

Strategy # 2: Strengthen Municipal Finance

Municipalities in Massachusetts face a two-fold challenge when trying to make sustainable and equitable land use decisions: structural constraints imposed by the Commonwealth's flawed system of "home rule," and financial constraints due to our system of municipal finance. Cities and towns are responsible for many aspects of land use and service delivery, but are hampered by a system that neither truly empowers them nor facilitates regionalism. While municipalities are granted the authority to make all decisions not specifically subject to legislation, the Legislature has taken a haphazard approach to granting –and taking away – local autonomy.

This approach is strongly on display in the severe restrictions placed on the ability of cities and towns to raise revenue. According to an analysis of U.S. Census data by the Massachusetts Taxpayers Foundation, the Commonwealth ranked 47th nationwide in 2002 for state and local taxes and fees as a percentage of personal income. At the same time, the Foundation reported that Massachusetts property taxes were 9.1 percent above the national average, and that the state ranked 17th in terms of property tax burden.

The crippling effect of restrictions on revenue choices open to local governments (that is, not reserved for state use) is compounded by a resistance to increased property tax and state policies that require local governments to pay top dollar prices for public projects and services. As a result, municipalities find themselves desperate for cash, pursuing short-term payments at the expense of longer-term benefits. Cities and towns across the region aggressively pursue economic development -- from factories to malls to casinos – which is assumed to generate the most revenue while requiring the fewest services. In order to mitigate the impacts, they push that development to the far corners of the municipality, increasing impacts on neighboring municipalities. Municipalities negotiate "mitigation" from developers to address infrastructure impacts, but the haphazard system creates unpredictability and delays for developers (discouraging them from locating in the region) and the mitigation is rarely linked to comprehensive capital plans or land use planning.

Meanwhile, the conventional wisdom among cities and towns is that most residential development "costs" money (due to the "negative impact" associated with schoolchildren). Empirical data suggests that this assumption is exaggerated if not outright false, but land use policies still discourage residential development by minimizing residential density. Such behavior can have a spiraling negative effect on both state and local economies because business and industry are less likely to locate or expand in regions where their employees cannot afford to live.

MetroFuture recommends providing municipalities with a more stable financial foundation by creating more revenue options and tools for controlling costs, including lowering barriers to inter-local collaboration and regionalization of various municipal services (addressed in more detail in Strategy #4). Increases in state aid would be directed to those areas with the largest expenses for new growth. Special attention will also be paid to those communities that are limiting growth, and therefore tax receipts, in order to preserve critical assets of statewide importance, such as aquifers, open space, and farmland. Municipalities would cooperatively manage the impacts and appreciate the benefits associated with development.

The fundamental principles of the MetroFuture’s municipal finance recommendations concur with those of the Municipal Finance Task Force, which published a report “Local Communities at Risk: Revisiting the Fiscal Partnership Between the Commonwealth and Cities and Towns” in September 2005. As stated by John Hamill, the Chairman of the Municipal Finance Task Force, “There are some fundamental principles that form the basis for the recommendations in the Report: Revenue sharing from the state to local governments must be even-handed, favoring neither state nor local interests or programs; sharing of revenue should be based upon a substantially enhanced needs-based approach; non-educational governmental services at a local level must be adequately funded or we will have a growing crisis about the fundamental ability of governments to deliver basic services; local government officials should be given the tools to raise local municipal receipts and control costs, in some cases by reducing the constraints of state law.”

A. Modernize municipal governance structures and practices

1) Implement best practices for municipal charters and governance structures

In order for cities and towns to meet the challenges of the coming years, they must be organized according to a rational structure that promotes responsiveness and accountability. To establish this structure, all municipalities in the region should adopt a municipal charter and revisit it periodically.

A municipal charter is the written instrument that defines the government structure under which a city and town operates. A charter creates local offices; distributes powers, duties and responsibilities among local offices; and defines the procedures to be followed by a city or town government. Charters should account for the basic institutions of local government (the legislative body, the executive and school governance) and for meeting the responsibilities delegated by the state.

Many municipalities lack formal modern charters; instead they rely on historical arrangements that represent vestiges of the Plymouth Charter and subsequent special acts, adopted piecemeal. Creating or modifying a charter can be done in three ways: through an elected charter commission, through an appointed municipal committee, or (extremely rarely) by the Governor.

There is no “one size fits all” when it comes to municipal charters. However, there are principles and best practices to promote efficient governance. Such principles include:

- strong executive authority capable of running the municipal government on behalf of the public, hiring and overseeing staff, and implementing modern management practices;
- a legislative authority clearly authorized to establish broad policy, to approve ordinances by-laws, and to adopt a budget; and
- a system of governing public education in a way that encourages excellence, efficiency, and accountability.

Effective charters also avoid fragmented organizational design, which plagues many cities and towns in Massachusetts, causes lengthy delays in decision-making, and makes it difficult for a community to speak with a single voice.

The state should take a proactive role to foster the adoption of charters that support effective governance. Much like the model for corporations, the state might establish a basic framework and alternative models appropriate to different circumstances, require periodic reporting, and establish a body of business practice parameters specific to local government. The organizational options for cities identified in the Massachusetts General Laws (Plan A, Plan B, etc) are not specific enough to guide charter development, nor are they applicable to towns.

After alternative models and best practices have been identified, municipalities still require technical assistance with drafting a municipal-specific charter and conducting a public process. Staff at the Edward J. Collins, Jr. Center for Public Management at the University of Massachusetts at Boston are currently assisting cities and towns with these efforts. Creation or modification of a municipal charter requires investment of time and money, but these investments are returned through a much more efficient form of government. In particular, some towns such as Braintree and Weymouth have recently adopted a city form of government, which provides for more efficient governance. Other populous towns should consider this option.

1.a MAPC will collaborate with the UMass Collins Center and other stakeholders to develop and disseminate best practices for municipal charters

1.b The Commonwealth should require all cities and towns to adopt, and to periodically review, municipal charters

1.c The region's more populous towns should evaluate adoption of a city form of government

2) Improve the effectiveness of Town Meeting form of government

In order to meet the needs of their residents, towns need to implement modern forms of municipal decision-making, despite the strong pull of tradition. New England town meetings don't need to disappear from the political landscape of Massachusetts, but they do need to be reformed to establish accountability. More use should be made of representative town meetings or councils, which provide a stronger correlation between local legislative bodies and the people they represent. The consistency of purpose, balanced representation of interests, and accountability of elected officials inherent in representative government better ensure that the people's business can be conducted effectively, efficiently and in their broader interest with identifiable access and redress.

The open town meeting form of government is a powerful tradition in Metro Boston, but its inefficiencies and idiosyncrasies have the potential to impede progress, consistency of purpose, and responsive decision-making. Special

interest groups can disproportionately impact the outcomes of open town meetings through narrow, issue-oriented organizing, empowering various issue-oriented minorities at the expense of the majority. The inconsistency and volatility of open town meeting impede a governing body's responsibility to think, plan and act strategically with its focus on the long-range viability of the community (and its regional neighbors.) Open town meeting can also effectively disenfranchise people who find it difficult to attend town meeting, such as the elderly, single-parent households, the parents of young children, or people with disabilities.

Representative town meeting also has its challenges. The current model, which designates a number of elected delegates to represent a voting precinct (at typical ratios of 10 delegates per 1,000 to 2,000 residents), results in a cumbersome process as hundreds of representatives assemble at substantial taxpayer expense (Framingham, for example, has over 200 Town Meeting members.) Even more important, each precinct of voters may have dozens of representatives, making it difficult for constituents to hold their (many) representatives accountable for decisions with which they disagree.

Most towns in the MAPC region have populations large enough and challenges complex enough to warrant the use of representative town meeting. The many towns in the region that are still using open town meeting should strongly consider moving to a representative town meeting, through a Special Act or through revision of their charter. In doing so, they would benefit from guidance regarding representation ratios that promote accountability

2.a More towns should adopt representative town meeting

2.b MAPC and the UMass Collins Center should develop guidance for the implementation of representative town meeting

3) Review the Commonwealth's home rule structure and revise as necessary

Metro Boston's future requires contemporary forms of governance based on unity of purpose, accountable to the local population, and able to deliver services cost-effectively and to legislate efficiently. A review of the current home rule structure may identify opportunities to resolve the complex myriad of statutes that unnecessarily limit local control, are in conflict with each other, or are otherwise obsolete and counterproductive

The current home rule structure leaves cities and towns less able to respond to the economic and demographic shifts, with local governments having little control over taxes, fees and borrowing. Local governments have historically struggled with the myriad of "local control" mechanisms and responsibilities set out in state law, which often put local officials at odds with each other over jurisdiction and autonomy. An antiquated and confusing framework of local governance combined with limitations on municipal autonomy perpetuates state intercession at the local level. The need for legislative approval as well as the cumbersome home rule charter process has led to an archive of locally targeted

“session laws” of the state legislature that annually numbers in the hundreds and accounts for a significant portion of the legislation passed by the legislature each year. The process of legislative approval is often slow and may result in political realities and processes hampering a local community’s need for action to react to the quickly evolving world. The end result is a loss of efficiency for both the municipalities and the legislature.

As a follow-up to the 1964 passage of the Home Rule Amendment, a special commission was supposed to be established that would reconcile all the general laws with that Amendment; that work was never done.

3.a The Legislature should establish a Special Commission to review the current structure of “home rule” approval in the Commonwealth

4) Use the internet to enhance transparency and civic participation

Municipalities can make greater use of the Internet to create greater transparency and facilitate civic participation in local government. Municipalities should invest time and resources to utilize technology for three reasons. First, citizens have come to turn to the Internet as a primary source of information and a mechanism for financial transactions. Second, the Internet can also supplement existing notification and participation procedures. Finally, technology can enhance transparency by making public municipal records more easily available. Although expertise and access to home computers varies, most citizens have access through schools, workplaces, and public libraries.

There are a variety of standards and best practices that municipalities should adhere to as they strengthen their Internet presence. Application of accessibility and usability standards will ensure that people with disabilities can use a municipal website. Standards also facilitate access by people with fewer computer skills and those using different technologies, including older technologies (e.g., slower Internet connections) and newer technologies (e.g., mobile devices).

Municipal websites in Metro Boston vary widely and some are more useful than others, by virtue of their design, content, or frequency of updates. A compilation of “best practices” and exemplary websites will provide models for the improvement of local sites. The Massachusetts Municipal Association may be the best organization to prepare such a product.

There are tremendous opportunities to move more municipal activities online, where they can be more effective and efficient. Posting legal notices online is a fundamental first step; others may include on-line permit tracking, budget information, and performance reporting.

4.a Municipalities should ensure that their websites meet existing standards for accessibility and usability

4.b MAPC, the Collins Center at UMass, and the Massachusetts Municipal Association should initiate an effort to create best practices guidelines for municipal websites

4.c Municipalities should post to the Internet all notices legally required to be posted at city hall or in legal advertisements

5) Resolve remaining vestiges of county government

County government is still being supported by municipal assessments in Norfolk, Plymouth, and Suffolk counties. The Legislature should seriously consider whether the vestiges of county government are necessary in Metropolitan Boston, which operates as a single economic region unrelated to the county boundaries that date back to Massachusetts Bay Colony. If the Legislature chooses to continue with any form of county government, they should not be a financial drain on cities or towns.

5.a MAPC and allied organizations should collaborate to define options for the reform or elimination of remaining county governments

B. Control municipalities' fixed costs: health care, pensions, debt

Fixed costs are the most rapidly increasing component of municipal budgets. According to the Municipal Finance Task Force, in Massachusetts municipalities "the [combined] spending areas of education, fixed costs and debt service have consumed approximately 80% of annual budget growth since 1987, with education alone taking up 52% of new budget growth."

6) Control municipal health care costs through participation in group plans and Medicare

Cities and towns can manage skyrocketing health care costs by joining the Group Insurance Commission (GIC), which provides health insurance and other benefits for 275,000 state employees and other groups. As of 2007, municipalities are now able to join the GIC, and to take advantage of lower health insurance costs negotiated by the state. Municipalities that wish to join must get the support of the unions representing most (but not all) of their employees.

A recent Massachusetts Taxpayers Foundation report underlined the crisis in municipal health insurance costs. Their 2005 survey of 32 cities and towns, undertaken in cooperation with the Massachusetts Municipal Association, found that employee health care appropriations had risen 63% since 2001, at the same time that total municipal budgets had only grown 14%. Eighty percent of all property tax revenue growth from existing properties allowed under Proposition 2½ went to one line item – health insurance for employees – and one-fifth of communities responded that health insurance costs ate up all the revenue growth allowed by Proposition 2½.

Municipalities considering a switch to the GIC may find the process daunting. MAPC currently operates a “Municipal Health Insurance Action Center” that provides background materials, analytical tools, model agreements, and case studies. MAPC also provides assistance directly to cities and towns by conducting analysis of the costs and benefits and facilitating conversations among management and unions

MAPC and stakeholders should monitor participation in the GIC and reevaluate the program over time, with an eye toward amending the legislation. Among the options that might be considered in future years: decreasing the threshold for union approval; or requiring GIC participation for municipalities that have very high annual health insurance increases (e.g., more than 25% beyond the state’s increase) to transfer employees, dependents and retirees to GIC coverage.

Municipalities can also save money on their health insurance costs by requiring all retirees to enroll in Medicare, as allowed by existing law. This move shifts a significant portion of health care costs to the Medicare system; though municipalities may still need to provide an extension plan so that their benefits are comparable to those in the municipal plan. A legislative change is needed so that enrollment of retirees in Medicare does not require a municipal legislative vote, but instead be at the discretion of the same authority (e.g., mayor or board of selectmen) that is authorized to make other health insurance decisions. Over time, the Commonwealth may also consider requiring all cities and towns to enroll retirees in Medicare.

6.a MAPC should expand its assistance to municipalities wishing to join the GIC

6.b MAPC should draft legislation amending Chapter 32B § 18 to facilitates cities and towns enrollment of retirees in Medicare

7) Safeguard and restore basic personnel management powers

In order to operate efficiently and still provide high quality services, municipalities need to enact policies that support flexible and innovative management methods. Such strategies should include more discretion for management, as well as collaborative engagement of labor and unions to develop creative strategies for containing labor costs. Collective bargaining agreements should recognize the value and rights of labor without impeding the ability of municipal officials to provide cost-effective high quality services.

Personnel services are the most significant cost for cities and towns, amounting to more than 65 percent of local government budgets. In an effort to control these costs, many local government officials make management concessions and agree to “pay-later” benefits. The result has been a steady erosion of local government’s ability to effectively manage its workforce and realize the best possible value for its citizens.

Municipalities need to retain or restore key management and personnel rights during the collective bargaining process, including the rights to hire, fire, and assign staff; establish standards for employment; evaluate performance and make promotions accordingly, determine staffing levels; and outsource services from external contractors. One way to accomplish this is through legislation that stipulates those rights that cannot be subject to collective bargaining.

7.a The Massachusetts Municipal Association should develop legislation outlining non delegable management personnel rights

8) Reform underperforming municipal pension programs

Municipal pension programs would benefit from greater oversight by the state and participation in state investment programs. Such coordination and oversight are likely to result in higher yields investment yields and lower management costs.

The current structure of the state pension system, with its proliferation of boards and poor oversight, costs municipal taxpayers millions of dollars per year. The Public Employee Retirement System in Massachusetts consists of 106 separate retirement programs, each of which makes its own decisions regarding eligibility and supervise investments. Two of the programs are state-run, serving state employees and teachers; the remaining 104 programs serve a variety of municipal, county, district, and public authority employee groups. These independent programs vary greatly in size. Local retirement boards have the choice of whether to manage their investments on their own or to invest all or a portion of their assets in the Pension Reserve Investment Trust (PRIT). Most local boards choose to retain control of their investments.

While local control may be warranted for rulings on eligibility, it is less obvious whether local control of investment decisions is justified. Local independence comes at great cost. According to the Pioneer Institute, a review of 10-year and 20-year return histories demonstrates that the vast majority of local boards underperform PRIT by significant margins.

The time for reform of the Commonwealth's fragmented pension system is long overdue. The current fiscal climate demands prompt and forceful action. The pension system could capture economies of scale and provide access to the highest quality managers by putting all assets in a single pension fund, of which PRIT is likely the leading candidate.

The Commonwealth recently adopted legislation increasing the state's ability to review the investment performance of local pension funds and allow for state takeover of underperforming funds. Passed in 2007, the law requires that the assets of local funds be rolled into the state system if their assets are less than 65 percent of their liabilities, and if the funds have an average 10-year rate of return at least two percent less than that of the PRIT. The effects of this change should be evaluated over time and the potential for increased centralization should be

evaluated. In the meantime, expanded oversight by the appropriate state agencies will help to prevent fraud and waste at local pension boards.

8.a The legislature should authorize expanded oversight by the Public Employee Retirement Administration Commission

9) Reform public employee pension system to eliminate exceptions, loopholes, and unfunded liabilities

While the Public Employee Retirement System is not overly generous for typical employees, it is characterized by exceptions, ambiguities, and loopholes that allow some of them to abuse the system and collect unwarranted benefits, resulting in tremendous cost to the state and ultimately to taxpayers. The root of these problems is that the calculation of benefits is not based on the simple concept of contributions but the complicated interplay of four factors— years of eligible service, maximum three years of compensation, “group” or job classification, and retirement age.

The system is fundamentally flawed: the structural weaknesses and loopholes result in a system that can reward employees arbitrarily and allows the Commonwealth to push costs onto future taxpayers. Moreover, the complexities of the system reduce transparency. Many loopholes and exceptions are not tracked by any oversight body making a determination of the total cost of these unfair practices is an imprecise science. However, it is estimated that these loopholes raise the state’s current liability by more than three billion dollars and increase the required annual payment into the pension system by more than \$125 million, a number that will grow over time. The bulk of this cost comes from specific retirement programs, but the wide array of other gaming techniques adds millions more in annual costs.

While the list of problems is long, two major reforms could address the most serious abuses: enacting pay-as-you-go language to require full funding of legislative changes, and tying benefits more closely to employee contributions. These modifications, combined with other minor changes, would dramatically improve the system.

9.a The legislature should adopt pay-as-you go legislation for benefit changes

9.b The Legislature should reform the PERS benefits structure to make it fair and affordable for the Commonwealth

C. Enable more cost-effective service delivery

10) Increase the use of municipal performance monitoring and benchmarking to improve service delivery

Performance monitoring systems are a critical tool for municipalities trying to identify areas where they could deliver services more efficiently or effectively. Municipal service monitoring and benchmarking programs have become much

more common over recent years. Known under a variety of names (e.g., Somerville’s program is called SomerStat), these “Stat” programs all use data to evaluate municipal and departmental performance. Somerville has run its successful SomerStat initiative for close to three years, and reports \$10 million in realized or anticipated savings. Similar programs are operated in Amesbury and Springfield.

Performance measurement allows policy makers, managers, and citizens to evaluate the quality and effectiveness of government services. Performance measures include inputs (resources used), outputs (program activities), efficiency measures (ratio of inputs to outputs), and outcomes (the actual results of programs and services). Performance measures allow comparison of performance across departments within a municipality as well as comparisons across multiple municipalities. They can also be used to set performance objectives upon which incentives can be based. Stat programs also entail an ongoing series of integrated meetings during which municipal leadership and management review performance measures, evaluate the success of previous decisions and commitments, and establish a new set of performance objectives for each individual department and the municipality overall.

Stat programs require the commitment of municipal leadership, specifically the chief executive officer with managerial authority over departments. While there are many models, most Stat programs also require training and sometimes specialized software. Technical assistance and financial support for software and training are also necessary for more widespread adoption of Stat programs; both software and training could be procured regionally. The state should also support the development of a best practices guide for Stat systems and should establish standards for performance measures, so that they can be compared regionwide.

10.a The Legislature should fund an incentive program for municipal Stat systems

10.b Municipalities, with assistance from MAPC and the Collins Center at UMass Boston, should adopt appropriate elements of Stat programs to improve municipal performance

11) Use dispute avoidance and resolution systems to control costs on municipal capital projects

Conflict and disagreement is an inevitable part of the workplace, especially on municipal construction projects due to the large number of entities and individuals involved. Conventionally, disputes between contractors and municipalities often escalate and result in legal action. Delays, increased costs, legal fees, and acrimonious relationships result, none of which bring positive results to the municipality involved.

Conflicts can be dealt with through appropriate dispute avoidance or settlement systems. Alternative dispute resolution (ADR) systems seek to resolve disputes

and find mutually satisfactory settlements without litigation, at a fraction of the cost in money and time. ADR systems may include the use of a “standing neutral” who meets regularly with project participants to address and help resolve disputes as they arise; or it may involve the use of mediation to help parties try to resolve their disputes before resorting to litigation.

Municipalities should consider budgeting 0.25%-0.40% of the total project cost for a formal project-specific ADR process. Bid specifications and contracts between the municipality and land owners, designers, and contractors should include terminology requiring at least mediation of any dispute before litigation. An even better approach would be for municipalities to initiate an ongoing ADR process that promotes resolution of conflicts or disputes as they arise. Development and implementation of such an ADR process should be done by using a mutually acceptable outside independent resource working with the stakeholders. The state can help to promote the use of ADR by requiring its use on construction projects that rely on state subsidies, such as transportation projects or school construction.

The use of an ADR specialist is distinct and complementary to the project manager now required for municipal construction projects over a certain size. Dispute avoidance professionals have specialized training that project managers rarely have. Rather than focusing on day-to-day coordination and guidance, dispute avoidance specialists focus on conflicts among the project participants, which may from time to time include the project manager.

11.a MAPC should collaborate with Massachusetts Office of Dispute Resolution to develop and implement a program to help municipalities use ADR on municipal construction projects

11.b Massachusetts School Building Authority should encourage municipalities to incorporate ADR into school construction/renovation contracts.

12) Increase the use of enterprise funds for fee-based municipal utilities

Municipalities can recover costs for some specific services through the use of enterprise funds. An enterprise fund is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion, if any, that is subsidized by the general fund.

With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs--are identified. This allows the community to recover total service costs through user fees if it chooses, so services utilized by a limited number of residents are not necessarily subsidized by the entire municipality. Enterprise funds also provide more useful management information because revenues, expenses, and performance are accounted for separate from the general fund. Enterprise accounting also enables communities to reserve the "surplus" or net

assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end.

Services that may be treated as enterprises include, but are not limited to: public utilities (water, sewer, stormwater, trash disposal); health care (ambulance service, nursing homes); recreation (skating rinks, pools, golf courses); and transportation (airports, dock and wharf facilities.) A community may not establish enterprise funds for normal government operations or services such as public safety, inspectional services or cemeteries. Public utilities are excellent candidates for enterprise funds because they can be used to ensure that customers are paying for the full cost of service delivery, including the costs necessary for ongoing maintenance, upgrades, expansions, and conservation programs.

12.a Municipalities should establish enterprise funds for public utilities

13) Increase use of senior citizen volunteers for municipal functions

Municipalities may establish a “property tax work-off program” for taxpayers over 60 years old. Under the program, participating taxpayers volunteer their services to the municipality in exchange for a reduction in their tax bills, up to \$750 per year. Because the hourly rate of reimbursement is the state minimum wage and there are no benefits or unemployment contributions, this may be a cost effective strategy for certain labor needs. Additionally, many seniors bring specialized knowledge and a wealth of experience. Their assistance could be valuable in schools, health centers, bookkeeping departments, and a wide array of other municipal offices.

13.a MAPC and allied organizations should collect best practices for property tax work-off programs, and encourage municipalities to adopt them

14) Facilitate the creation of new municipal electric utilities

Municipalities may be well served by the creation of new municipal electric utilities, which offer lower rates and more responsive service than their investor-owned counterparts. Statewide, there are 41 municipal-owned electric utilities (Munis), which combined serve roughly 15 percent of Massachusetts residents. However no new municipal-owned utility company has been approved since 1926, partly due to concern that the existing electricity provider could block creation of the entity by refusing to sell its distribution equipment to the city or town. Section 107 of Green Communities Act requires the Department of Energy Resources to study the fiscal impact, viability, statutory and regulatory barriers and long-term results of establishing and operating municipal-owned electric utilities in Massachusetts.

14.a The Legislature should pass legislation to facilitate the creation of new municipal-owned electric utilities

D. Ensure that state assistance to local government is sufficient and predictable

Over-reliance on the property tax can leave municipalities without adequate funds to pay for basic services. This over-reliance can also have a wide array of unintended consequences, as cash-starved cities and towns make land use decisions to maximize revenues, often at odds with good planning practice. These consequences can include regional inequity, resource degradation, higher housing costs, and unmitigated impacts on neighboring communities.

The state can help to solve these problems by increasing local aid through a new needs-based formula, by linking local aid to consistency with the Commonwealth's Sustainable Development Principles, by stabilizing local aid and increasing predictability, and by allowing municipalities to raise more revenue locally from sources other than the property tax.

15) Stabilize local aid and revisit local aid formulas

The Commonwealth should formalize its partnership with cities and towns by adopting a revenue-sharing policy that allocates, as a minimum, a fixed percentage of state tax receipts for the primary local aid accounts that support municipal government. Even though such a policy cannot prevent fluctuations caused by economic factors and changes in state revenues, it can protect local aid accounts so that they will not bear a disproportionate share of cutbacks.

In the years following the adoption of Proposition 2½, the state followed an informal revenue-sharing policy that made it possible for cities and towns to meet the requirements of that measure to reduce or stabilize property taxes, while continuing to support schools, public safety and provide other services. The policy resulted in the allocation of an increasing share of state revenues to local support. Recent recessions and increased state expenditures on health care and other services have upset that informal arrangement. The Commonwealth's percentage commitment to local aid was reduced for the fifteen years between 1981 and 2005. Even with recent increases to local aid, current state aid to municipalities has not yet returned to 2001 levels when adjusted for inflation. Therefore, the Commonwealth should adopt a policy of sharing with cities and towns a minimum of 40% of state revenues each year. Furthermore, the Commonwealth should consider formalizing that commitment through a constitutional amendment.

Massachusetts should also support general municipal government by returning to a formula-based approach of distributing local aid that captures and responds to the disparities in the cost of providing services compared to municipal revenue capacity (tax base and other revenue sources). This basic thesis is best captured by the Partnership Aid proposal recommended pursuant to the work of the Municipal Finance Task Force, and further summarized in Strategy #1. Partnership Aid, if fully implemented, will do more than simply deliver more aid to cities and towns; it would do so in a fair way that takes into account the cost structure facing each municipality as well as its local revenue-raising capacity. Partnership Aid does a better job in accurately assessing need, as a function of

costs and capacity, than other parts of the current local aid system which are purportedly based on need.

In order to promote smart growth consistent with both MetroFuture and the state's Sustainable Development Principles, the revised aid formula should include elements that promote consistency with the regional plan. For example, new growth inconsistent with the local and regional plans would add to the municipal capacity, but associated costs would not be included in the formula. Conversely, tax revenue that municipalities forego due to regional tax sharing or transfer of development rights would not be counted as part of the municipal capacity and would therefore be reimbursed by the formula. To succeed, this reform effort should hold current Additional Assistance communities harmless, but use additional funding as a base to broaden non-school aid. For more details on this capacity gap local aid proposal, see Strategy #1B.

15.a Through the budgeting process, the Governor and Legislature should mandate that municipalities receive a minimum of 40% of state revenues each year

15.b The Commonwealth should consider a constitutional amendment mandating that municipalities receive a minimum of 40% of state revenues each year

15.c The Commonwealth should increase the sales tax, or an alternative revenue source, to expand local aid and to reduce local property taxes

15.d The Legislature should adopt requirements to make local aid predictable

16) Maintain the state income tax rate at current levels

The Legislature is currently and continually debating income tax rates. A proposal to reduce the income tax has been contentious for many years. In 2000, citizens voted to lower the income tax rate to 5%. However, the state's financial situation has changed considerably since the vote occurred prior to the most recent recession. Voters also soundly trounced Question 1 in November, 2008, thereby rejecting calls to repeal the state's income tax entirely.

The fact remains that cutting the state income tax rate to 5% would diminish annual state revenues by approximately \$575 million at a time when municipalities need growth in local aid accounts simply to return to the level of support they received in FY2002.

16.a The Legislature should resist the pressure to reduce the state income tax rate to 5%

E. Provide cities and towns with flexibility to raise local revenues.

Cities and towns should also be able to raise local taxes without legislative approval from a broader variety of sources, as is authorized in a majority of states. The sources and levels of taxes should be decided locally, where the bulk of services are needed. While municipal officials will be empowered to raise taxes, they are just as accountable to the electorate as state officials, and any unscrupulous spending will be checked through the democratic process.

17) Increase participation in the Community Preservation Act and ensure consistent state match

The Community Preservation Act (CPA) helps cities and towns to address three core community concerns: acquiring and preserving open space, protecting historic assets, and creating affordable housing. Communities raise funds by voting to assess a dedicated property tax surcharge, which is matched by the state. Each of the three funding areas must receive at least 10% of annual CPA revenues, and the remaining 70% can be allocated among the three uses at the municipality's discretion. Communities can establish a surcharge of up to 3% and may include exemptions for low-income and elderly homeowners. Through 2008, 47 cities and towns in the region adopted the CPA.

The program has faced challenges. In nearly a quarter of the region's municipalities, voters have rejected the CPA, due to concerns about the burden of the surcharge and uncertainties about the future of matching funds. MetroFuture supports legislation filed by Senator Cynthia Creem (D-Newton) that would require the state to match at least 75% of local revenues; this legislation would also allow participating municipalities to combine a small property tax surcharge with other sources of local revenue that would also be matched. As a result, more cities and towns could use this tool to improve their community.

17.a The legislature should adopt legislation to update the Community Preservation Act

18) Increase the diversity of local revenue sources

Municipalities will be less reliant on the property tax if they have greater freedom to develop other local revenue sources such as meals, parking, and rental car taxes. However, because some cities and towns have more restaurants, parking, and rental car agencies than others, a portion of the revenue collected should be shared regionally.

The Commonwealth should consider changes to the motor vehicle excise tax (MVE) to better reflect the value of the automobile, as well as to aggressively tackle the issue of tax evasion caused by misrepresentation on car and truck registrations. The Legislature should also close the telecommunications tax loophole that exempts poles and wires of telephone companies from property tax; this change would result in about \$78 million in new revenue for the state's municipalities.

18.a The legislature should permit municipalities to collect meals tax, parking excise taxes, and rental car surcharges

18.b Allow municipalities to collect a hotel/motel excise tax for the full cost of booking

18.c The Registry of Motor Vehicles and the Legislature should collaborate to adjust motor vehicle excise tax depreciation

18.d The Legislature should close the telecommunications property tax loophole.

19) Enable widespread use of Impact Fees

Both municipalities and developers would benefit from widespread use of impact fees. An impact fee is a calculated and consistent charge on new development that is used by municipalities and other public entities to offset the cost of creating or expanding infrastructure to cope with the impacts and needs of the development. Municipalities benefit because they receive funds necessary to make capital improvements; and developers benefit because impact fee programs are more predictable and expeditious than the current system of informal mitigation payments.

Currently, impact fees are not expressly permitted in state law. Massachusetts municipalities have the right to impose impact fees through their “home rule attributed police power,” but historically local attempts to codify fee programs have been overturned when challenged in court. To be legally defensible a fee must be reasonably related to the infrastructure needs created by the development to which it is applied, the fee payer must receive some benefit from the additional facility, and the fee must be proportional to the impact of the development.

In the absence of clear state authorization and guidelines for impact fees, many municipalities negotiate exactions that can be unpredictable and costly to developers, while often failing to mitigate the full impact of developments. The current “closed door” process has little rhyme or reason. Sophisticated municipalities might squeeze more out of developers, while larger developers have the resources and experience necessary to navigate the overly long and complex process. Cities and towns may lack the technical capacity to evaluate impacts or to effectively negotiate with developers. For municipalities, the benefits dwindle when boards are working at cross purposes and resources are consumed by long negotiations.

Impact fees are becoming the mitigation tool of choice across the country. A recent study conducted by Duncan Associates found that 27 states have enabling legislation to define and allow fees, 19 of which have passed laws since 1990. Other states, such as Ohio, do not have formal impact fee legislation but allow municipalities and counties to implement fees through the use of their police power.

A few states have formalized regional impact fee systems. New Jersey uses special Transportation Development Districts to ensure that traffic impacts across municipal borders are fully addressed. California allows its transit authorities to implement impact fees and links regional fees to the state's environmental review process. Other states allow county governments or regional authorities to implement impact fees.

It is important to note that impact fees will only be possible and effective in the context of proactive municipal planning. In order to effectively use impact fees, cities and towns must have comprehensive and consistent plans for land use and the necessary capital infrastructure. Only when those preconditions have been established can a municipality assess fees according to a fair and legally defensible formula.

19.a MAPC should collaborate with public and private stakeholders to conduct outreach and technical assistance regarding impact fees

19.b MAPC should collaborate with public and private stakeholders to develop legislation explicitly authorizing impact fees in Massachusetts

19.c The Legislature should adopt impact fee authorizing legislation and should provide funding to support training and education regarding best practices

20) Adjust Proposition 2 ½

While Proposition 2 ½ sent a powerful message that municipal spending needs to be kept in check, after 25 years, its effectiveness at fairly controlling spending and reducing property taxes is in question.. Instead, cities and towns that are wealthy have passed numerous overrides, while poorer municipalities have been incapable of doing so and have experienced significant decline in services.

Among the potential changes to Prop 2 ½ that are under consideration:

Allow municipalities to choose their own Prop 2 1/2 cap: Cities and towns might be allowed to choose, by local option vote at town meeting or city council with approval of the mayor, to either cap the entire property tax levy at 2 ½ percent (as currently provided) OR to cap total municipal budgets at their previous year's local budget plus the rate of inflation (as certified by the State Treasurer).

Eliminate new growth exemption for development projects inconsistent with the regional plans: Cash-starved municipalities may readily approve commercial/industrial developments that are inconsistent with local or regional plans in order to achieve the new growth property taxes that are currently exempt from the levy limit of Prop 2 ½. This exemption should only be permitted for developments that are consistent with MetroFuture. This will

encourage more communities to steer development into areas consistent with the regional growth plan.

F. Reduce the burden of education funding

21) Develop a “school cost insurance” program for all growth consistent with the regional plan

Such a program would be comparable to the existing 40S school cost reimbursement program but would apply to all new housing development determined to be consistent with local and regional plans (see Strategy #1.) Municipalities would be reimbursed by the state for the gap between new tax revenue and additional costs of educating children who actually reside in the new housing and attend the public schools.

22) Seek opportunities to create new regional school districts or consolidation of administrative functions

Of all of the services that cities and towns provide, education is the one that is most commonly seen as a local issue. Many view local administration of schools as the essence of a community, creating potential local resistance to efforts to regionalize schools. Massachusetts has a history of locally controlled school districts and currently there are 327 school districts for the Commonwealth’s 351 cities and towns.

Education is primarily funded on the local level by property tax receipts. This can provide disincentives for communities with differing abilities raise local funds to work together. Additionally, Massachusetts’ system for funding education creates barriers for regionalization efforts. When considering regionalization of schools many factors must be taken into consideration including student outcomes, geography, and the culture of the communities.

Nonetheless, regionalizing school districts or sharing school services has the potential to expand central office capacity to support instruction, to increase academic opportunities and program choice for students and parents, and to lower operating and administrative costs through economies of scale. Analysis by the Executive Office of Education found that larger districts spend a smaller percentage of their budgets on administrative costs and spend a greater percentage of their budgets on teacher salaries and benefits.

Regionalization of schools can take many forms, including shared services and joint-purchasing. For example, through the Readiness Project, Governor Patrick proposes regional Readiness Centers, that would be multi-purpose, collaborative hubs for content and professional development as well as school improvement. Additionally, the Readiness Project calls for providing incentives for regional purchasing and service delivery partnerships through out the educational system. The Project suggests beginning this initiative with the passage of legislation to provide full funding for districts that participate in regional partnerships for

procurement of transportation for special education students. Promoting creative means of collaboration across regions must be an essential element of any effort towards regionalization.

22.a The Commonwealth should continue and expand funding for grant programs encouraging regionalization of school services.

22.b The Legislature should pass legislation that would direct the Board of Education to develop a method to include regional school transportation funds in the Chapter 70 formula, and to file legislation to update Chapter 70 accordingly.