



The Research Bureau

Breaking Down the Budget & COVID's Impacts

City of Worcester and Worcester Public Schools for Fiscal Year 2021

Report 20-06

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Research in the Public Interest

Worcester Regional Research Bureau, Inc.

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EACH YEAR on July 1, Massachusetts cities and towns must implement a new budget. The City of Worcester’s Fiscal Year 2021 (FY21) budget takes effect on July 1, 2020. 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 operates under a Council-Manager form of government with a popularly elected Mayor, known as a modified Plan E form of government. The Worcester Public Schools (WPS) system is a quasi-independent department of the City.

The City Council is the City’s legislative body while the City Manager serves as chief executive officer. The City Council is made up of 11 members—six elected citywide (*or at-large*) and five elected from districts. The Mayor is the candidate who receives the most votes in the mayoral election and wins an at-large City Council seat. All at-large candidates are automatically entered into the mayoral race, and have the option of withdrawing their name from consideration for Mayor. 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 and can remove him or her by majority vote. The City Manager hires all City employees (*except the City Clerk, City Auditor, and WPS employees*), oversees City operations, and presents the City Council with an annual budget that must be approved by June 30 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 WPS’s legislative body while the Superintendent of Schools serves as chief executive officer. The School Committee consists of the Mayor and six elected at-large members. The School Committee sets districtwide school policies, votes on the district budget, and hires and removes key WPS personnel.



The financial information in this report is drawn from the City of Worcester FY21 annual budget and capital budget and the Worcester Public Schools FY21 budget. Because of state budgetary uncertainty due to the COVID-19 pandemic, some facts and figures are estimates that may change. Those uncertainties are noted where appropriate.



Where does the City’s money come from?

The City of Worcester’s budget, approximately \$721.8 million for FY21, is financed by a combination of locally raised funds, funds provided by the State and Federal governments, as well as public and private grants.

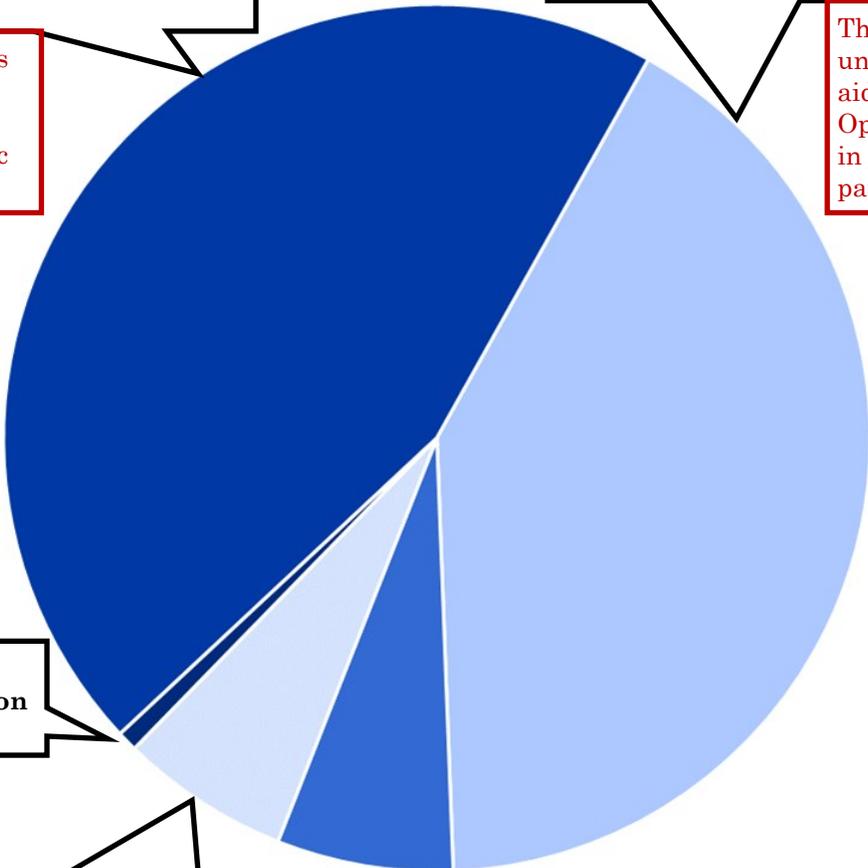
Around 51 percent of Worcester’s revenues are generated locally, from property tax and local receipts. The remaining 49 percent of revenues are primarily state aid programs, which are largely dedicated to public education, especially through the Chapter 70 School Finance Program.

Property Tax: 45% / \$325 million
The aggregate revenue raised from the annual tax assessment on the value of real estate (*land and buildings*) and personal property (*equipment and machinery*) in the city.

This revenue stream is relatively insulated from the economic effects of the pandemic for this fiscal year.

State Aid (Education): 41% / \$298 million
Money provided by the state government that is required to be allocated to the Worcester Public Schools and charter schools. Most of it is determined by the “foundation budget” equation, which results in a Chapter 70 grant.

This revenue stream is uncertain, as increased aid from the Student Opportunity Act may be in jeopardy due to the pandemic.



Other Available Funds: 1% / \$5 million

Local Receipts: 6% / \$46 million
Motor vehicle excise taxes, licenses and permits, hotels and meals taxes, and other fee-based income sources.

This revenue stream is highly likely to be negatively affected by the pandemic, since much of it depends on consumer spending and the economy functioning normally.

State Aid (General): 7% / \$48 million
Unrestricted state aid as well as specific aid for expenses such as school building reimbursements and veterans benefits.

The state government has committed to level fund unrestricted state aid at the FY20 level of \$44 million. Other sources have not been addressed.



How are property taxes assessed?

Property taxes, the largest source of local revenue, are based on the value of land, buildings, and personal property. The property tax assessment process follows a regular year-long quarterly billing cycle.

Property values are determined by the City Assessor’s Office under the supervision of the Massachusetts Department of Revenue. 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.

The City Council sets the tax rate each fall. Worcester currently has a dual tax rate, taxing residential property and commercial/industrial/personal (CIP) property at different levels. In FY20, the residential rate decreased to \$17 per \$1,000 of property value, while the CIP rate increased to \$35.16 per \$1,000.

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 and property value are exempt from local taxes. As a result, the remaining taxable properties must generate sufficient revenue to maintain the general operations of government. While non-for-profits contribute significantly to Worcester through jobs and educational and cultural benefits, some larger institutions are also voluntarily providing additional resources to the city through payments in lieu of taxes, also known as PILOTs.

FY20	Commercial/Industrial	Residential
Worcester	\$35.16	\$17.00
Auburn	\$22.37	\$17.98
Paxton	\$19.73	
West Boylston	\$18.58	
Westborough	\$18.32	
Northborough	\$17.25	
Holden	\$17.00	
Boylston	\$16.54	
Grafton	\$16.50	
Millbury	\$15.33	
Leicester	\$14.91	
Shrewsbury	\$12.47	

Source: Massachusetts Department of Revenue

In 1980, Massachusetts voters adopted an initiative limiting tax levy increases each year to 2.5 percent over the previous year, plus the value of new construction. “Proposition 2½” also limited the total tax levy of a community in any given year to 2.5 percent of the total taxable assessed value of the

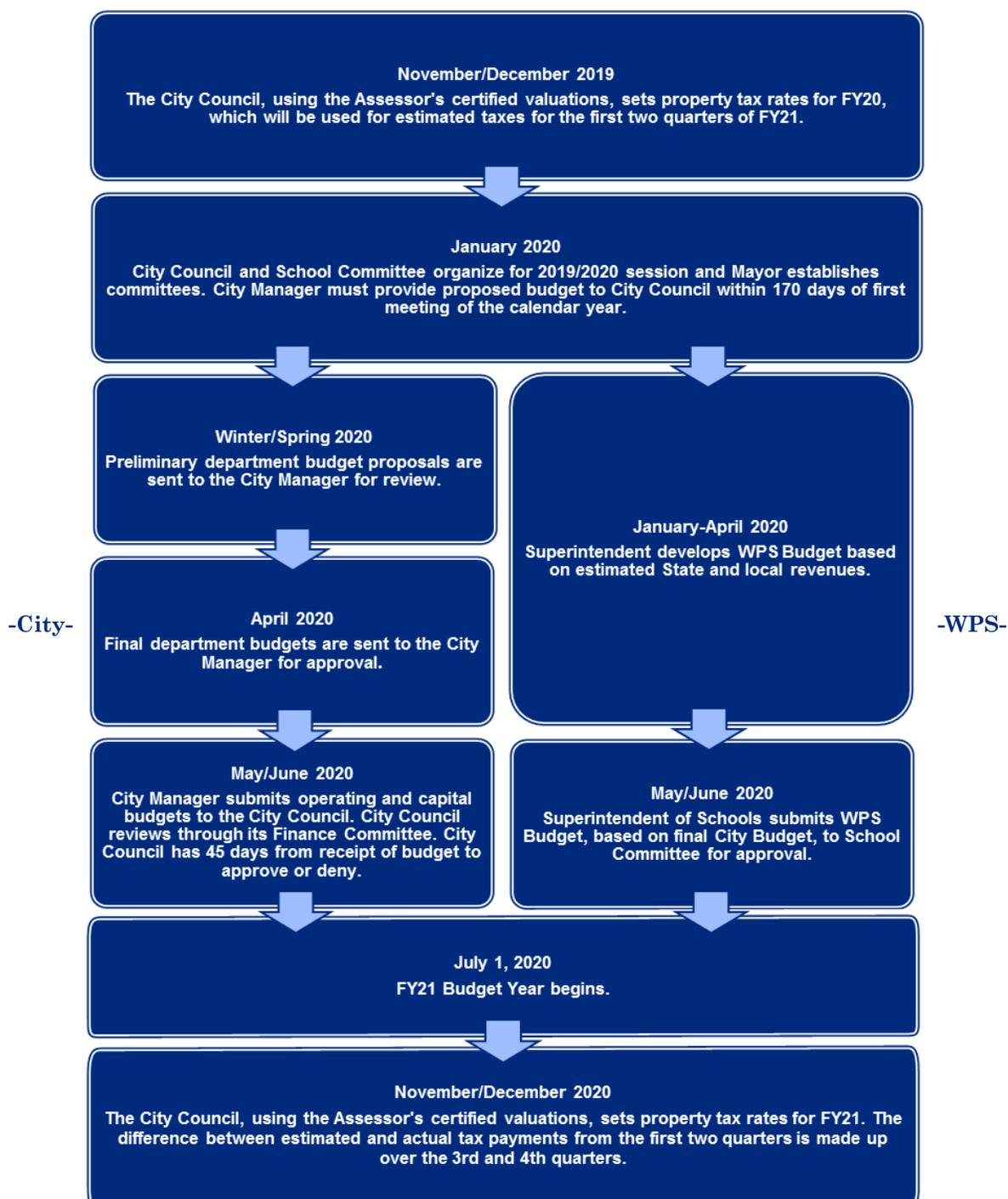
community. Since the City of Worcester has not collected the maximum levy allowed by law each year, it has an unused tax levy capacity of approximately \$19.5 million. Under the law, the City has the authority to increase taxes to capture this additional amount without seeking a voter-approved override.



How is the budget approved?

Under the City Charter and State law, 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 30. If it is not voted on, the city manager's budget automatically goes into effect. This is what happened for the FY21 budget, where the City Council voted to reconsider an initial unanimous approval of the budget, undoing that vote. A second vote never occurred, and the budget was automatically passed.

The Council is limited in its authority over the budget. While it can make general reductions in the budget (*targeting specific departments but not specific programs*), 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 City Manager and City Council to set priorities as they decide how to spend the City's limited resources.



Where does the City's money go?

The City of Worcester sorts its expenditures into three categories. Education, which encompasses money sent to the Worcester Public Schools for their budget and charter school payments, makes up \$421.3 million or 58 percent of the budget. City Services, which includes

most public-facing departments like public safety and public works, is \$163.2 million, or 23 percent. Fixed Costs, which the city defines as financial obligations like health care as well as some city services like snow removal, is \$137.2 million or 19 percent.

Expenditure Summary	FY21 Budget	Change from FY20	Manager's Categorization
Worcester Public Schools	\$388,455,204	+5.1%	Education
Police	\$52,766,614	+0.5%	City Service
Fire	\$41,261,167	+1.8%	City Service
Debt Service	\$36,270,698	+1.8%	Fixed Cost
Charter Schools	\$32,867,013	+6.5%	Education
Pensions	\$31,906,400	+6.3%	Fixed Cost
Health Insurance	\$28,157,580	+5.2%	Fixed Cost
Public Works and Parks	\$22,042,055	+3.6%	City Service
Five Point Plan Funds	\$15,990,739	+8.9%	Fixed Cost
Pension Bond Debt Service	\$10,536,728	+0.9%	Fixed Cost
Public Library	\$6,201,170	-0.2%	City Service
Snow Removal	\$6,000,000	+0.0%	Fixed Cost
Technical Services	\$5,711,094	+6.6%	City Service
Law/Insurance/Court	\$4,476,971	+2.1%	City Service
Health and Human Services	\$4,219,437	+0.2%	City Service
Inspectional Services	\$4,127,488	+1.4%	City Service
Intergovernmental Charges	\$4,088,776	+3.1%	Fixed Cost
Contingency	\$3,940,000	+103.6%	City Service
Emergency Communications	\$3,668,368	+0.7%	City Service
Finance	\$2,832,995	-0.9%	City Service
Economic Development	\$2,098,828	-0.8%	City Service
Energy/Asset Management	\$1,841,010	+0.7%	City Service
City Manager's Office	\$1,659,820	-2.0%	City Service
Human Resources	\$1,526,069	-0.6%	City Service
Streetlights	\$1,489,647	+0.0%	Fixed Cost
Worker's Compensation	\$1,189,660	-4.6%	Fixed Cost
Assessing	\$952,091	+22.3%	City Service
Injured on Duty	\$801,936	+8.6%	Fixed Cost
Elections	\$739,011	-20.7%	City Service
OPEB Trust Deposit	\$732,050	+10.0%	Fixed Cost
City Clerk	\$645,317	-4.2%	City Service
Auditing	\$623,870	+0.2%	City Service
DCU Center	\$500,000	N/A	City Service
City Council	\$448,211	+2.9%	City Service
Union Station	\$403,305	-18.7%	City Service
Workforce	\$200,000	+0.0%	City Service
Enterprise (Golf)	\$200,000	+0.0%	City Service
Mayor	\$148,849	+1.2%	City Service
Unemployment	\$101,000	+1.0%	Fixed Cost
Total	\$721,821,171	+4.5%	

Because most of the WPS budget comes from state resources, the city has no authority to reduce anything except their voluntary contribution. This money is sent to the School Committee to craft the WPS budget.

The City sometimes uses "Five Point Plan" and "Financial Integrity Plan" interchangeably.

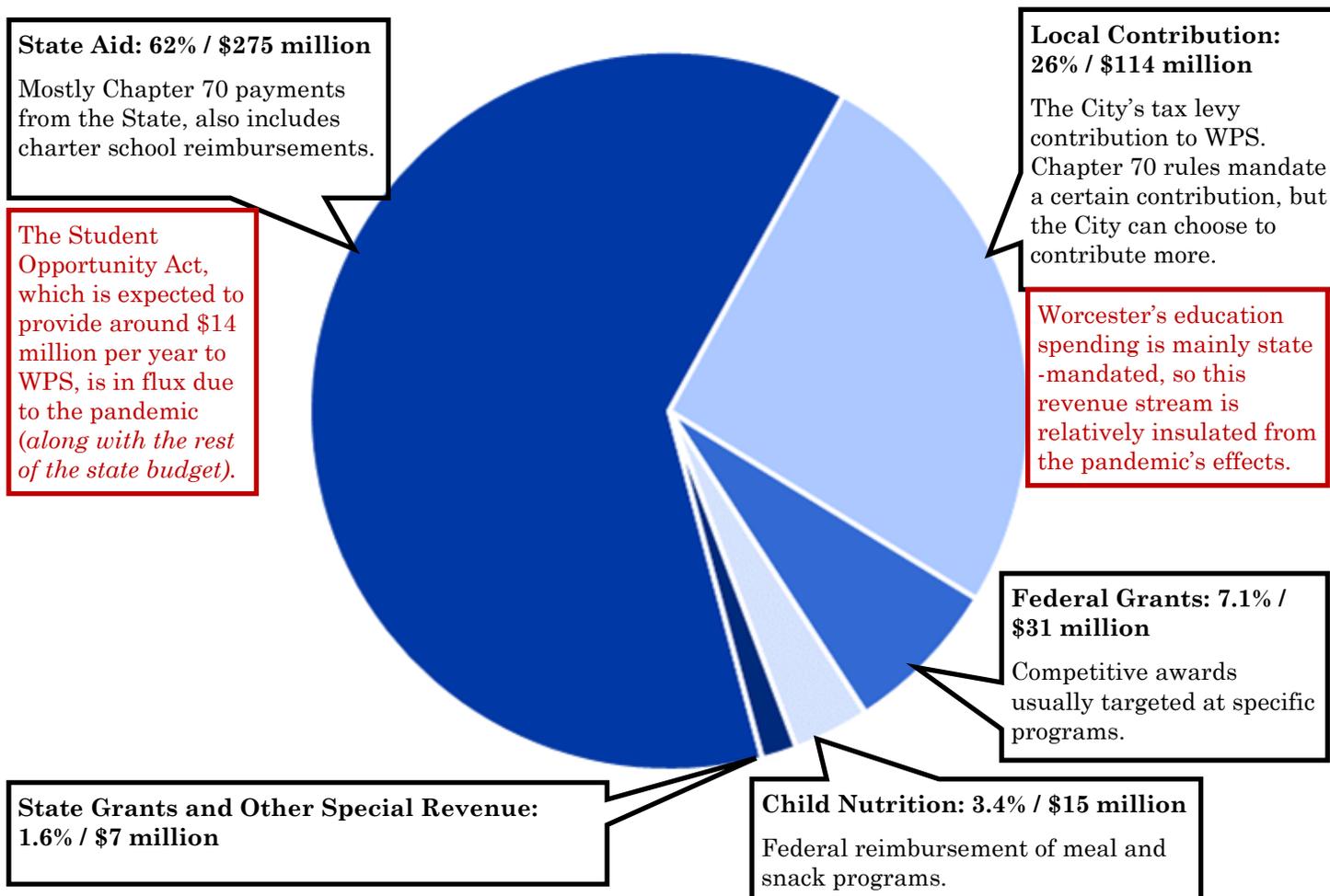
While other cities count things like snow removal and streetlights as "city services," Worcester groups them with "fixed costs" like pensions and insurance.

The large contingency compared to previous years is in preparation for pandemic-related shortfalls

The DCU Center's costs are sometimes covered by arena revenue and special district income, so no tax levy money was allocated in FY20.



How is public education funded?



Chapter 70 of the Massachusetts General Laws aims to ensure 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, student demographics and community statistics.

Chapter 70 only outlines the minimum requirements for school funding. School districts can increase their local contributions beyond the foundation budget as local funding allows. In FY21, the City of Worcester was required to contribute 27 percent of all local revenue sources (*excluding state education aid*). WPS estimates the actual FY21 City contribution is \$700,000 above the state-mandated minimum.

Expenditure	FY21 Budget	Change from FY20
Instruction	\$249,416,774	+2.4%
Fixed Charges	\$82,340,184	+6.4%
Other School Services	\$55,131,730	+7.0%
Operations and Maintenance	\$24,713,156	+3.5%
Tuition Programs	\$23,627,111	+1.6%
Administration	\$4,834,097	+4.5%
Community Services	\$1,188,086	+34.4%
Fixed Assets	\$630,542	-4.4%
Debt Service	\$0	+0%
Total	\$441,881,680	+3.8%

Fixed Charges include retirement expenses, insurance and other recurring costs.

Includes non-instructional operations like transportation, student activities and security.

Payments to private schools or other public school districts for "services provided to students residing in the sending city or town."



How does the city fund capital projects?

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 Seven Point Plan/Five Point Plan/Financial Integrity Plan, the City caps how much borrowing it can do in any one year based on prior year borrowings and debt service (*based on capacity to support debt, with no more than 10 percent of the budget on debt service*).

Also included in the capital budget is borrowing for the City’s enterprise funds. Enterprise accounts are funded by fees paid for those services, not by the tax levy. Worcester’s credit ratings, which determine interest rates on municipal bonds, were Aa3 from Moody’s Investors Service, AA– from Standard and Poor’s and AA by Fitch Ratings as of the latest Comprehensive Annual Financial Report, which concluded the ratings “affirmed stable outlooks” for the City.

Capital expenditures may be higher than borrowing in a given year because of remaining authorizations from the prior fiscal year. The cost of a piece of equipment, facility improvement or infrastructure project can be spread over multiple fiscal years—the City provides debt service obligations for five years in the future in the capital budget. For this reason, the scope of investment in a department or project may not be fully reflected in just one year’s capital budget.

Is there a plan?

The City of Worcester currently adheres to what is called a **Financial Integrity Plan**, previously known as the **Five Point Plan** and then the **Seven Point Plan**. It lays out several budgetary guidelines:

- Creation of a high school construction stabilization account for two high school replacement projects (*South High School and Doherty High School*)
- Increase of general fund reserve level target to 10 percent of general fund revenues (*from 5 percent*)
- Connection of the City’s annual tax levy supported debt to debt service coverage (*8 to 10 percent of the operating budget*), as opposed to a fixed amount

Capital Funding Source	FY21 Borrowing
Baseball	\$63,803,000
Tax Levy	\$39,965,034
Water Enterprise	\$19,610,000
Sewer Enterprise	\$15,940,000
Energy Services Company	\$15,000,000
Off Street Parking	\$7,187,780
PILOT	\$6,775,000
Solar	\$61,900
Total	\$168,342,714

Capital Expenditure	FY21
Baseball	\$63,803,000
DPW Off Street	\$25,587,780
DPW Water	\$19,610,000
DPW	\$18,879,992
DPW Sewer	\$15,940,000
Energy Services Company	\$15,000,000
DPW Parks	\$8,605,000
Library	\$6,865,000
Public Schools	\$4,000,000
Union Station	\$2,330,000
Technical Services	\$1,625,000
City Hall	\$1,378,000
Senior Center	\$972,000
Fire	\$745,948
Police	\$640,095
DCU	\$397,000
Meade Street	\$200,000
Inspectional Services	\$90,000
Solar	\$61,900
Elections	\$12,000
Total	\$186,742,715

- Establishment of an Other Post Employment Benefits (*OPEB*) Trust Fund and Commission
- Memorialization of budgetary assumptions and methodology
- Enhancement of financial reporting and transparency
- Addition of any “new growth” above the budget estimate to unused tax levy capacity at the time of the tax rate recap (*sometimes called “tax relief”*)

The City Council this year voted to suspend the “new growth” item and allocate the money instead to expenses, citing the pandemic’s effects.



Points of Interest

DCU Special District: The DCU Center is in a district created for the purpose of funding its operations, in which hotel, meals and sales tax that would normally go to the state government are redirected to the City of Worcester to fund DCU Center related improvements. Because these revenues fluctuate based on economic conditions, the amount of DCU Center funding that comes from tax levy money varies from year to year. In FY21, \$500,000 was allocated to make up for pandemic-related shortfalls.

Doherty High School: The Massachusetts School Building Authority (MSBA) approved construction of a new Doherty Memorial High School in 2016, and a Building Committee has been voting on construction and architectural decisions in 2020. Budget-wise, the City of Worcester budget has included a High School Construction stabilization account for both South High School and Doherty for years, depositing more than \$4 million in FY21. MSBA reimbursements for school construction are handled in the City budget.

Polar Park: The “baseball” line item in the debt service table is for Polar Park, the under-construction home of the Boston Red Sox AAA affiliate. The City’s stated hope is for the ballpark to “pay for itself” through increased tax revenue caused by economic spinoff leading to new construction and increased property values near the site. Initial construction costs were estimated at around \$90 million, although recent developments have raised both that estimate and the cost of land takings and other ancillary costs (*around \$20 million extra in site preparation and land acquisition*). The stadium will be city-owned and is scheduled to open in April 2021.

Proposition 2½ (Prop 2½): A Massachusetts referendum passed in 1980 that limits tax levy increases each year to 2.5% 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 2.5% of the total taxable assessed value of the community.

School Resource Officers: This year, the City Council approved an order asking the City Manager and WPS Superintendent to work to reduce or eliminate the intergovernmental charge for police officers assigned to public schools. While this came in the context of an ongoing debate about whether to remove police from schools, the measure was a financial—rather than an operational—maneuver. WPS previously allocated \$120,000 to defray the costs of school policing. Eliminating the charge means the City of Worcester, rather than WPS, will pay the full cost of police officers in schools directly. The spending would still count as part of the City’s required school spending, just like the rest of the school policing budget (*nearly \$850,000 from the City side in FY20*).

Student Opportunity Act: A state law that substantially increases the amount of money Massachusetts sends as aid to local school districts—in Worcester, the increase was estimated at around \$98 million over the next seven years, and \$15.7 million in FY21. Due to uncertainty around the state budget, this funding source may be in jeopardy, and the WPS budget has been cut to reflect the projected gap. These cuts could be rolled back if SOA money is restored.

Update on the FY21 State Budget

The Worcester municipal budget’s revenues are dependent on the Massachusetts state budget, which has been disrupted by the pandemic to an unprecedented level.

These disruptions have affected the extended collection of FY20 state revenue, budgetary projections of FY21 revenue, and the passage of a final state budget for FY21 budget. The Massachusetts Department of Revenue’s release of July collections shows almost \$2.3 Billion collected in additional FY20 revenue. While FY20 revenue can be collected to the end of August, these preliminary figures show the state at about \$720 Million less than what was projected to balance the budget. In April, the Secretary of Administration and Finance and the House and Senate Ways and Means Chairs held a hearing with economists to solicit their perspectives on updated revenue projections for FY21, and heard that there could be a \$4 to \$6 Billion shortfall from original expectations.

Against this backdrop, as well as the Legislature shifting to unprecedented remote deliberations, the State adopted first a \$5.5 Billion interim budget for a month, and then a three month interim \$16.5 Billion budget until the end of October. To address municipal budget needs, the Baker/Polito Administration with the House and Senate leadership announced that that local aid account would be at least level funded at FY20 levels. All communities will also receive at least level funding in their educational funding via Chapter 70, with an additional \$107 million statewide to provide any appropriate inflation and enrollment adjustments.

For Worcester, this guidance means that the city will receive at least \$44,128,813 in local aid, which would be a decrease of \$1,235,607. Educationally, this would mean at least \$277,395,997 in Chapter 70 educational funding, which would be a decrease of \$16,107,423. Beyond Chapter 70, the Worcester Public Schools’ budget would receive significant additional funding if the state implements the Student Opportunity Act, which was projected to provide an additional \$15.7 million in FY21.

The FY21 state budget process is expected to resume during this interim period, drawing upon updated revenue projections and any further federal assistance, which could increase the base local and educational aid expected by Worcester. In order to do so, the Legislature has taken an unprecedented step by suspending their 25 year old rule to hold formal sessions after July 25 in the second year of their legislative session.

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