



The Research Bureau

# Cutting to the Core: Rethinking Municipal Services in FY08 and Beyond

Report 07-03  
May 24, 2007

## INTRODUCTION

In November 2006, the City Manager presented a preliminary Five-Point Financial Plan to the Worcester City Council which included budget projections for several years. Simultaneously, the Worcester Public Schools (WPS) Superintendent published the first-ever five-year budget for the WPS. The City Manager and School Superintendent informed the City Council and the public that Worcester's FY08 budget would be challenging, and at that time, a preliminary forecast showed a combined budget gap of \$17.3 million. In February 2007, following the release of local aid figures based on the Governor's budget, the City Manager updated his budget forecasts and projected a \$21 million deficit for FY08, including \$8.5 million for municipal departments and \$12.5 million for the WPS. The budget submitted by the Manager to the City Council in April reduces the gap by 75% through a series of budget reductions, including eliminating various teaching and municipal positions and cutting instructional supplies; departmental and operational reforms such as implementing a prescription drug-benefit management program; and also through revenue increases, including use of the City's unused tax-levy capacity, raising fees and charges for permits and licenses, and increasing the "yellow bag" fee. The remaining 25%, according to the City Manager's proposed budget, would be closed by raising \$5.65 million from new taxes, including an increased state meals and lodging tax and new revenues from the telecommunications industry, all of which have been proposed by the Governor, but not yet approved by the State Legislature. If any of those new taxes are not approved, or if the City Council opposes raising property taxes, the Manager envisions a series of budget reduction plans the greatest impact of which will fall on public safety and public education.

Worcester is not alone in facing a fiscal crisis. Communities across the Commonwealth have proposed Proposition 2 ½ overrides to maintain their current level of services. Shrewsbury voters recently rejected a \$5 million override proposal. As a result, positions and services have to be cut to balance the FY08 budget. But even if the override had passed, Shrewsbury's Town Manager predicted that he would have had to request another one in three years. The voters in Uxbridge will go to the polls to decide on an override this spring as well. Many other municipalities, both large and small, are facing the same structural budget problems in which recurring revenues do not balance recurring expenses.

This trend points to the need to seriously rethink the functions of local government in Massachusetts. The two major sources of municipal revenue, property taxes, which are limited by Proposition 2 ½, and local aid, which is tied to the fluctuations in the State's economy, coupled with skyrocketing health-insurance and pension costs for municipal employees (a \$1.6 billion unfunded liability in Worcester) and the ongoing costs of employee pension assessments indicate that the current level of municipal services cannot be maintained over the long term without structural changes at both the local and state levels.

## OBSERVATIONS AND RECOMMENDATIONS

The City Manager has repeatedly stressed the need for the City to focus on providing core services – public safety, public education, and public works, (streets, sidewalks, public buildings, and water and sewer services). To enable the City to meet these commitments, The Research Bureau makes the following recommendations:

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

- 1. Worcester Regional Airport** - \$700,000 tax levy subsidy – The City Manager is in negotiations with MassPort to transfer the facility to that Agency.
- 2. Union Station** - \$775,000 annual tax levy subsidy – The city should sell this facility to a private entity or the Massachusetts Bay Transportation Authority (MBTA) and divest itself of responsibility for maintenance of the structure and leasing the internal space.
- 3. Senior Center** - \$915,000 annual tax levy subsidy – This city-owned building should also be sold to a private developer or nonprofit agency for the market price. The Center shows few signs of becoming self-sustaining in the next 5-10 years, and its services are typically available at other agencies. Examples of duplicated services include exercise programs offered through the YMCA, crisis intervention by Elder Services of Worcester, elder rehabilitation from Vision Community Services, recreation through Friendly House and the Jewish Community Center Senior Adult Services, and college courses through Worcester State College (free tuition for seniors).
- 4. Hope Cemetery** - \$1 million tax levy subsidy – The City should sell the cemetery and divest itself of responsibility for the grounds and sale of burial plots.<sup>1</sup> This is a service that is well-provided by the private sector or religious organizations and should not be duplicated by the City.
- 5. Worcester Memorial Auditorium** - \$120,000 annual tax levy subsidy – Once the Juvenile Court, which currently occupies space in the Auditorium, is relocated to the new Regional Justice Center scheduled to open in the fall of 2007, the Auditorium will be largely vacant. In order for the City to lease the space, it would probably have to make a substantial investment in renovations to suit new tenants. This would add to the City’s annual debt service, if not to the taxpayer subsidy for operational costs.

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<sup>1</sup> For a full discussion of the issues involved in privatizing Hope Cemetery, see Research Bureau report #04-05, “Respect for the Dead and Relief for the Budget: Can Privatization Improve Hope Cemetery?”

- Therefore, every effort should be made to sell the building while maintaining Memorial Hall as a monument to the veterans of World War I as originally intended.<sup>2</sup>
6. **DCU Center** - \$400,000 annual tax levy subsidy – A recent *Boston Globe* column echoed the often-cited fact that government-owned convention centers rarely generate enough revenue to cover the cost of building them; even fewer cover their operating costs.<sup>3</sup> This is true of Worcester’s DCU Center in spite of its being well-managed by SMG, a private firm. Since the successful operation of venues like Boston’s Bayside Exhibition Center and the World Trade Center show that such buildings can be profitably operated by private developers, the City should sell the DCU Center to the highest bidder.
  
  7. **Green Hill Golf Course** - \$150,000 annual tax levy subsidy – The golf course is losing money because it is unable to generate enough revenue from user fees to cover operating expenses. There are reduced rates for Worcester residents and seniors; no alcohol is served. Unless it can become a money-making enterprise where the profits can be used to finance other park projects and/or recreational services, the golf course should be sold.<sup>4</sup> In fact, several older privately-owned golf courses with fewer amenities than the newer ones have been forced to close because of declining attendance. Owners sold their land for housing and open space.<sup>5</sup>

The savings from eliminating the taxpayer subsidy for all of the above-mentioned facilities is about \$4 million, exclusive of debt service being paid for investments that have been made on buildings and renovation costs.

***The City should evaluate the short- and long-term financial and operational consequences of building new buildings, parks, and transportation facilities unrelated to its core mission.***

The Blackstone Gateway Visitor Center is a case in point. The City expects to invest about \$2 million of local taxpayer dollars in building the facility, in addition to about \$8 million in state and Federal assistance. Unless the cost of the building remains within budget, there will have to be an additional tax levy subsidy to close the construction budget gap. Second, the City will then be responsible for this building’s maintenance and utility costs. Third, the City will have to lease space at market rate to cover building expenses; otherwise a taxpayer’s subsidy will have to cover the operational costs. In addition, the municipal budget will have to cover debt service on the capital investment. Should the City undertake such a project given the financial liability and operational responsibility it will incur?

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<sup>2</sup> For a discussion of a history of the Auditorium and obstacles to its reuse, see Research Bureau report #95-5, “The Future of Worcester Memorial Auditorium.”

<sup>3</sup> Jeff Jacoby, “Capping the Convention Center Money Pit,” *Boston Sunday Globe*, May 6, 2007, p.E9.

<sup>4</sup> For legal issues involved in selling the golf course, see May 1, 2007 memo from City Solicitor David Moore to City Manager Michael O’Brien, “*Sale of Green Hill Golf Course – Legality and Process.*”

<sup>5</sup> Ron DePasquale, “Foregone Green Space,” *Sunday Boston Globe*, May 13, 2007, p.H1.

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

1. **The City Council should approve the City Manager’s recommendation to adopt Chapter 32B, Section 18 of Massachusetts General Laws**, which requires retired public employees to enroll in Medicare, rather than remain in conventional health insurance plans. The estimated savings from this switch could be about \$1.35 million or more in FY08.
2. **The City Manager should negotiate an additional change in public employee health insurance benefits so that the City pays 75% of the least expensive health plan**. The City Manager was successful last year in negotiating changes in employee contributions so that those hired before July 1, 2006 pay 20% of the premium and those hired after that date pay 25% of any plan offered by the City. If the City Manager negotiated an additional change to pay 75% of the cost the least expensive plan only, and those who opted for a more expensive plan paid the difference, the City could save \$14.3 million in FY08 for all employees on conventional plans. (The original report misstated the savings by calculating the monthly rather than the annual savings.) For retirees, we have retained the City’s current contribution of 84% of the least expensive senior plan, which yields a savings of \$4.1 million. In total, the City could save \$18.4 million in FY08 if its contribution formula were based on paying a percentage of the least expensive plan. There is no reason for Worcester taxpayers, most of whom must bear the additional cost of more-expensive health care plans themselves, to subsidize the desire of City employees to opt for higher-cost plans. As *Table 1.1* indicates, 70% of employees opt for the most expensive plan because current policy gives them little incentive to economize. *Tables 1.2 and 1.3*, added here, show the effect on the City’s costs and employee costs if the City’s contribution were a percentage of the lowest cost plan.

**Table 1.1: City of Worcester Employee Health Insurance Costs (Effective 1/1/2007)**

Plan	Employees Enrolled*	Monthly Premium Per Employee	Monthly City Share Per Employee	Monthly Employee Share	Annual Employee Share of Premium	City's Annual Cost Per Employee	Total Annual Cost to City
<b>BCBS Blue Choice</b>							
Individual	1,794	\$524	\$419	\$105	\$1,258	\$5,032	<b>\$9,027,767</b>
Family	2,440	\$1,373	\$1,098	\$275	\$3,295	\$13,182	<b>\$32,163,494</b>
<b>Fallon Health Plan DIRECT</b>							
Individual	298	\$397	\$318	\$79	\$953	\$3,813	<b>\$1,136,417</b>
Family	403	\$1,025	\$820	\$205	\$2,460	\$9,839	<b>\$3,965,085</b>
<b>Family Health Plan SELECT</b>							
Individual	449	\$434	\$347	\$87	\$1,042	\$4,168	<b>\$1,871,360</b>
Family	960	\$1,120	\$896	\$224	\$2,688	\$10,753	<b>\$10,322,842</b>
<b>Total Cost to City for Employees Enrolled in Conventional Plans</b>							<b>\$58,486,965</b>
<b>BCBS Medex</b>							
1 Person	1,625	\$391	\$293	\$98	\$1,172	\$3,517	<b>\$5,714,865</b>
<b>Managed Blue for Seniors</b>							
1 Person	498	\$388	\$291	\$97	\$1,165	\$3,496	<b>\$1,740,869</b>
<b>Fallon Senior</b>							
1 Person	620	\$156	\$131	\$25	\$300	\$1,572	<b>\$974,938</b>
<b>Total Cost to City for Employees Enrolled in Medicare Supplement Plans</b>							<b>\$8,430,671</b>
<b>Total Cost to City</b>							<b>\$66,917,636</b>

\* Includes City and WPS current employees and retirees

Source: City of Worcester Executive Office of Human Resources

**Table 1.2: Potential Savings If City Pays Percentage of Least Expensive Plan**

<b>Conventional Plans</b>				
<i>If the City were to pay only 75 % of the value of lowest cost plan (Fallon Health Direct):</i>				
Plan Type	Benefit Value @ 75%		Current Employee Enrollment	Annual Cost to the City
	Monthly	Annual		
Individual	\$297.93	\$3,575.16	2,541	\$9,084,482
Family	\$768.67	\$9,224.01	3,803	\$35,078,910
<b>Total Cost:</b>				\$44,163,392
<b>Annual Savings Generated:</b>				<b>\$14,323,573</b>
<b>Medicare Supplement Plans</b>				
<i>If the City were to pay only 84% of the value of the lowest cost plan (Fallon Senior):</i>				
Plan Type	Benefit Value @ 84%		Current Employee Enrollment	Annual Cost to the City
	Monthly	Annual		
Individual	\$131.04	\$1,572.48	2,743	\$4,313,313
<b>Total Cost:</b>				\$4,313,313
<b>Annual Savings Generated:</b>				<b>\$4,117,359</b>
<b>Potential Total Annual Savings:</b>				<b>\$18,440,932</b>

Prepared by: The Research Bureau

<b>Table 1.3: Impact on City Employee Health Insurance Contributions</b>				
<b>Conventional Plans: Impact of City Contributing 75% of the Value of the Least Costly Plan</b>				
Plan	Monthly Premium	Monthly City Share*	Monthly Employee Share	Monthly Increase in Employee Contribution
<i>BCBS Blue Choice</i>				
Individual	\$524	\$298	\$226	\$121
Family	\$1,373	\$769	\$604	\$330
<i>Fallon Health Plan DIRECT</i>				
Individual	\$397	\$298	\$99	\$20
Family	\$1,025	\$769	\$256	\$51
<i>Family Health Plan SELECT</i>				
Individual	\$434	\$298	\$136	\$49
Family	\$1,120	\$769	\$351	\$127
<b>Medicare Supplement Plans: Impact of City Contributing 84% of the Value of the Least Costly Plan</b>				
Plan	Monthly Premium	Monthly City Share**	Monthly Employee Share	Monthly Increase in Employee Contribution
<i>BCBS Medex</i>				
1 Person	\$391	\$131	\$260	\$162
<i>Managed Blue for Seniors</i>				
1 Person	\$388	\$131	\$257	\$160
<i>Fallon Senior</i>				
1 Person	\$156	\$131	\$25	\$0

\* At 75% of the lowest cost conventional plan

\*\* At 84 % of the lowest cost supplemental plan

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3. **The City Manager should negotiate a change in the police contract so that the police vacation benefit is the same as for employees of other departments.** For most municipal employees, a week's vacation is five days; for police officers, it is seven days. Since the current average daily pay for a police officer is about \$255.00, the City is paying an additional \$510.00 per week's vacation for each officer. If each one has four weeks of vacation, the City is paying \$2,040.00 for each officer. With 462 officers, the City is paying \$943,000 more per year than if a week's vacation were the equivalent of five days of pay.
  
4. **The City should take precautions to control disability pensions.** These should include pre-employment physicals as well as fitness and wellness programs during employment. In FY06, eleven disability pensions were granted:
  - Police 5
  - Fire 4
  - WPS 2In FY07, applications and evidentiary hearings for disability pensions are as follows:
  - WPS 5
  - Police 4
  - DPWP 4
  - Library 1
  - Worcester Housing Authority 1.

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

Accidental disability pensions are much more costly than superannuation pensions. The employee receives 72% of the highest annual salary earned tax-free, the equivalent of a full salary. These pensions can begin at an earlier age, and provide expanded benefits, expanded survivor benefits, and the return of the employee's annuity contribution (all of the employee's contributions to the system in addition to 72% of salary).

5. **The City Manager should identify inspectional functions carried out by the Fire Department's Code Division that could be reassigned to civilian engineers at a lower cost.** Three officers and nine firefighters staff the code enforcement office of the Fire Department, some functions of which could be performed by civilian engineers. These firefighters could be reassigned to positions in the Fire Department made available through attrition and retirements, allowing the City to save on salary, benefits, and

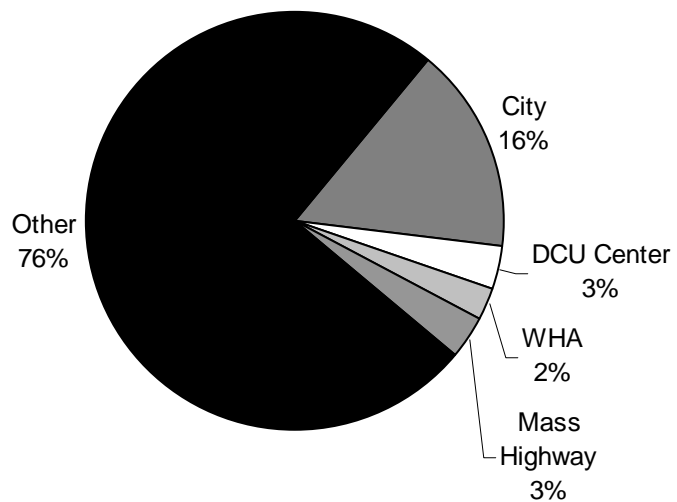
pension costs by replacing them with civilian employees. Potential savings from such a transition could be about \$230,000 including benefits.

6. **The City Manager should privatize the maintenance and upkeep of City- owned parks and playgrounds.** The City should outsource lawn service maintenance and upkeep at the 56 City parks and playgrounds. The cost of the Parks, Recreation, and Hope Cemetery Division is estimated at \$5.4 million once all the current and former employee pensions and health care costs are factored into the operating budget. This translates into about \$100,000 per park and playground per year. The City should evaluate these tasks by outsourcing the work to the private sector which can take advantage of seasonal laborers. The City should adopt a pilot program to begin outsourcing parks upkeep and maintenance during the spring, summer, and fall periods to determine the potential savings from outsourcing the maintenance of these facilities in the future. This approach is similar to the City’s operation of its Off Street Parking Facilities, in which private management companies oversee the garage operations.
  
7. **The City Manager and the City Council should work with the towns in the region, the legislative delegation, and the Massachusetts Municipal Association to change the practice of using off-duty police officers at construction sites.** Hiring off-duty police officers at construction sites is not required by State law, but the practice has been widely negotiated into local police contracts. Changing that practice would probably require collective action at the state level to enable individual communities to overturn this very expensive procedure. Flagmen are the rule in the other 49 states, including eight that use civilian flaggers exclusively.

Off-duty police officers in Worcester are paid for a four-hour minimum at about \$40.00 per hour for detail work at construction sites.

The City Treasurer’s Office collects an additional 10% from City departments and construction and utility companies for administrative costs. Civilian flaggers are generally employed at less than half the hourly rate paid to police officers. In 2006, Worcester police officers were paid more

**Figure 1: Calendar Year 2006 Detail Payments, by Source (Total Paid to WPD = \$6.6 Million)**



Source: City of Worcester Budget Office



than \$6.6 million for these off-duty assignments. As indicated in *Figure 1*, the City of Worcester (Department of Public Works and Parks and other departments) paid more than \$1 million to Worcester police officers. By using civilian flaggers, the City could have saved about \$500,000. In addition, private businesses such as the utilities and construction companies paid almost \$5 million for required Worcester police details. These costs are ultimately factored into utility rates paid by customers or rental rates paid by businesses or residents, thereby increasing the cost of doing business and living in Worcester.

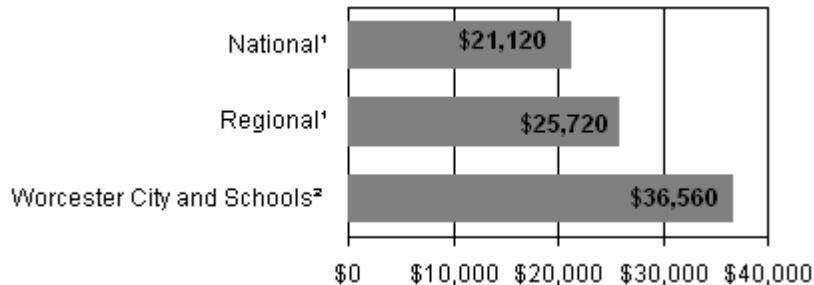
- 8. The City Manager and the School Superintendent should contract out City and school custodial services.** In FY07, the City and the WPS employed 175 custodians at a total compensation cost of \$7.5 million (see *Table 2*). The average salary per custodian was \$36,560. Once retired, the custodian receives a pension and health insurance from the City. Custodians from the private sector are generally paid less with fewer benefits. As demonstrated in *Figure 2*, the WPS and City of Worcester custodians received a higher salary than other custodians in the Worcester Metropolitan Statistical Area and nationwide.<sup>6</sup> If the City and the WPS were to pay their 175 custodians the regional average salary of \$25,720 instead of \$36,560, estimated savings could have been almost \$2 million.

**Table 2: City of Worcester Custodial Costs, FY07**

	WPS Custodians	City Custodians	Total
Number of Employees	153	22	175
Average Salary	\$37,014	\$33,400	\$70,414
Total Salary Costs	\$5,663,206	\$734,800	\$6,398,006
Health Benefits	\$921,145	\$212,300	\$1,133,445
Total Compensation Costs	\$6,584,351	\$947,100	\$7,531,451

Source: City of Worcester Budget Office

**Figure 2: Average Custodian Salaries**



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

<sup>6</sup> Bureau of Labor Statistics, Occupational Employment Statistics, [http://www.bls.gov/oes/current/oes\\_37Bu.h.htm](http://www.bls.gov/oes/current/oes_37Bu.h.htm) (April 2006)

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

The recently-expired contract with Charter Communications specifies that all franchise fee revenue collected by the City should be placed in a special revenue account and used for PEG (public access and government channels). The City should not include this provision in the new contract, and should request special legislation so that it has more flexibility in the use of its franchise fee revenue. If it chooses not to apply for special legislation, the City could still use franchise fee revenue for cable-related needs such as internet improvements within the municipal government network. Alternatively, the City could negotiate a lower franchise fee with the understanding that it would result in lower subscriber fees. Since the PEG channels were established in Worcester, both the government channel and the educational channel have successfully provided the community with programs using substantially less funding than the public access channel. Each one receives \$200,000 annually. The public access channel should be run with the same amount of funding as the educational and government channels. The remaining 40% of franchise revenue to the City (about \$450,000) could be used to support other more vital municipal services.

## CONCLUSION

Each of the foregoing recommendations is likely to arouse objections from some affected group – from golfers to the operators and users of the public access channel to various groups of public employee unions. However, the City’s budget crisis, highlighted by the City Manager, makes hard choices necessary. Given widespread recognition of the threat that crisis poses to the maintenance of core public services (public safety, public education and public works maintenance), it is urgent that the City Council, and the citizens of Worcester, recognize and accept the need for such choices.

*Mission Statement:*

*The Research Bureau serves the public interest  
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to promote informed public debate and decision-making.*



## The Research Bureau

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