



The Research Bureau

# Breaking Down the Budget

City of Worcester and Worcester Public Schools for Fiscal Year 2022

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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 2022 (FY22) budget takes effect on July 1, 2021. 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 their 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 them 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, setting districtwide school policies, 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 approves the district budget, and has authority to transfer within line item accounts, so long as the overall amount remains within the City's appropriation. Additionally, the School Committee may hire or remove by majority vote the Superintendent and may approve or disapprove the hiring of the following key positions by recommendation of the Superintendent: Assistant or Associate Superintendent, School Business Administrator, Administrator of Special Education, School Physician, Registered Nurses, and Legal Counsel.



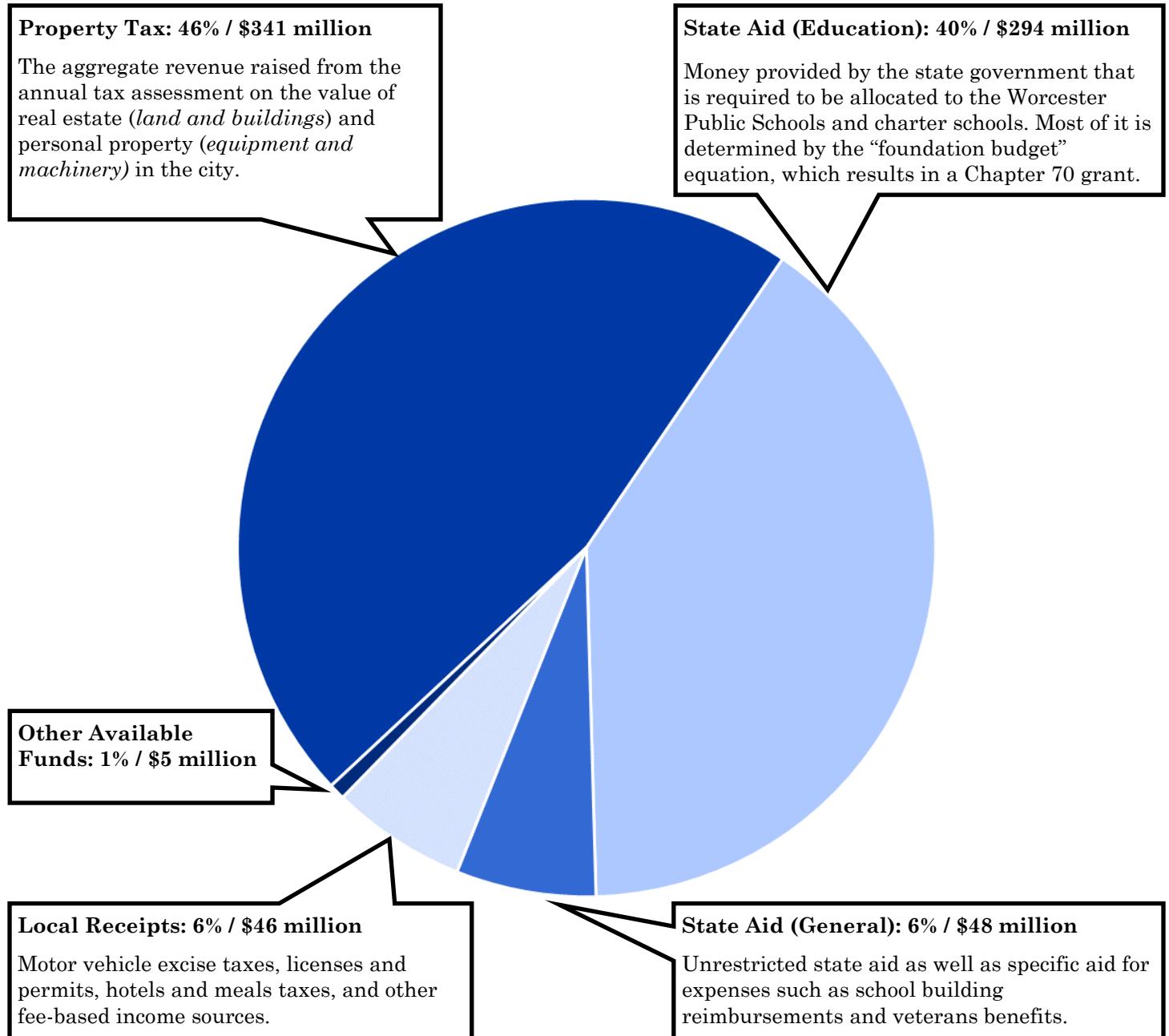
*The financial information in this report is drawn from the City of Worcester FY22 annual budget and capital budget and the Worcester Public Schools FY22 budget. Because of state budgetary uncertainty due to the COVID-19 pandemic, some facts and figures are estimates that may change. Those uncertainties are noted where appropriate.*



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

The City of Worcester's budget, approximately \$733.8 million for FY22, 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 52 percent of Worcester's revenues are generated locally, from property tax and local receipts. The remaining 48 percent of revenues are primarily state aid programs. These are largely dedicated to public education, primarily through the Chapter 70 School Finance Program.



## 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 FY21, the residential rate decreased to \$16.28 per \$1,000 of property value, while the CIP rate increased to \$36.20 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 not-for-profits contribute significantly to Worcester through jobs, educational, and cultural benefits, some larger tax-exempt institutions are also voluntarily providing additional resources to the city through payments in lieu of taxes, also known as PILOTs.

FY21	Commercial/Industrial	Residential
Worcester	\$36.20	\$16.28
Auburn	\$22.25	\$18.14
Paxton		\$19.73
Westborough		\$18.54
West Boylston		\$18.46
Holden		\$17.40
Grafton		\$17.18
Northborough		\$17.12
Boylston		\$16.98
Millbury		\$15.43
Leicester		\$15.13
Shrewsbury		\$13.19

*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.

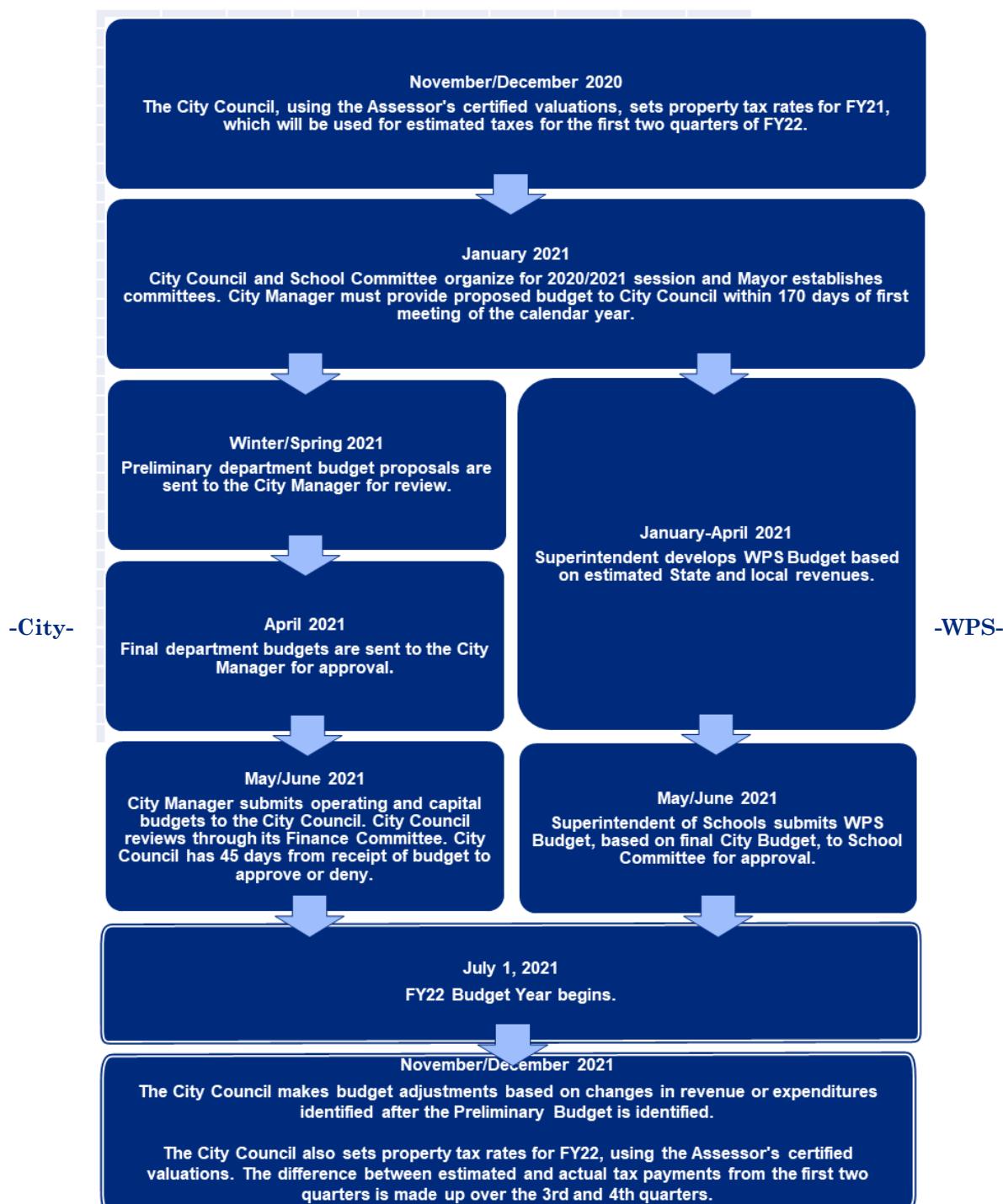


## How is the budget approved?

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 in 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.

While it can make general reductions in the budget (*targeting specific departments*), 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.

The Council is limited in its authority over the budget.



## 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 \$420.8 million or

57 percent of the budget. City Services, which includes most public-facing departments like public safety and public works, is \$171.7 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 \$141.3 million or 19 percent.

Expenditure Summary	FY22 Budget	Change from FY20	Manager's Categorization
Worcester Public Schools	\$386,215,142	3.7%	Education
Police	\$52,767,291	0.0%	City Service
Fire	\$41,820,212	1.2%	City Service
Debt Service	\$36,856,302	1.6%	Fixed Cost
Charter Schools	\$34,601,800	10.4%	Education
Pensions	\$33,526,380	5.1%	Fixed Cost
Health Insurance	\$28,711,109	2.0%	Fixed Cost
Public Works and Parks	\$22,953,313	3.3%	City Service
Financial Integrity Plan	\$17,297,476	8.2%	Fixed Cost
Pension Bond Debt Service	\$10,331,052	-2.0%	Fixed Cost
Contingency	\$7,140,656	68.9%	City Service
Public Library	\$6,277,528	1.0%	City Service
Technical Services	\$6,062,636	5.2%	City Service
Snow Removal	\$6,000,000	0.0%	Fixed Cost
Health and Human Services	\$5,787,317	37.2%	City Service
Law/Insurance/Court	\$5,519,220	16.5%	City Service
Inspectional Services	\$4,156,027	0.7%	City Service
Intergovernmental Charges	\$4,119,907	0.8%	Fixed Cost
Emergency Communications	\$3,741,268	2.0%	City Service
Finance	\$2,972,816	4.9%	City Service
Economic Development	\$2,161,242	3.0%	City Service
Public Facilities	\$1,888,006	N/A	City Service
City Manager's Office	\$1,656,752	-0.2%	City Service
Human Resources	\$1,553,893	7.4%	City Service
Streetlights	\$1,495,490	0.4%	Fixed Cost
Worker's Compensation	\$1,247,000	4.8%	Fixed Cost
Assessing	\$924,172	-2.9%	City Service
OPEB Trust Deposit	\$805,255	10.0%	Fixed Cost
Injured on Duty	\$801,936	0.0%	Fixed Cost
Elections	\$799,671	8.2%	City Service
City Clerk	\$749,996	16.2%	City Service
Auditing	\$632,696	1.4%	City Service
Diversity	\$483,639	508.7%	City Service
City Council	\$453,837	1.3%	City Service
Union Station	\$403,305	0.0%	City Service
Sustainability	\$298,648	N/A	City Service
Workforce	\$200,000	0.0%	City Service
Mayor	\$153,776	3.3%	City Service
Unemployment	\$101,000	0.0%	Fixed Cost
Enterprise (Golf)	\$100,000	-50.0%	City Service
DCU Center	\$0	-100.0%	City Service
Energy/Asset Management	\$0	-100.0%	City Service

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.

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

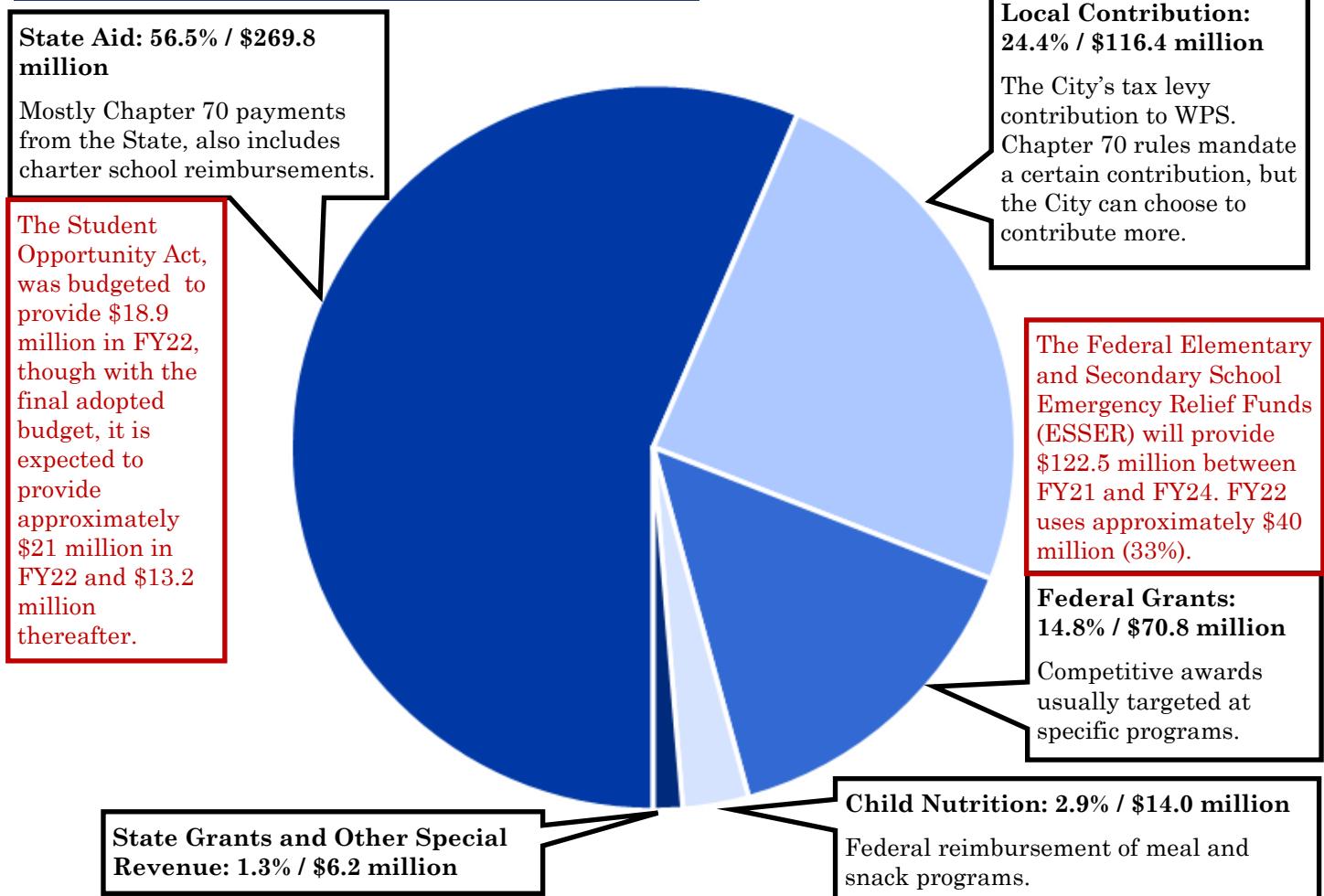
This year, the City reorganized the Energy and Asset Management division into the Public Facilities and Sustainability line items.

The large increase is due to an expansion of the newly created Executive Office of Diversity and Inclusion.

The DCU Center's costs are sometimes covered by arena revenue and special district income, so no tax levy money is allocated in FY22.



## How is the Worcester Public Schools 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 FY22, the City of Worcester's required contribution increased by \$3.7 million. WPS estimates the actual FY22 City contribution is \$14,200 above the state-mandated minimum.

Expenditure	FY22 Budget	Change from FY21
Instruction	\$255,978,207	4.8%
Other School Services	\$69,844,529	46.0%
Fixed Charges	\$95,211,282	16.6%
Operations & Maintenance	\$19,767,701	-18.0%
Tuition Programs	\$23,114,304	-2.2%
Administration	\$5,372,442	-5.4%
Community Services	\$723,469	14.2%
Fixed Assets	\$7,329,004	1062.3%
Debt Service	\$0	0.0%
Total	\$477,340,938	11.4%

Other School Service increases are largely due to restoring funding for transportation that was down in FY21 due to the pandemic.

Other School Services includes non-instructional operations like transportation, student activities and security.

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

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

Fixed Assets include acquisition of land or existing buildings, improvement of grounds, construction of buildings, additions to or remodeling of buildings, etc.

Fixed Asset increase is largely for ventilation system improvements.



## 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.

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.

Funding Source	FY22 Borrowing
WPS - MSBA	\$129,640,000
Tax Levy	\$36,845,462
Sewer Enterprise	\$17,183,538
Water Enterprise	\$10,332,290
Off Street Parking	\$8,365,000
DCU	\$3,408,301
Energy Services Company	\$1,000,000
Urban Renewal	\$101,146
Total	\$206,875,737

Expenditure	FY22
Public Schools - MSBA	\$129,640,000
DPW Sewer	\$17,183,538
DPW	\$16,754,499
DPW Parks	\$12,155,000
DPW Water	\$10,332,290
DPW Off Street	\$8,365,000
Public Schools	\$4,000,000
Public Facilities DCU	\$3,408,301
Technical Services	\$1,132,344
Public Facilities City Hall	\$1,063,000
Public Facilities ESCO	\$1,000,000
Public Facilities Union Station	\$667,544
Police	\$490,000
Public Facilities Senior Center	\$450,000
Fire	\$133,076
Urban Renewal	\$101,146
Total	\$206,875,738

## Is there a plan?

The City of Worcester 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

- 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”*)

## **Federal Relief Funds:**

The federal American Rescue Plan Act of 2021 (ARPA) is a \$1.9 trillion package that provides municipal governments with resources to cover increased expenditures, replenish lost revenue, and mitigate economic harm from the COVID-19 pandemic.

In Worcester's case, the city is receiving \$110,617,389 directly from the federal government, or \$791 per capita – by that measure, ninth highest in the Commonwealth. The direct funding is coming in two installments, with the first in June 2021 and the remainder coming a year later. Under federal guidelines, the funds will cover costs incurred between March 3, 2021 and Dec. 31, 2024, and are specifically prohibited from being used to offset tax reductions, contribute to public pension funds, support debt service, issue legal settlements, or replenish reserves. The four areas of eligibility are Public Health and Economic Recovery, Revenue Replacement, Premium Pay, and Water/ Sewer/ Broadband. The City is also expected to receive another \$36.02 million from county-designated funding that will be dispersed by the state of Massachusetts, but federal guidance is not yet available on the timing and process for distributing these funds.

In July and August, the City Manager submitted a preliminary plan for these funds to the City Council for their consideration, noting "The goal of this budget is to reinvigorate our community and public assets through thoughtful and targeted spending." Citing the need for further clarification on eligibility, the plan specifically notes the intention of submitting a further budget proposal for the additional ARPA funding after needed guidance is received.

- \$28 million for community-based initiatives, such as the Affordable Housing Trust Fund, Worcester Housing Authority, food security, and creative economy initiatives
- \$17 million for technology needs, such as improved remote operations and analyzing the feasibility of municipal broadband
- \$13 million for public assets and infrastructure, such as upgrading HVAC systems, park improvements, upgrades to water and sewer and related street and sidewalk work
- \$10 million for community needs as informed by future listening sessions
- \$2.7 million for public health related initiatives, such as mental health services, virtual programming at the Senior Center, and broadening access to the Worcester Public Library

During City Council deliberations, public input was largely centered on the need for more support of housing initiatives, public parks, and support for BIPOC communities. The proposal is under consideration while public hearings are underway in August and September.

Beyond the city deliberations on the potential uses of federal funding, the state is also engaged in their own deliberations on the \$5.3 billion in federal aid flowing to Massachusetts. The Legislature created a \$4.89 billion Federal COVID-19 Response Fund, and are conducting legislative hearings on potential distributions of those resources. Governor Baker has proposed keeping \$2 billion available in the fund for emerging initiatives, while releasing \$2.9 billion for immediate priorities, including:

- \$1 billion for homeownership and housing production, with an emphasis on disproportionately impacted communities
- \$400 million for water and sewer infrastructure grants
- \$350 million for downtown development and revitalization
- \$240 million for workforce development and job training
- \$175 million for addiction treatment and behavioral health services
- \$100 million for tourism and cultural facilities
- \$100 million to enhance and modernize state park facilities
- \$100 million for broadband access
- \$50 million for fiscally stressed hospitals in disproportionately impacted communities

Given the range of funds, when the Commonwealth finalizes their plans, there should be corresponding further investments in Worcester's ongoing responses to the pandemic.

## **FY22 State Budget**

On July 16, Governor Baker signed the \$47.6 billion FY22 State Budget into law, after an interim one-month budget extension for the Legislature's conference committee process. This final FY22 budget is based on an updated forecast of \$34.3 billion in tax revenues, reflecting actual state collections of \$34.137 billion in FY21 revenue, 17% higher than originally expected.



After final Legislative action, some of the notable elements of the final budget include:

- Increasing aid to municipalities by \$39.5 million, for a statewide total of \$1.168 billion, which is at a higher level than originally budgeted by the City of Worcester
- Funding the first year of the Student Opportunity Act, which offers increased state assistance to urban schools such as Worcester's, as well as a \$40 million reserve fund for school districts with increased school enrollment when compared to October 2020
- Increasing Chapter 70 Educational Aid by \$219.6 million, for a statewide total of \$5.503 billion, which is at a higher level than originally budgeted by the Worcester Public Schools
- Increasing the special education circuit breaker reimbursement for communities by \$28.2 million
- Increasing charter school reimbursement for communities by \$34.3 million
- Providing \$94 million for Regional Transit Authorities
- Making permanent an updated film tax credit program for the state with tightened parameters
- Creating a Disability Employment Tax Credit to support employers that hire individuals with disabilities
- Making permanent the College Savings Tax Deduction Program, which was scheduled to sunset at the end of 2021
- Delaying the state's Charitable Tax Deduction, which would allow taxpayers to take 5% deductions on charitable donations on their state taxes. Despite having been approved by voters in a referendum twenty years ago, it has only been implemented once, and otherwise has been delayed. The Governor vetoed a proposal to extend implementation by another year, and his veto was overridden by the Legislature to continue the delay.

In encouraging news for the economy and the FY22 budget's revenue forecast, the Department of Revenue has announced that over July, the state collected \$2.252 billion, 5.1% more than what Massachusetts collected last July.



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