



The Research Bureau

# Breaking Down the Budget: Questions to Consider

City of Worcester & Worcester Public Schools FY2018

Report 17-05

August 2017

**Research in the Public Interest**

Worcester Regional Research Bureau, Inc.

500 Salisbury Street, Worcester, MA 01609 • 508-799-7169 • [www.wrrb.org](http://www.wrrb.org)

**EACH YEAR** on July 1, Massachusetts cities and towns must implement a new budget. The City of Worcester’s Fiscal Year 2018 (FY18) budget takes effect on July 1, 2018. Municipal budgets must balance—expenditures cannot exceed revenues. The budget process forces municipalities to confront the challenge of fixed costs like debt service and pensions while deciding among priorities like education, public safety, economic development, and public services.

### Who’s in charge of the budget?

The City of Worcester, as established by the City Charter, is a modified Plan E form of government which is a Council-Manager form of government with a popularly elected Mayor. The Worcester Public Schools (WPS) is a quasi-independent department of the City.

The City Council is the City’s legislative body and is comprised of 11 members - six elected city-wide (or at-large) and five elected from districts. The Mayor is a member of the City Council who receives the most votes in the mayoral election and wins an at-large City Council seat. In addition to his or her role as City Councilor, the Mayor serves as the ceremonial head of the government and chairs both the City Council and School Committee. The City Council hires the City Manager, who serves as chief executive officer, and can remove him or her by majority vote. The City Manager hires all City employees (except the City Clerk, City Auditor, and Worcester Public Schools employees), oversees City operations, and presents the City Council with an annual budget that must be approved by June 30th of each year. The City Council has the authority to reduce the City Manager’s proposed budget, but not increase it. The approved budget must be balanced.

The Worcester School Committee is the legislative body of the WPS consisting of the Mayor and six elected city-wide members. The School Committee sets district-wide school policies, votes on the district budget, and hires and removes the Superintendent, who serves as chief executive officer.

City Council and School Committee elections are held in odd numbered years.

**Figure 1: The Budget Approval Process**



*The financial information in this report is drawn primarily from the City of Worcester and Worcester Public Schools FY2018 annual budgets.*



## Where does the City's money come from?

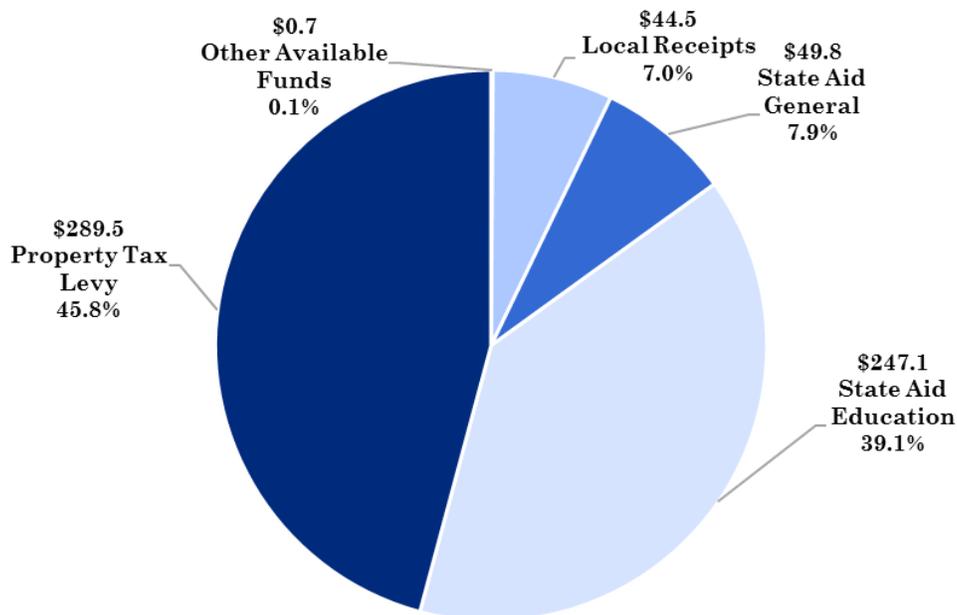
The City of Worcester's budget, approximately \$631.6 million for FY18, is financed by a combination of locally raised funds, funds provided by the State and Federal governments, and public and private grants.

Worcester's largest single source of revenue is the local property tax levy. The property tax levy is the aggregate revenue raised from the annual tax assessment on the value of real (land and buildings) and personal (equipment and machinery) property in the city. When combined with local receipts (motor vehicle excise taxes, licenses and permits, hotels and meals taxes, etc.) and other available funds, 53% of Worcester's revenues are generated locally.

The remaining 47% of revenues are primarily State aid programs, which are largely dedicated to public education, especially through the Chapter 70 School Finance Program.

*In the spring of 2015, Worcester Mayor Joseph Petty formed a Mayor's Tax Policy Committee and charged it with reducing the City's reliance on the property tax by identifying opportunities to broaden the City's tax base to include all those who live, work, or visit the City. In October of 2016, the Committee issued "A Report of the Discussions," a document that captured a number of alternatives for new or modified sources of revenue for the City of Worcester. While The Research Bureau participated in these discussions, it does not endorse the full range of concepts outlined in the Report. Many of the proposals require unlikely modifications to state law. Some are regressive, potentially shifting a greater burden of taxation onto those least able to afford it. Any discussion of revenue needs should also be paired with a discussion of costs to reevaluate the role and effectiveness of local government and the potential for organizational improvement. We commend the Mayor and the members of the Committee for engaging in earnest discussion of the City's revenue challenges but suggest the need for ongoing conversation about the efficiency of municipal government and demand for municipal services and involvement.*

**Figure 2: Sources of City Revenue**



Accurately estimating revenues is a key challenge of municipal budgeting. Local revenues and receipts are based on economic and financial projections for the coming year. State aid assumptions are based on initial indications in budget proposals from the Governor and legislative leaders, but actual revenue sharing and education aid numbers are not finalized until passage of the State budget, which often occurs after the City has adopted its own budget.



## How are my property taxes assessed?

Property taxes, the largest source of local revenue, are based on the value of land, buildings, and personal property. Established by Chapter 59 of the Massachusetts General Laws, the property tax assessment process follows a regular year-long cycle as outlined in Table 1.

Property values are determined by the City Assessor’s Office under the supervision of the Massachusetts Department of Revenue. Every year, State law requires that the Assessor ensure that property assessments represent that year’s full and fair cash value. Every five years, the Assessor conducts a reassessment of all properties in the city by sampling. Once every ten years, all properties in the city are reassessed by physical inspection.

Property tax is assessed on the full and fair cash value of a property. Certain property classes such as commercial/income properties are assessed by the cost approach (the cost to replace the property) or the income capitalization approach (annual net operating income divided by the capitalization rate). A property owner can seek an abatement of property tax liability on the basis of 1) overvaluation; 2) disproportional assessment; 3) improper classification; or 4) statutory exemption.

Worcester currently has a dual tax rate, taxing residential property and commercial/industrial property at different levels. (Under Massachusetts law, the dual tax rate is limited so that no property tax rate on any property classification can exceed 75% of the single tax rate.) In FY2017, Worcester’s residential properties were charged \$19.22 per \$1,000.00 of the property’s value and Worcester’s commercial/industrial/personal (CIP) properties were charged \$32.93 per \$1,000.00 of the property’s value.

**Table 1: A Year in the Life of the Property Tax**

<b>FY18 Assessment Process</b>	
<b>January 1, 2017</b>	<b>Property Tax Valuation Date for FY2017</b>
<b>July 1, 2017</b>	<b>Fiscal Year begins. 1st Quarter preliminary tax bill is issued (preliminary tax bills are based on prior fiscal year taxes). Statutory exemption claim filing period begins.</b>
<b>August 1, 2017</b>	<b>1st Quarter preliminary tax due.</b>
<b>October 1, 2017</b>	<b>2nd Quarter preliminary tax bill issued.</b>
<b>November 1, 2017</b>	<b>2nd Quarter preliminary tax due.</b>
<b>Late December 2017</b>	<b>3rd Quarter actual tax bill issued (bill reflects the actual value and tax rate for current fiscal year). Statutory exemption claims are determined.</b>
<b>January 1, 2018</b>	<b>Property Tax Assessment Date for the following fiscal year. Abatement application filing period begins.</b>
<b>February 1, 2018</b>	<b>3rd Quarter actual tax due. Abatement filing period ends.</b>
<b>February-May 2018</b>	<b>Review of Abatement and Exemption applications. Notice of decision mailed out.</b>
<b>April 1, 2018</b>	<b>4th Quarter actual tax bill issued.</b>
<b>May 1, 2018</b>	<b>4th Quarter actual tax due.</b>
<b>June 30, 2018</b>	<b>Fiscal Year ends.</b>



The City Council sets the tax rate each fall. During this process, tax classification (i.e., the dual tax rate) and its effect on property owners is a key topic. Since 1984 through FY16, CIP property owners have paid \$689,634,355 in taxes that would have been paid by residential property owners under a single tax rate. On average, CIP property owners have paid more than \$20 million per year in additional taxes as a result of the dual tax rate, yet during this same period the relative portion of CIP property in Worcester has declined. In 2016, residential property made up 71.19% of the assessed value in Worcester while CIP property made up 28.81%. In 1984, at the initiation of tax classification, residential property made up 64.58% of the assessed value in Worcester while CIP property made up 35.42%. Worcester's CIP tax rate is the highest in the region while its residential rate is second highest.

The City of Worcester relies heavily on the local property tax as a source of revenue, however a significant portion of Worcester's land area—30.1%—and a significant portion of its property value—31.4%—are exempt from local taxes according to data from FY16. As a result, the remaining taxable properties must generate sufficient revenue to maintain the general operations of government. To recoup some of that lost revenue, the City has asked certain larger not-for-profits in Worcester to make payments in lieu of taxes, also known as PILOTs. While some institutions have complied, many not-for-profits argue that they contribute significantly to Worcester through jobs and educational and cultural benefits. Five Worcester colleges have made PILOT agreements or similar financial arrangements with the City.

**Table 2: Greater Worcester FY17 Tax Rates**

	CIP	Residential
Worcester	\$32.93	\$19.22
Auburn	\$24.16	\$18.34
Paxton	\$20.39	\$20.39
West Boylston	\$18.80	\$18.80
Holden	\$17.59	\$17.59
Grafton	\$16.40	\$16.40
Millbury	\$16.43	\$16.43
Boylston	\$16.12	\$16.12
Leicester	\$15.48	\$15.48
Shrewsbury	\$12.83	\$12.83

**Table 3: Select City of Worcester PILOTs and Other Financial Arrangements**

Financial Agreements Between City and Non-Profits	Year of Execution	Contributions to Municipality	Duration/Termination	FY16 Contributions
Christopher House	1994	\$75,000 Annual Contribution Minus Any Real	30 Years	Full Taxation
Worcester Medical Center	2005	\$1,250,000 Annual Contribution Minus Any Real	2014*	Full Taxation
MCPHS University	2008	\$50,000 Initial Payment Plus Annual Payments of 20% of Initial Real Estate Taxes on Certain Properties (Increasing by 2.5% Annually) Dedicated to Worcester Public Library	25 Years	\$199,660
Worcester Polytechnic Institute	2009/ Amended 2014	\$157,403 Initial Payment Plus Annual Payments of Initial Real Estate Taxes and/or Partial Real Estate Taxes on Certain Properties (Increasing by 2.5% Annually) Dedicated to Worcester Public Library and Institute Park	25 Years	\$653,079
Clark University	2010	\$112,176.44 as Payment of Initial Real Estate Taxes on Certain Properties and \$150,000 Annual Payments for Other Cooperative Efforts (Increasing by 2.5% Annually)	20 Years	\$287,373
University of Massachusetts Medical School	2011	100% of Real Estate Taxes on Certain Property (Increasing by 2.5% Annually) Dedicated to Pub-	5 Years	Expired
College of the Holy Cross	2012	\$80,000 Annual Payment Dedicated to LEARN Mobile Library	5 Years + 5 Years	\$80,000
University of Massachusetts Medical School	2013	Annual Payments Totaling \$1,575,000 Over Five Years Dedicated to Worcester Public Library and	5 Years	See Note**

\*Worcester Medical Center, also known as Saint Vincent Hospital, is now a subsidiary of Tenet Healthcare and is no longer tax exempt.

\*\*University of Massachusetts Medical School has paid \$1,487,500 to date.

In 1980, Massachusetts voters adopted an initiative limiting tax levy increases each year to 2½% over the previous year, plus the value of new construction. So-called Proposition 2½ also limited the total tax levy of a community in any given year to 2½% of the total taxable assessed value of the community. Since the City of Worcester has not collected the maximum levy allowed by law each year, it boasts an unused tax levy capacity of approximately \$11 million. Under the law, the City has the authority to increase taxes to capture this additional amount without seeking a voter-approved override.

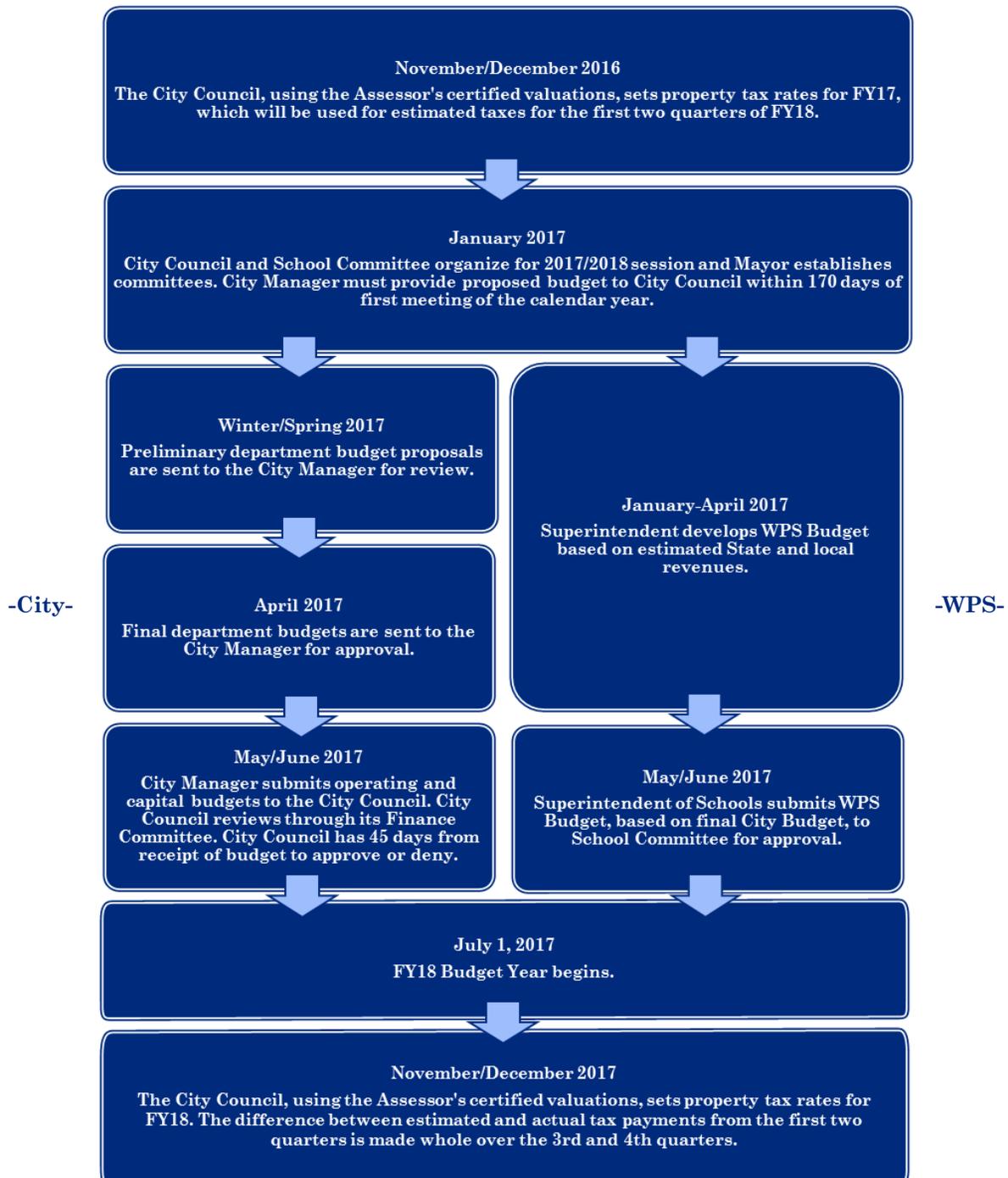


## How is the budget approved?

Under the City Charter and Chapter 44 of the Massachusetts General Laws, the City Manager must submit a budget to the City Council within 170 days of the Council's first meeting of the new calendar year. The Council must act on the budget within 45 days of receiving it and approve it by June 30th. The Council is limited in its authority over the budget. While it can make general reductions in the budget, it cannot target individual line items and it cannot increase the budget without the recommendation of the City Manager. Thus, City Council is not able to move funding from one priority to another; it can only reduce general funding and request that the City Manager consider alternative priorities.

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.

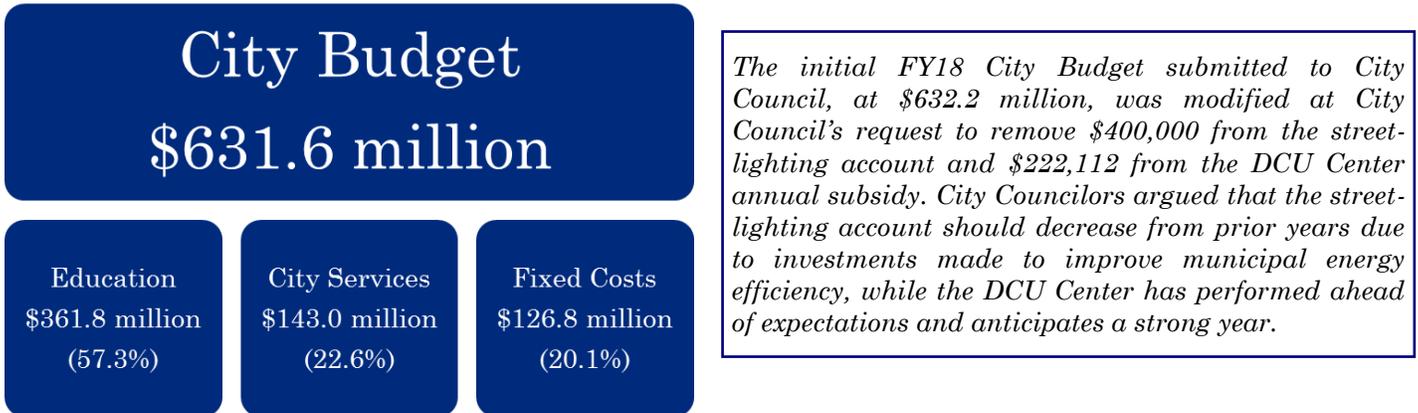
**Figure 3: City of Worcester/Worcester Public Schools FY18 Budget Process**



## What does the City budget fund?

The City of Worcester’s budget of approximately \$631.6 million funds three main activities: education, fixed costs, and city services.

**Figure 4: City of Worcester FY18 Budget**



**Education**—Education is both a fixed and discretionary cost. As a result of Chapter 70 of the Massachusetts General Laws, cities and towns are mandated to spend a fixed amount on public education based on factors including number of students by grade, median income, English language proficiency, etc. Public education funding includes the Worcester Public Schools and charter schools, school choice, and special education. Yet communities often spend additional funds on education, both through so-called non net school spending (which includes such items as transportation, equipment, building rentals, and adult education) and additional tax levy allocations. See page nine for additional details about education funding.

**Fixed Costs**—Fixed costs comprise 20.1% of the City’s budget. Fixed costs are expenditures required by law, regulation, contract, or the City’s Five Point Plan. Fixed costs include debt service, pensions and other post-employment benefits, insurance, and such annual obligations as snow removal and streetlights.

Fixed costs are not discretionary and must be included in the budget each year.

**Figure 5: City of Worcester FY18 Fixed Costs**



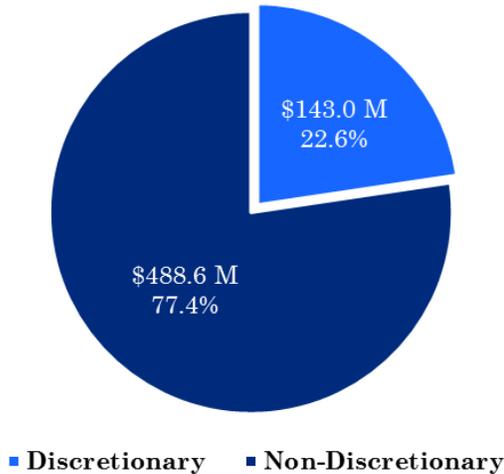
\*The City’s definition of fixed cost is open to debate. For example, the FY18 \$550,000 OPEB Trust Deposit is included in “Pensions and Related Obligations,” but it has traditionally been paid on a discretionary basis. Health insurance, too, while identified by the City as a fixed cost, is both fixed and variable; while the City’s obligations to retirees are arguably fixed, obligations to current staff vary depending on staff size and benefit structure.



## How are the City's priorities funded?

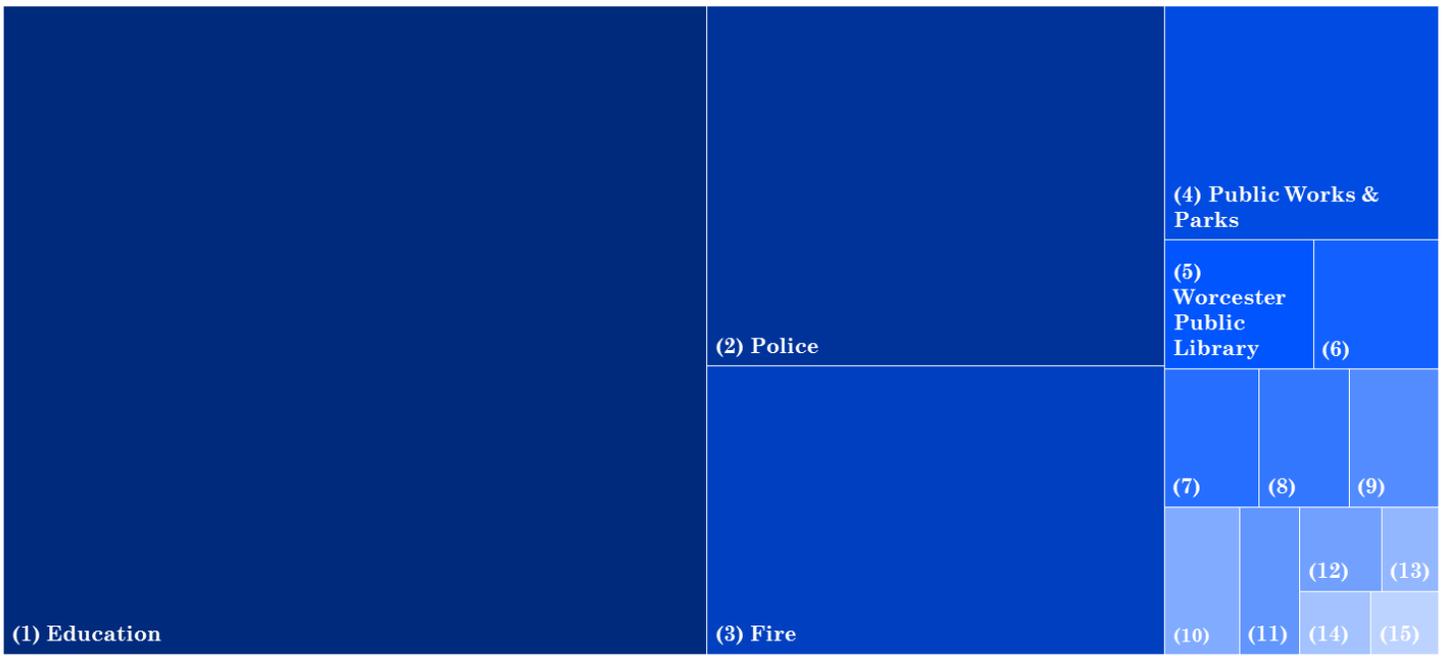
Since the City's budget must balance, the budget process requires the City Manager and the City Council to set priorities as they collectively decide how to spend the City's limited resources. Certain priorities, like education, are obligated by law. Other priorities are set by annual determinations of need. Most municipal priorities—those of public officials and the citizenry alike—are funded out of the 22.6% of the budget committed to City Services.

**Figure 6: Discretionary Spending:  
A Small Slice of the Pie**



Public safety, street and sidewalk maintenance, public parks, economic development, and the public library are all funded from the discretionary 22.6% of the budget. While potholes, crime, traffic, and trash often rouse significant debate, these items directly compete with each other for the limited funding remaining after education and fixed costs are covered.

**Figure 7: FY18 Municipal Priorities Based on Spending by Tax Levy**



- |                             |                              |                             |
|-----------------------------|------------------------------|-----------------------------|
| 1. Education                | 6. Law/Insurance/Court       | 11. Finance                 |
| 2. Police                   | 7. Inspectional Services     | 12. Economic Development    |
| 3. Fire                     | 8. Technical Services (IT)   | 13. Energy/Asset Management |
| 4. Public Works & Parks     | 9. Health & Human Services   | 14. Human Resources         |
| 5. Worcester Public Library | 10. Emergency Communications | 15. Other/Contingency       |

Other budget priorities with a \$1 million allocation or less include: City Council, Mayor's Office, City Clerk, Elections, Auditing, City Manager's Office, Union Station, DCU Center, Assessing, and Green Hill Golf Course.



## How is public education funded in Worcester?

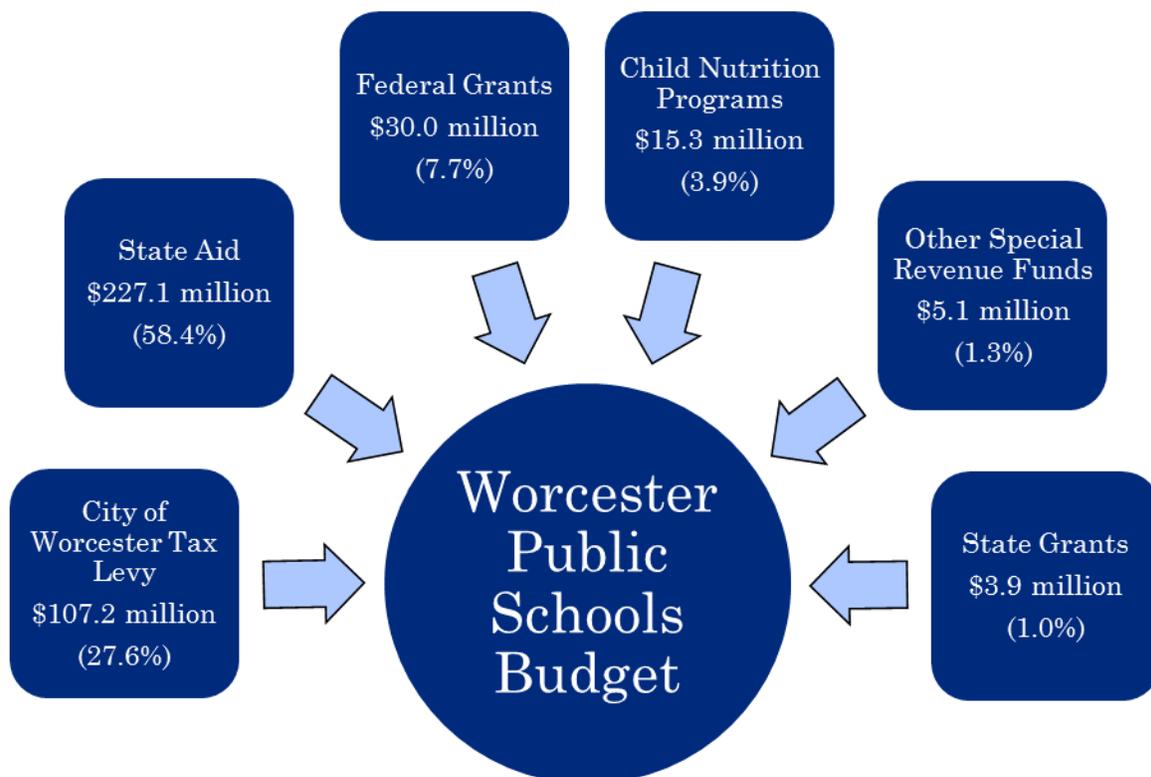
Chapter 70 of the Massachusetts General Laws ensures adequate funding for all school districts in Massachusetts. The Chapter 70 funding formula, known as the foundation budget, establishes a baseline for public education funding for each school district and outlines minimum local contributions and State aid. The formula is complex and considers individual school district variables such as student enrollment by grade and program, student demographics and socio-economic status, community income and property values, and cost of living.

Chapter 70 simply outlines the minimum requirements for school funding. School districts can increase their local contributions beyond the foundation budget as local funding allows. In addition to the Worcester Public Schools, the City’s public education budget provides support to charter schools, school choice, and certain special education expenses.

Required local education spending and State aid are considered “Net School Spending” and totaled \$314.3 million in Worcester in FY18. In addition to Chapter 70 requirements, however, the City must address certain non-educational costs to support Worcester Public Schools operations including transportation, crossing guards, adult education, leases, and debt service for the WPS capital budget. This additional “Non Net School Spending” equaled \$20.0 million in FY18. Therefore, the total FY18 City of Worcester allocation for the Worcester Public Schools is \$334.3 million.

The Worcester Public Schools, with a budget of \$388.5 million in FY18, also receives funding from specific Federal and State grant sources.

**Figure 8: FY18 Worcester Public Schools Revenues**



The Worcester Public Schools is the third largest school district in the Commonwealth of Massachusetts, behind Boston and Springfield, educating more than 25,000 students. 76.3% of Worcester Public Schools students are high needs, including 57.2% that are economically disadvantaged,\* 34.2% that are English language learners, and 18.8% that are students with disabilities.

The Worcester Public Schools budget includes diverse expenditures. Personnel costs make up a significant portion of the budget—\$320 million, including over 2,800 educators and other staff. Yet the Worcester Public Schools also manage a portfolio of nearly 50 properties, a dining services operation that provides over five million meals annually, a fleet of vehicles including cars, trucks, and buses, and a sports program that includes many different athletic activities for high school students.

*The Research Bureau commends the WPS effort to move all WPS employees to the City's settled rates for health insurance, saving approximately \$3.4 million according to the FY18 WPS Budget. To date, six employee groups plus non-represented employees have made the shift. Negotiations continue with all other collective bargaining units.*

According to the Worcester Public Schools' budget, the district follows a Seven Point Financial Plan for Advancing Student Achievement and Program Sustainability: 1) long-term budget planning, 2) annual budget reviews, 3) a transparent budget process, 4) quarterly financial reporting, 5) development of supplemental and sustainable programs, 6) creation of a cap on administrative spending, and 7) identifying targets for new revenue.

**Table 4: The Worcester Public Schools**

A Snapshot of Worcester Public Schools, 2017-18	
<i>Number of Schools</i>	
Elementary Schools	33
Middle Schools	4
Grade 7-12 Schools	2
High Schools	5
<b>Total</b>	<b>44</b>
<i>Number of Students</i>	
Head Start	563
Elementary Schools	14,195
Middle Schools	3,235
Grade 7-12 Schools	788
High Schools	6,610
<b>Total</b>	<b>25,391</b>
<i>Number of Employees</i>	
Administration	107
Teachers	2,213
Other	1,876
<b>Total</b>	<b>4,196</b>

**Figure 9: FY18 Worcester Public Schools Budget\*\***



\* The method for calculating socio-economic status for students changed from a “low-income” categorization in FY16 to “economically disadvantaged” in FY17, the latter defined in WPS’s Budget FY18 as “student’s participation in one or more of the following state-administered programs: the Supplemental Nutrition Assistance Program (SNAP); the Transitional Assistance for Families with Dependent Children (TAFDC); the Department of Children and Families’ (DCF) foster care program; and MassHealth (Medicaid).”

\*\* \$388.5 million is the total budget of the Worcester Public Schools. While the City of Worcester allocated \$107.2 million in property tax levy and \$227.1 million in State Chapter 70 aid to the WPS budget, the City’s total \$361.8 million allocation for public education included funding for charter schools, certain special education expenses, and school choice. The total Worcester Public Schools budget includes the City of Worcester allocation as well as outside State and Federal grants.



## How has the annual budget changed over time?

**Table 5: City Revenues (FY14—FY18)**

Revenue Type	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget	FY18 Budget
Property Tax Levy	\$247.08	\$255.80	\$270.09	\$279.44	\$289.53
State Aid General City	\$35.98	\$36.98	\$38.31	\$42.15	\$44.10
State Aid Education	\$222.56	\$220.57	\$231.44	\$235.34	\$245.21
State Aid Charter Schools	\$1.79	\$1.84	\$2.68	\$2.18	\$1.90
State MSBA - School Building	\$15.20	\$11.58	\$11.58	\$11.58	\$5.66
Local (Permits/Motor Vehicle)	\$41.47	\$43.00	\$40.24	\$39.66	\$44.50
Other Available Funds	\$1.20	\$3.39	\$1.57	\$0.70	\$0.70
Free Cash	\$0.20	\$0.93	\$0	\$0	\$0
<b>Totals (in millions)</b>	<b>\$566.86</b>	<b>\$574.09</b>	<b>\$598.09</b>	<b>\$611.05</b>	<b>\$631.60</b>

**Table 6: City Expenditures (FY14—FY18)**

Expenditure Type	FY14 Actual	FY15 Actual	FY16 Budget	FY17 Budget	FY18 Budget
Education	\$326.40	\$332.05	\$346.40	\$350.27	\$361.80
Fixed Costs	\$101.40	\$119.38	\$119.09	\$119.46	\$127.20
City Services	\$122.40	\$124.57	\$132.60	\$141.32	\$142.60
<b>Totals (in millions)</b>	<b>\$565.40</b>	<b>\$575.99</b>	<b>\$598.09</b>	<b>\$611.05</b>	<b>\$631.60</b>

**Table 7: Worcester Public Schools Revenues (FY14—FY18)**

Revenue Type	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Budget	FY18 Budget
State Aid	\$202.7	\$203.4	\$214.3	\$217.6	\$227.1
Local Contribution	\$96.3	\$101.4	\$104.0	\$105.4	\$107.2
Federal Grants	\$30.7	\$29.0	\$30.0	\$30.1	\$30.0
Child Nutrition Programs	\$13.7	\$11.8	\$12.7	\$13.9	\$15.3
State Grants	\$6.1	\$5.3	\$5.1	\$4.1	\$3.9
Other Special Revenue	\$5.3	\$5.7	\$5.2	\$4.9	\$5.1
<b>Totals (in millions)</b>	<b>\$354.8</b>	<b>\$356.7</b>	<b>\$369.2</b>	<b>\$375.9</b>	<b>\$388.6</b>

**Table 8: Worcester Public Schools Expenditures (FY14—FY18)**

Expenditure Type	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Budget	FY18 Budget
Administration	\$5.2	\$5.1	\$5.5	\$4.2	\$4.2
Instruction	\$203.1	\$201.2	\$211.7	\$209.1	\$215.3
Other School Services	\$38.9	\$41.5	\$44.0	\$47.3	\$49.7
Operations & Maintenance	\$24.1	\$21.2	\$21.8	\$22.3	\$22.3
Fixed Charges	\$62.6	\$67.3	\$68.0	\$71.6	\$74.3
Community Services	\$0.5	\$0.8	\$330	\$0.4	\$0.5
Fixed Assets	\$0.4	\$0.4	\$422	\$0.5	\$0.5
Debt Service	\$0	\$0	\$0	\$0	\$0
Tuition Programs	\$17.8	\$19.2	\$19.8	\$20.3	\$21.8
<b>Totals (in millions)</b>	<b>\$352.5</b>	<b>\$356.7</b>	<b>\$371.6</b>	<b>\$375.7</b>	<b>\$388.6</b>



## What goes into the capital budget?

In addition to its operating budget, the City of Worcester approves an annual capital budget to fund lasting items such as equipment purchases (police cars, school buses, snow plows), infrastructure improvements (roads, sidewalks, parks), technology upgrades, and major building maintenance. For the capital budget, the City issues debt and finances these purchases over the lifespan of the item using tax levy funds and grants from Federal and State government. The debt is generally issued as a municipal bond and is often exempt from Federal and State taxes. Under the Five Point Plan, the City caps how much borrowing it can do in any one year based on prior year borrowings and debt service.

**Table 9: FY18 Capital Projects**

FY18 Capital Projects	Tax Levy Borrowing (millions)	Non-Tax Levy Borrowing (millions)	Total Borrowing (millions)
Equipment	\$2.954	\$3.919	\$6.873
Facility Improvement	\$0.755	\$0.675	\$1.450
Infrastructure	\$19.255	\$43.895	\$63.150
Parks Facility Improvement	\$0.400	-	\$0.400
Parks Infrastructure	\$7.535	-	\$7.535
WPS Equipment	\$0.500	-	\$0.500
WPS Facility Improvement	\$3.630	-	\$3.630
WPS New School	-	-	-
<b>Totals (in millions)</b>	<b>\$35.049</b>	<b>\$48.489</b>	<b>\$83.538</b>

Source: City of Worcester Administration & Finance Department

Also included in the capital budget is borrowing for the City’s enterprise funds. Enterprise accounts are fully funded by fees paid for those services, not by the tax levy. The City Square Project is included with the enterprise accounts, although it is a District Improvement Financing (DIF) Project under Chapter 40Q of the Massachusetts General Laws. Bond issuances related to City Square are funded by the incremental tax receipts generated within the project area.

As of June 29, 2017, the City of Worcester had borrowed \$718,221,424, with \$277,616,277 self-supported by user fees and other direct sources resulting in a total Net Direct Debt of \$440,605,147. The majority of debt relates to pension obligation bonds (18%), while other major sources of indebtedness include school and municipal building construction and enhancements, water & sewer investments, and street/sidewalk/parking improvements. Approximately 35% of the City’s Budgeted FY18 Fixed Costs relate to debt service; \$71.7 million has been budgeted for anticipated debt service expenditures—\$34.8 million funded by tax levy with the remainder funded by enterprise or other funded accounts. As of June 29, 2017, the City had \$491,028,294 of authorized, unissued debt, with \$103,730,633 in bond anticipation notes maturing January 23, 2018.

A municipal bond’s interest rates are determined by the perceived credit worthiness of the issuer. The higher a credit score, the less the municipality must offer in interest to secure bondholders. The City of Worcester’s bonds are considered investment grade with a very low investment risk. Credit worthiness is assessed by the three primary credit rating agencies—Fitch, Moody’s, and Standard & Poor’s.

**Table 10: City of Worcester Credit Rating**

Moody's Investor Service	Standard & Poor's Rating Services	Fitch Ratings
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
<b>Aa3</b>	<b>AA-</b>	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

\*Worcester’s credit rating for each rating agency is listed in **blue**.

*Earlier this year, the City Manager announced changes to the City’s Five Point Plan, including the creation of new stabilization funds, reserves, and dedicated trusts. While many of the recommendations are sound, we are cautious on his proposal to expand the City’s annual borrowing by balancing inflation costs with reduced interest rates to defend new debt capacity. Any new borrowing should be focused on core municipal infrastructure and be tempered by long-term financial prospects.*



Table 11: 2017 City of Worcester Debt

City of Worcester's Outstanding Debt FY17		
Category	Outstanding Debt	% of Total Debt
General	\$222,150,933	30.9%
Pension Obligation Bonds (POB)	\$129,565,000	18.0%
School Building	\$93,221,361	13.0%
Sewer	\$88,721,936	12.4%
Water	\$51,122,960	7.1%
Industrial Economic Development	\$29,662,301	4.1%
Other Enterprise	\$46,300	0.0%
<b>Total Outstanding Long-Term Debt</b>	<b>\$614,490,791</b>	<b>85.6%</b>
Temporary Bonds (BANs)	\$103,730,633	14.4%
<b>Total Debt</b>	<b>\$718,221,424</b>	<b>100.0%</b>

Over the past decade, Worcester has faced a national recession and uncertain State aid for municipal services. Despite these difficulties Worcester has balanced its budget, fulfilled its fixed cost obligations, funded schools, maintained city services, made improvements to its downtown and neighborhoods, and increased its bond rating. The city has attracted new businesses and population has grown steadily. In addition, Worcester's total taxable assessed property value of \$12.27 billion in FY17 is up more than \$1 billion from \$11.24 billion in FY16.

Credit rating agencies have cited ways for Worcester to improve its financial position. Specifically, credit scores are likely to improve if Worcester continues to operate surpluses, has a significant expansion of the tax base, reduces its sizeable debt burden, and reduces unfunded liabilities for pension and other post employment benefits (OPEB). Worcester's current OPEB liability is approximately \$860 million and its pension liability is approximately \$462 million (as of January 1, 2017). While the City is engaged on a program for fully funding pension obligations by FY32, there is no reliable funding plan for the City's OPEB liability. Without an effort to address OPEB liabilities, these obligations will continue to expand reaching \$1 billion by 2020 and \$2 billion by 2040.

*The Research Bureau supports the City Administration's establishment of an OPEB Trust and its allocation of \$550,000 in the FY18 Budget, however it is far short of the funding necessary to address the \$860 million outstanding liability. Under a 30-year capitalization initiative, the City should have contributed \$38 million in FY18—an amount that would rise to more than \$100 million in FY43 and FY44—to eliminate the liability and establish a forward funded model.*

While the budget reflects priorities, limited discretionary funding opportunities make it a poor means for determining overall importance. Worcester's residents, businesses, and elected and appointed officials must annually readdress the City's priorities and how those priorities are represented in the budget. If the agreed upon priorities require additional funding, the City should review costs for efficiencies, explore State and Federal grant programs, and consider whether local taxes must be increased to meet prioritized needs. Alternatively, if efforts are not a priority, programs must be reduced or eliminated and the budget cut.



## What does it mean?

**Abatement:** A reduction or exemption in an owner's property tax. A property owner receives an abatement if he or she can document that the property was overvalued, that the property was disproportionately assessed compared to comparable properties, that the property was improperly classified, or that the property is exempt under statutory exemption.

**Capital Budget:** A budget for purchasing fixed assets, machinery, or equipment; generally represents larger investments with a multi-year lifespan.

**Chapter 70:** Chapter 70 of the Massachusetts General Laws establishes a program for State aid to public elementary and secondary schools. In addition to State funding, it also sets minimum spending requirements for each school district and minimum requirements for each municipality's share of school costs. See Foundation Budget.

**Charter School:** A public school chartered by the Commonwealth's Board of Education independent of local school districts.

**Charter School Reimbursement:** School districts are responsible for paying tuition for local students attending charter schools. To offset the cost, the Commonwealth reimburses a school district for 100% of the tuition for the first year and provides 25% reimbursement over the next five years.

**Cherry Sheet:** The Commonwealth's official notification to municipalities and school districts of estimated State aid to be paid and charges to be assessed over a fiscal year.

**District Improvement Financing (DIF):** DIF, authorized under Chapter 40Q of the Massachusetts General Laws, enables municipalities to fund public works, infrastructure, and development projects by allocating future, incremental tax revenues collected from a predefined district to pay project costs.

**Fiscal Year:** An annual budget period; in Massachusetts municipalities the fiscal year begins on July 1 and ends on June 30.

**Five Point Financial Plan:** The City of Worcester's fiscal policy adopted by the City Council in 2006. The five points are: 1) a five-year forecasting and long-term planning of City finances and projects; 2) creation of a Bond Rating Stabilization Fund and strengthening of reserves; 3) quarterly financial reporting; 4) institution of a \$16.85 million cap on borrowing (can be adjusted for inflation); and 5) establishment of a Capital Improvement Plan to achieve debt service stability in budget.

**Fixed Costs:** A municipality's expenditures that are obligated by law, contracts, or borrowing commitments. Examples are State-mandated funding for education, repayment of debt, and pension obligations.

**Foundation Budget:** State aid for local education is established by the foundation budget formula. The formula considers the cost of education and the financial capacity of a municipality. State aid represents the difference between these two amounts. See Chapter 70.

**Full and Fair Cash Value:** The highest price for a property likely in a competitive, open market with knowledgeable parties.

**General State Aid:** Unrestricted State aid to municipalities allocated annually. Formerly Lottery Aid or Additional Assistance.

**Local Receipts:** Monies generated by a municipality from local fees, charges, and fines.

**Mill Rate:** The amount of tax payable per thousand dollars of value of a property.

**Municipal Bond:** A debt security issued by a local government or its agencies to finance capital expenditures.

**Nonprofit or Not-for-Profit Organization:** An organization that is not required to pay property taxes under State or Federal law. Examples of these tax-exempt entities are colleges, churches, and social service agencies.

**Personal Property:** Property not permanently affixed to land or building (e.g., furniture, equipment, merchandise).

**PILOT - Payment in Lieu of Taxes:** In limited cases, nonprofit organizations exempt from paying property taxes will voluntarily negotiate an annual payment to the municipality in recognition of the organization's impact on public finances and/or services.

**Property Tax:** Revenue raised through an assessment on the value of real and personal property.

**Property Tax Levy:** The total amount of money a municipality raises through property taxes.

**Proposition 2½ (Prop 2½):** A Massachusetts referendum passed in 1980 that limits tax levy increases each year to 2 ½% over the previous year, plus the value of new construction. Prop 2 ½ also limits the total tax levy of a community in any given year to 2 ½ % of the total taxable assessed value of the community.

**Real Property:** Property affixed to a particular location, generally land and buildings.

**Tax Increment Financing (TIF):** A TIF waives a portion of the increase in property taxes that accrue from new investment in exchange for the investment and jobs added as a result of the project. A TIF also makes the recipient eligible for a credit on State taxes.

**Tax Rate:** The amount of tax assessed per thousand dollars of value. Worcester has a dual tax rate, charging differing amounts for residential property and commercial/industrial/personal property.



## Worcester Regional Research Bureau, Inc.

### *Officers & Executive Committee*

**Chairman of the Board:**

John J. Spillane, Esq.

**Vice Chairman:**

Sandra L. Dunn

**Treasurer:**

George W. Tetler III, Esq.

**Clerk:**

Demitrios M. Moschos, Esq.

**Executive Committee Members:**

Karen E. Duffy

Sandra L. Dunn

Abraham W. Haddad, DMD

Michael Mulrain

Deborah Penta

Richard F. Powell, CPA

Gayle Flanders Weiss, Esq.

Janice B. Yost, Ed.D.

### *Board of Directors*

Peter Alden

David Angel, Ph.D.

Michael P. Angelini, Esq.

Lauren Baker, Ph.D.

Paul Belsito

Craig L. Blais

Edward S. Borden

Philip L. Boroughs, S.J.

Karin Branscombe

Brian J. Buckley, Esq.

Gail Carberry, Ed.D.

Francesco C. Cesareo, Ph.D.

J. Christopher Collins, Esq.

Anthony Consigli

P. Scott Conti

Michael Crawford

David Crouch

Ellen Cummings

James Curran

Jill Dagilis

Andrew Davis

Peter J. Dawson, Esq.

Christine Dominick

Donald Doyle

Ellen S. Dunlap

Tarek Elsayy, MD

Aleta Fazzone

Mitchell Feldman

Allen W. Fletcher

David Forsberg

Michael J. Garand

Tim Garvin

Lisa Kirby Gibbs

J. Michael Grenon

Lloyd L. Hamm, Jr.

Kurt Isaacson

Will Kelleher

Richard B. Kennedy

Ralph Lambalot, Ph.D.

James B. Leary, Esq.

Laurie A. Leshin, Ph.D.

Robert G. Lian, Esq.

Karen E. Ludington, Esq.

Steven MacLauchlan

Francis Madigan, III

Susan Mailman

Barry Maloney

Peter McDonald, Ed.D.

Kate McEvoy-Zdonczyk

Thomas McGregor

Joseph McManus

Martin D. McNamara

Philip R. Morgan

Patrick Muldoon

Frederic Mulligan

Timothy P. Murray, Esq.

James D. O'Brien, Jr., Esq.

Michael V. O'Brien

Andrew B. O'Donnell, Esq.

JoAnne O'Leary

Kevin O'Sullivan

Deborah Packard

Anthony Pasquale

James F. Paulhus

David Perez

Christopher M. Powers

John Prankevicius

David Przesiek

William J. Ritter, Esq.

K. Michael Robbins

Todd Rodman, Esq.

Joseph Salois

Eric H. Schultz

J. Robert Seder, Esq.

Philip O. Shwachman

Troy Siebels

Nicholas (Nick) Smith

Peter R. Stanton

John C. Stowe

Joseph P. Sullivan, Esq.

Ann K. Tripp

Mark Waxler

### *Staff*

**Executive Director:**

Timothy J. McGourthy

**Program Associate:**

Eric R. Kneeland

**Research Associates:**

Mary E. Burke

Thomas J. Quinn

*The Research Bureau serves the public interest of Greater Worcester by conducting independent research and analysis of public policy issues to promote informed public debate and decision-making.*





*The Research Bureau serves the public interest of Greater Worcester by conducting independent, non-partisan research and analysis of public policy issues to promote informed public debate and decision-making.*

Worcester Regional Research Bureau, Inc.  
500 Salisbury Street, Worcester, MA 01609  
508-799-7169 • [www.wrrb.org](http://www.wrrb.org)