605</b>	<b>41.601</b>	<b>36.614</b>	<b>38.751</b>	<b>-5.1</b>

Source: City of Worcester Annual Budget FY11, FY12 and FY13

## Expenditures

The core functions of local governments are public safety (fire, police, communications and dispatch), public health, public works (local roads and infrastructure), and elementary and secondary education. In FY13, 57% of the City's expenditures were for public education. The rest of the expenditures were divided among funding of the other core functions of government, debt service, and current and retired municipal employee health insurance and pensions.

Worcester now has more retirees than employees. The current annual pension expenditure is \$32.4 million. The City's pension liability is on a schedule to be fully funded by FY40. The unfunded OPEB liability is \$656

million, more than the City’s entire annual budget.<sup>12</sup> Employee benefits are expected to continue to grow with serious consequences for Worcester: eventually more funds will have to be expended on retiree benefits than on core services minus education. Worcester has taken steps to mitigate retiree health benefit costs. The City Council now requires all Medicare-eligible retirees to move from the City’s plan to Medicare (the City still covers costs supplemental to Medicare). The City has also increased retiree contributions to their premiums. The State is currently considering reforms to retiree health benefits. These reforms include pro-rated benefits based on years of service and an increase in eligibility age.<sup>13</sup> These changes and others are necessary since, according to the City Manager’s projections, healthcare costs are expected to increase by 8-10% per year.<sup>14</sup> The City is also expecting a 6% increase in its pension system costs.<sup>15</sup>

<b>Table 8: Expenditures FY10-FY14 (In millions)</b>	<b>FY10</b>	<b>FY11 Actual</b>	<b>FY12 Actual</b>	<b>FY13</b>	<b>FY14</b>	<b>% Change</b>
<b>Public Safety</b>						
Police	39.0	38.8	39.6	42.1	43.2	
Fire	32.2	31.7	32.4	33.9	35.2	
<b>TOTAL</b>	<b>71.2</b>	<b>70.5</b>	<b>72.0</b>	<b>76.0</b>	<b>78.4</b>	<b>10.1</b>
<b>Public Health</b>						
Public Health	.058	.132	.156	.334	.362	
Inspectional Services	2.9	2.4	2.7	2.9	3	
Emergency Communications	2.0	1.8	1.8	2.1	2.2	
<b>TOTAL</b>	<b>4.9</b>	<b>4.3</b>	<b>4.6</b>	<b>5.3</b>	<b>5.5</b>	<b>12.2</b>
<b>Roads and Infrastructure</b>						
Public Works and Parks	16.0	14.5	15.7	16.1	16.6	
Snow Removal	2.4	4.8	3.5	3.4	3.8	
Street Lights	1.8	2.0	2.3	2.3	2.8	
<b>TOTAL</b>	<b>20.2</b>	<b>21.3</b>	<b>21.5</b>	<b>21.8</b>	<b>22.4</b>	<b>10.8</b>
<b>Education</b>						
Worcester Public Schools	264.3	260.0	273.0	285.3	297.0	
Charter Schools	23.6	25.1	26.2	28.7	29.0	
<b>TOTAL</b>	<b>287.9</b>	<b>268.1</b>	<b>299.2</b>	<b>314.0</b>	<b>326.0</b>	<b>13.2</b>
<b>Fixed Costs</b>						
Pensions and pension bond debt service <sup>16</sup>	27.7	29.0	29.2	30.8	32.4	
Health Insurance (includes Workers’ Comp and Injured-On-Duty) <sup>17</sup>	23.9	26.4	22.5	22.6	24.2	
Debt Service	29.8	29.9	30.4	31.0	32.1	
Unemployment	1.3	.244	.500	.300	0.4	
<b>TOTAL</b>	<b>82.7</b>	<b>85.5</b>	<b>82.6</b>	<b>84.7</b>	<b>89.1</b>	<b>7.7</b>

Source: City of Worcester Annual Budget FY11, FY12, FY13, and FY14

## Expenditures on Non-core Assets

Worcester supports a number of operations which are not intrinsic to the City's essential services, but add to the quality of life for City residents or are long-standing services which the City has chosen to continue to fund. In order to maintain them, the City must subsidize them with tax levy funds.

<b>Table 9: Expenditures on Non-core Assets</b>	<b>FY13</b>	<b>FY14</b>
Union Station	552,000	385,000
Golf Course	150,000	150,000
Hope Cemetery	242,000	317,000
Senior Center	586,000	403,000
Worcester Auditorium	121,000	121,000
DCU Center	760,000	1,000,000
<b>TOTAL</b>	<b>2,411,000</b>	<b>2,370,000</b>

Source: City of Worcester Annual Budget FY13, and FY14

If the City wants to maintain these assets, it needs to explore alternative ways of supporting such enterprises. Salem, Massachusetts, for example, entered into an agreement with a developer to help the City of Salem build a new senior center.<sup>18</sup> Salem agreed to buy space in the new development project for this facility. This agreement provided the developer with an anchor tenant enabling him to begin construction. Salem's City council voted to float a bond to cover the cost of the purchase and will use the property taxes generated from the new development to pay off the bonds. Worcester's Senior Center is adjacent to a number of developable sites. The City should seek a partnership with a developer who would be willing to make the Senior Center the cornerstone of a development project that might feature assisted-living housing. The property taxes generated by this project could help underwrite the cost of the Senior Center.

Parking is another non-core service in which the City is heavily invested – meters, open lots, and parking garages. According to a recent study commissioned by the City, only the Pearl-Elm Garage operates in the black each fiscal year. Parking spaces have been used in negotiations to entice developers into the downtown. For this reason, the City is reluctant to sell these assets or eliminate development linked parking agreements.

<b>Table 10: Annual Surplus/Deficit Parking System(In millions)</b>	<b>FY14</b>
Pearl-Elm Municipal Garage	1.0
Federal Plaza Garage	-.179
Union Station Garage	-.670
Major Taylor Blvd. Garage	-.180
Surface Lots	0
On-Street Meters	0

Source: Worcester City Annual Budget FY14

As the table above indicates, the Pearl-Elm garage enables the parking garages to break even. The parking study offered several suggestions for making the garages self-sustaining and the whole system profitable.<sup>19</sup> The suggestions included upgrading meter technology, establishing zonal pricing and time limits, expanded enforcement, marketing and program promotion, and increasing the amount and visibility of signage.

## Education – Revenues and Expenditures

### Revenues: State Aid for Education<sup>20</sup>

In FY13, 84% of State aid for Worcester was for education. State aid for education comes from three sources: Chapter 70 Funding, which is the bulk of the aid, Charter school tuition reimbursement, and money from the Massachusetts School Building Authority (MSBA), which is reimbursement for money already spent by the City for school construction and major repairs to facilities.<sup>21</sup>

<b>Table 11: State Aid For Education (In millions)</b>	<b>FY10 Actual</b>	<b>FY11 Actual</b>	<b>FY12 Actual</b>	<b>FY13</b>	<b>FY14</b>	<b>% Change</b>
Chapter 70	176.8	193.4	201.1	210.4	219.6	24.2
State Aid Charter Schools	4.8	4	3.5	4.2	3.5	-27.0
State MSBA	19.1	16.1	15.2	15.2	15.2	-20.4
<b>Total</b>	<b>200.7</b>	<b>213.5</b>	<b>219.8</b>	<b>229.8</b>	<b>238.3</b>	<b>18.7</b>

Source: City of Worcester Annual Budget FY12, FY13 and FY14

The purpose of Chapter 70 funding is to ensure adequate funding for all school districts in Massachusetts. The formulas used to determine the amount each community receives in state education funding are complex. In simplest terms, the funding is decided in three steps. The state determines the amount of money a district needs to adequately educate its students by counting the number of students in each grade and the number of low-income and limited-English-proficient students in the district. It also looks at education spending categories, such as teacher compensation, professional development, and building maintenance.

The State then determines the amount of money a community can contribute to the schools by using a uniform contribution rate for all districts. In FY11, local contributions were determined by adding .3 percent of the town’s total property value to 1.4 percent of the income earned by residents of the town. The State then gives the community the difference between what is needed to educate the students and what the town can contribute. Chapter 70 provides a baseline of money for the school district.

Communities can decide to increase their local contribution to the education budget beyond what the State requires them to contribute.

Chapter 70 funding can only be for what is known as net spending. In addition to its Chapter 70 obligations, the City must pay for the School Department's **non-net** spending which includes transportation, crossing guards, leases, and debt service for school capital. Debt service for school capital is currently \$21 million per year.<sup>22</sup>

## **Charter School Reimbursement**<sup>23</sup>

Charter schools are public schools that are independent of the local school districts in which they are located. Students enroll in them through a lottery system. The student's sending district pays the per-pupil tuition to the charter school. To help offset the City's tuition payments for charter school students, the Commonwealth reimburses the WPS at 100% of the student's tuition for the first year of the student's attendance and then at 25% for the next five years.

Worcester has three charter schools.<sup>24</sup> In FY13, 2,221 students attended a Worcester charter school. 2,083 of those students were from Worcester.

<b>Table 12: Worcester Charter Schools (In millions)</b>	<b>FY13</b>
Number of Worcester Students attending charter schools	2083
<b>City's tuition payment</b>	<b>28.6</b>
<b>State's reimbursement</b>	<b>4.6</b>
<b>Difference between payment and reimbursement</b>	<b>24.0</b>

*Source: Worcester Public Schools Annual Budget FY13*

The Worcester School Committee votes annually to participate in the school choice program. In FY12, 89 students from outside of Worcester chose to attend a Worcester public school. The City received approximately \$445,000 in tuition for those students. In the same year, 407 Worcester students chose to go to school outside of Worcester, and Worcester paid approximately \$2 million in tuition to the receiving towns for those students.<sup>25</sup> Worcester does not receive any State reimbursement for students attending schools in other towns.

## **Expenditures: The City's Obligation to the WPS**

Between FY08 and FY14, the City's required Chapter 70 contribution to the WPS budget increased by 15%, from \$80 million to \$92 million. This contribution comes from the City's tax levy budget. The State counts the administrative services that the City provides to the WPS toward the Foundation contribution. In FY13 this amount was \$5.9 million.

<b>Table 13: Net School Spending (In millions)</b>	<b>FY10 Actual</b>	<b>Fy11 Actual</b>	<b>FY12 Actual</b>	<b>FY13</b>	<b>FY14</b>	<b>%Change</b>
State Contribution (Chapter 70)	176.8	193.4	201.1	210.4	219.6	24.2
Worcester's Required Funding	81.8	84.3	85.7	88.5	92.1	12.5
<b>TOTAL WPS Budget</b>	<b>258.6</b>	<b>277.7</b>	<b>286.8</b>	<b>298.9</b>	<b>311.7</b>	<b>20.5</b>

Source: The City of Worcester Annual Budget FY12, FY13 and FY14

In FY13 the total amount of money that the City of Worcester contributed to the WPS budget amounted to \$99.2 million, \$10.5 million above the required contribution.<sup>26</sup> However, according to the State, the City remains \$890,000 below the required contribution. As noted, the State does not consider other monies that the City spends on schools when calculating the City's required Chapter 70 contribution to the WPS (See Table 14). Contributions that the City is required to make above and beyond Chapter 70 requirements include money spent on what is called non-net spending: transportation, crossing guards, leases, school repairs, and debt service. As Table 14 indicates, spending on non-net items has increased by 7% over the last three years.

<b>Table 14: School Expenditures not eligible for net school spending (In millions)</b>	<b>FY12 Actual</b>	<b>FY13</b>	<b>FY14</b>	<b>% Change</b>
Transportation	14.4	15	15.7	9
Crossing Guards	0.484	0.5	0.521	7.6
Equipment	0.116	0	0	100
Building rentals	0.274	0.299	0.4	45.9
Adult education	0.095	0.14	0.14	47.3
Prior year unexpended encumbrances	0.335	0	0	100
<b>TOTAL</b>	<b>15.7</b>	<b>15.9</b>	<b>16.8</b>	<b>7</b>

Source: WPS Annual Budget FY12, FY13, FY14

In FY13 the City spent over \$15 million on transportation costs for City students. School transportation is provided by a mix of City-owned buses and employees and privately-contracted services. Worcester uses a tier structure bus system which sends each bus out more than once in the morning and afternoon to cover student pickups.<sup>27</sup> Worcester provides transportation for all pupils grades K-12 who reside more than two miles from the school that they are entitled to attend. By State law the City is also required to provide transportation to all special-education children. However, the City is not required to provide transportation to secondary-level students, and if it chooses to provide secondary school transportation, it may charge for the service.<sup>28</sup>

<b>Table 15: TOTAL TRANSPORTATION BUDGET (In millions)</b>	<b>FY13</b>
Regular Transportation - Contracted Services	6.1
Special Education - Contracted Services	5.7
Special Education - WPS Operations	3.3
<b>TOTAL TRANSPORTATION SPENDING</b>	<b>15.3</b>

Source: Worcester Finance & Operations Division

In many communities, required education spending, net and non-net, has increased well over a city's ability to raise funds under Proposition 2 ½. In Dudley Massachusetts, for example, the Assessor announced that in FY14, the town's revenue will increase by \$224,273.<sup>29</sup> However, its obligation to its schools will exceed its projected revenue gain by \$319,016. Increases in the cost of education cannot be sustained beyond the revenues municipalities can raise without seriously impacting all other municipal services.

## Conclusions and Suggestions

As the earlier discussion indicates, City expenditures, especially for public education and benefits for public employees, are increasing at a faster rate than revenues. This path is unsustainable. As noted, the City Manager has already had to defer payments to the OPEB trust fund as well as defer the start of new police and fire recruit class for at least several months in order to fund other services. To begin to address the City's unsustainable financial course, The Research Bureau makes the following suggestions:

- The City Manager and the City Council should request that the legislative delegation endorse the Governor's bill to reduce OPEB expenditures. The bill's provisions pro-rate benefits so they are based on years of service and hours worked and increases minimum eligibility age from 55 to 60. The City should also increase retiree contributions to their health insurance premiums from 50% to 75%, which is allowed under existing law.
- The City Manager and the City Council should ask the legislative delegation to reconsider the State's reimbursement formula for non-taxable property. 20% of the land in Worcester is not taxable. Currently, the State makes a small payment to Worcester for the State's non-taxable property in the City. However, the State should develop a new reimbursement formula to reimburse cities and towns that host hospitals, colleges, museums, and other institutions that benefit the entire region.
- The City Manager should continue to explore public/private partnerships to help fund non-core assets. For example, Worcester should help facilitate an agreement using the developable parcels adjacent to the Worcester Senior Center as an incentive for a private developer to build a project enabling property tax revenue generated to be used to underwrite the City's annual subsidy to the Center.

- The City Council should continue to move toward a single tax rate for commercial and residential properties to make Worcester more competitive for attracting businesses and ensuring fairness to all tax payers.
- The Worcester School Committee, the School's Superintendent, the City Council and the City Manger should consider contracting privately for all bus services. Transportation costs of more than \$15 million fall outside the WPS net school expenditures and must be paid by the City's transfer of money from General Fund to the WPS's budget. About \$3.4 million is paid for services provided directly by the WPS rather than contracted out, requiring the City to be responsible for current employee benefits and long-term liabilities.
- The WPS administration, when possible, should poll families leaving the school system under the school choice program and the Charter school system to understand why they are leaving and how the WPS could address the issues that cause families to leave the WPS. By conducting this poll and addressing families' needs, WPS could try to recapture some of the \$26 million that the City spends on the school choice program and charter school tuitions.

## Worcester's FY14 Budget: Making Ends Meet

### Endnotes

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- <sup>1</sup> City Manager Michael V. O'Brien, Fiscal Year 2014 Budget Preview: March 12, 2013.
- <sup>2</sup> Condition Serious, Prognosis Uncertain: The Impact of Municipal Employee Health Insurance on Massachusetts Cities, WRRB Report No. 05-01, February 28, 2005, [http://www.wrrb.org/files/downloads/reports/mun\\_finance/2005/05-01health.pdf](http://www.wrrb.org/files/downloads/reports/mun_finance/2005/05-01health.pdf)
- <sup>3</sup> City of Worcester Fiscal Year 2014 Annual Budget, City Manager's Transmission and Budget Overview Section II-1, <http://www.worcesterma.gov/uploads/ef/8a/ef8a80a2854c759204c4c866ae4bcec2/budget-fy14.pdf>.
- <sup>4</sup> Nick Kotsopoulos, "Worcester Budget Hits \$564M," *Worcester Telegram and Gazette*, May 15, 2013, <http://www.telegram.com/article/20130515/NEWS/105159833/0/SEARCH>.
- <sup>5</sup> City of Worcester Fiscal Year 2014 Annual Budget, City Manager's Transmission and Budget Overview Section II-1, <http://www.worcesterma.gov/uploads/ef/8a/ef8a80a2854c759204c4c866ae4bcec2/budget-fy14.pdf>
- <sup>6</sup> Levy Limits: A Primer on Proposition 2 ½, <http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf>.
- <sup>7</sup> Worcester Massachusetts Assessor's Office website: <http://www.worcesterma.gov/finance/assessing>
- <sup>8</sup> The City of Worcester is taxing below its full levy limit. This amount is called unused capacity. Currently the City is taxing \$10 million below its limit. As Table 2 shows, in FY12 and FY13 the City accessed some of the unused capacity.
- <sup>9</sup> The overlay is the amount of money the City puts in reserve for tax abatements.
- <sup>10</sup> Steven Foskett, Jr., "Worcester City Council Compromises on Tax Rates", May 22, 2012, <http://www.telegram.com/article/20120522/NEWS/120529819/1116>
- <sup>11</sup> Massachusetts Executive Office of Housing and Economic Development website, <http://www.mass.gov/hed/business/incentives/tax-increment-financing-tif.html>
- <sup>12</sup> City Manager Michael V. O'Brien, Fiscal Year 2014 Budget Preview: March 12, 2013.
- <sup>13</sup> "Governor Patrick announces Plans to File Legislation to Reform Retiree Health Insurance Benefits," <http://www.mass.gov/governor/pressoffice/pressreleases/2013/0111-retiree-health-insurance.html>
- <sup>14</sup> City of Worcester Fiscal Year 2014 Annual Budget, City Manager's Transmission and Budget Overview Section II-1, <http://www.worcesterma.gov/uploads/ef/8a/ef8a80a2854c759204c4c866ae4bcec2/budget-fy14.pdf>. For a full discussion of public employee healthcare liability see WRRB report, A Prescription for Retiree Health Care: How Worcester can vanquish its OPEB liability while keeping its workforce happy and healthy, WRRB Report, No. 13-03, April 2013, [http://www.wrrb.org/files/downloads/reports/mun\\_finance/2013/OPEB-liability.pdf](http://www.wrrb.org/files/downloads/reports/mun_finance/2013/OPEB-liability.pdf)
- <sup>15</sup> City of Worcester Fiscal Year 2014 Annual Budget, City Manager's Transmission and Budget Overview Section II-1, <http://www.worcesterma.gov/uploads/ef/8a/ef8a80a2854c759204c4c866ae4bcec2/budget-fy14.pdf>.
- <sup>16</sup> Includes municipal and school department debt service.
- <sup>17</sup> Includes current and retired employee health care costs.
- <sup>18</sup> Bethany Bray, "How the Senior Center was Saved," March 16, 2013, <http://www.salemnews.com/local/x1533629697/How-the-senior-center-was-saved>
- <sup>19</sup> Final Report – City of Worcester Parking System Assessment, City of Worcester Department of Public Works & Parks, February 12, 2013, prepared by John M. Burke.
- <sup>20</sup> Demystifying the Chapter 70 Formula – How the Mass. Education Funding System Works, December 7, 2010, [http://www.massbudget.org/report\\_window.php?loc=Facts\\_10\\_22\\_10.html](http://www.massbudget.org/report_window.php?loc=Facts_10_22_10.html)
- <sup>21</sup> Massachusetts School Building Authority is a quasi-independent agency founded in 2004 to administer the State's school building assistance program. It has a dedicated revenue stream of one penny of the State's 6.25 % sales tax. <http://www.massschoolbuildings.org/>
- <sup>22</sup> City of Worcester Budget Office.
- <sup>23</sup> Understanding Charter School Tuition Reimbursements, Massachusetts Department of Elementary and Secondary Education website, <http://www.doe.mass.edu/charter/finance/tuition/Reimbursements.html>
- <sup>24</sup> The three charter schools located in Worcester are the Seven Hills Charter School founded in 1997 with students in grades K – 8; the Abby Kelley Foster Public Charter School, founded in 1998 with students in grades K-12; and the Spirit of Knowledge Charter School founded in 2010 with students in grades 7-11.
- <sup>25</sup> Worcester Public Schools Annual Budget Fiscal Year 2013 p. 58 [http://worcesterschools.org/modules/locker/files/get\\_group\\_file.phtml?gid=943960&fid=17332251](http://worcesterschools.org/modules/locker/files/get_group_file.phtml?gid=943960&fid=17332251)
- <sup>26</sup> City Manager Michael V. O'Brien, Fiscal Year 2014 Budget Preview: March 12, 2013.
- <sup>27</sup> Finance & Operations Division, Transportation Department, March 18, 2013.
- <sup>28</sup> MGL Chapter 71, Section 68
- <sup>29</sup> Debbie LaPlaca, "Durant Files Bill to Cap Public School Budget Increases," March 30, 2013, <http://www.telegram.com/article/20130330/NEWS/103309964/1101>

**Notes**