

## Consensus Meeting Toolkit

This is a presentation toolkit, prepared by LWVM's Fiscal Policy Update Committee, for local League consensus meetings on Municipal Finance. Your League may be familiar with some of the background information from the municipal finance forums held in January 2007 and your own local study of municipal finances, although neither is required prior to holding your consensus meeting. Local leagues that completed their own local study are encouraged to share their results with their members through a separate informational meeting and/or in their bulletin prior to holding the consensus meeting in order to heighten member interest and understanding.

This toolkit contains the following:

- **Preparing for a Consensus Meeting:** guide for consensus meeting organizers page 1
- **Consensus Study Materials:** provide in depth information on each consensus question for all League members and resource people page 4
- **Consensus Meeting Scripts:** suggested scripts for resource people and leaders Page 35
- **Consensus Meeting Format:** guide to timing and organization Page 66
- **Consensus Report Form:** for the meeting recorder to complete with League's consensus, which is then sent to your League's Board for approval before being submitted to the state League. The deadline for submitting the form to LWVM is April 30, 2008. page 67
- **Consensus Meeting Handouts:** for local League members at consensus meeting Page 72
- **Bulletin articles:** for inclusion in your League's Bulletin page 82
- **Anatomy of League Study:** general information on League study, reminder of how study and consensus works Page 85

Because the material is rather detailed we strongly recommend that you work out the timing of the meeting using our suggestions and practice the scripts with a timer prior to the actual meeting.

You will want to have a **white board or flip chart** available to help focus your meeting during discussion, with the consensus questions written out on separate pages.

Members of the Fiscal Policy Update Committee may be available to serve as resource people for your consensus meeting, given sufficient notice. Please don't hesitate to contact co-chairs through the League office at 617-523-2999 or e-mail if you have questions or to make arrangements for resource assistance. We look forward to reviewing all the local League consensus reports later this year.

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## **Preparing for a Consensus Meeting**

### **THE CONSENSUS MEETING**

A good consensus meeting is a well-prepared meeting. The meeting can consist of a review of the study materials with member discussion and formulation of responses to the consensus questions led by a discussion leader and noted by a recorder. Members of the LWVM Fiscal Policy Update committee are willing to serve as resources for your League at this meeting, schedules permitting.

### **PRESENTATION**

The Fiscal Policy Update committee has included information for a member of your League to serve as resource person. We have designed the materials so as to be able to be presented and discussed within a 1 ½ to 2 hour meeting. You can also provide the information to your members ahead of time through your bulletin to assist them in preparing for the consensus. We have included items for your bulletin in this toolkit.

It is important to have enough time for the consensus discussion and question response. Too much information handed out at the consensus meeting can cause confusion and interrupt the flow of the consensus discussion. The discussion leader should use a discussion outline in keeping with the presentation and the consensus questions. The recorder will keep a written record of the consensus discussion to assist in completing the consensus report. Recorders are not allowed to participate in the discussion.

Make sure you have copied the handouts for your attendees and prepared the flip chart with the consensus questions.

### **THE DISCUSSION LEADER**

It is essential to have a good discussion leader for the consensus meeting. The result of the consensus discussion depends not only on the study committee's contribution but the effectiveness of the discussion leader. Key points for the discussion leader to keep in mind are:

- Remind those present that only League members can participate.
- Establish an atmosphere where the members feel comfortable expressing even unpopular views.
- Guide the group through discussion without argument or debate. Do not let an individual dominate the conversation.
- Utilize inclusive language, for example, "We have heard from Mary, now does anyone disagree or have anything to add? What do you think, John?"
- Listen carefully to discern member agreement. Recapitulate tentative areas of agreement for clarification, for example: "What I hear you saying is that you are willing to support a new school building if there is money available? Am I correct?"

- Keep the group focused on the consensus questions. "That is an interesting anecdote, we seem to have covered this point and should move on to the next question."
- Be perceptive. Watch for any obstacles to discussion, where more information is needed, if the discussion is becoming bogged down, and when there is no consensus on a particular point. "We seem to have come to an impasse, the discussion does not seem to be swaying anyone. There is no consensus on this point, let's move on." Remember to include a minority opinion, if there is one, in the consensus report.

The discussion leader should assist the recorder with completing the consensus report. This will be helpful to be sure that the important points of the consensus are included.

### **THE RECORDER**

The recorder is another key person for the consensus meeting. The notes that are recorded will be vital for writing the consensus report for the LWVM Consensus Review committee.

The recorder should note the following:

- Responses to the consensus questions
- Areas of agreement and disagreement
- Minority views and their strength
- Areas in which the group was undecided or needed more information
- Number of participants

The recorder could be asked to review her notes for the group at the end of the meeting. There may be a point that the recorder wishes to clarify with the group and this should be done when necessary.

The recorder is responsible for filling out the consensus report form and making sure it is mailed to LWVM by the deadline date.

### **THE CONSENSUS DISCUSSION**

There are some guidelines to use to have a constructive consensus discussion that will lead to a strong consensus. The consensus/group discussion as stated in the LWVUS publication In League, "is the technique most often used by Leagues for reaching member agreement. It is a process whereby members participate in a group discussion of an issue. The 'consensus' reached by members through group discussion is not a simple majority, nor is it unanimity; rather it is the overall 'sense of the group' as expressed through the exchange of ideas and opinions, whether in a membership meeting or a series of membership or unit meetings."

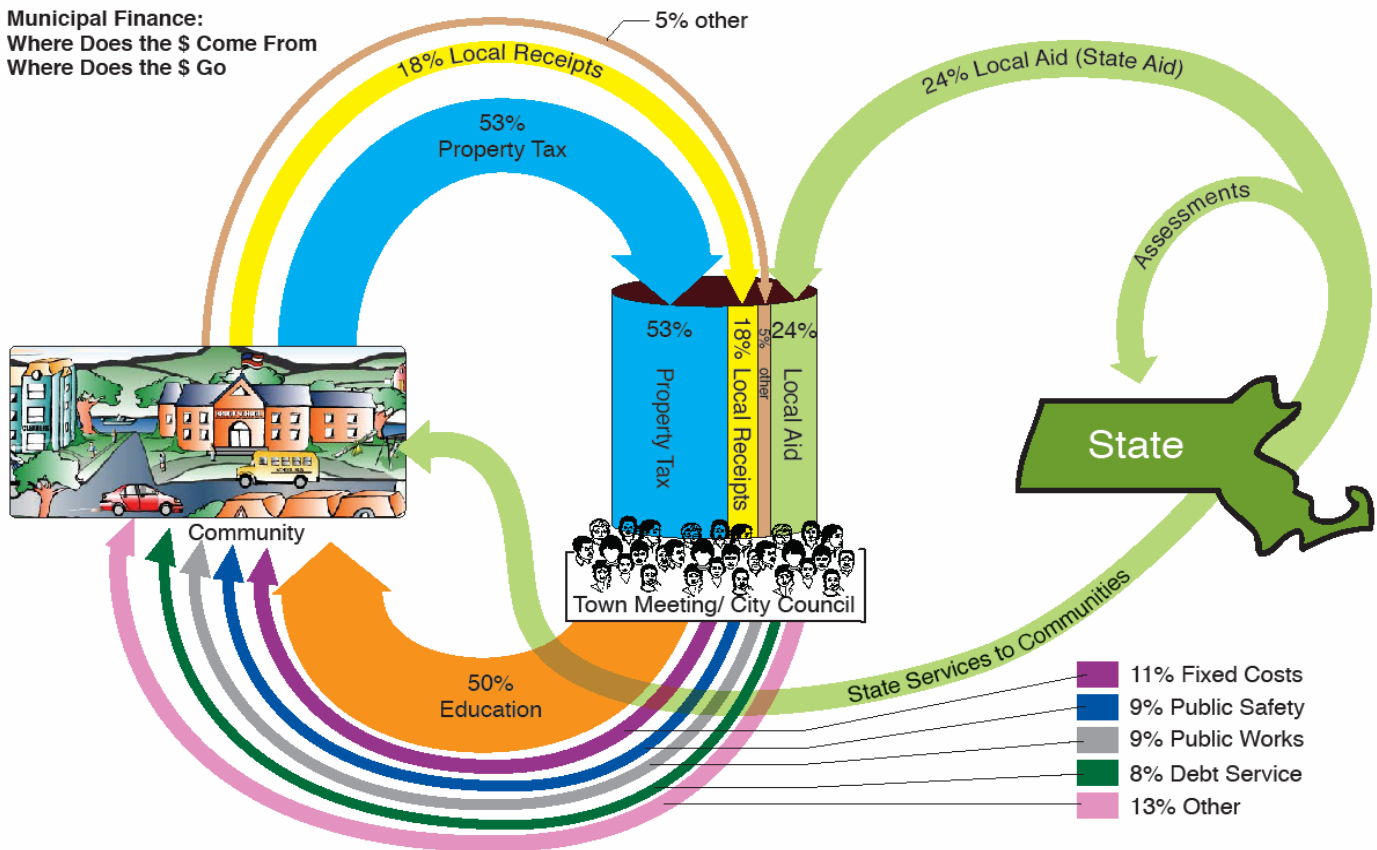
The consensus cannot be narrow and restricting because it is difficult to predict exactly what opportunities for action will present themselves. The discussion leader during the discussion process finds the areas of substantial member agreement. Although members do not have to have unanimous agreement, the presence of a sizable dissenting minority means there is no consensus. A consensus does not imply that the area of agreement is in favor of something, a consensus can be in opposition to something. The group can also reach a partial consensus on certain aspects of the issue. They can also come to the conclusion that there is "no opinion" due

to insufficient information. It is necessary to have full discussion of the areas of disagreement so that the participant's feel satisfied that all viewpoints have been heard.

The members attending the consensus discussion need to be reminded that they are asked to voice their opinions as citizens not as experts. This "citizen decision" is essential for the spirit of consensus to thrive in the meeting. Non-members can be present but cannot participate in the discussion.

There is no quorum for a consensus meeting. A strong participation lends strength to the consensus; however, members who are not interested in the issue or are absent should not influence the consensus of the participating members. A good consensus meeting encompasses a common base of knowledge, the equal opportunity to discuss the issue, and an atmosphere of trust.

## Introduction to Municipal Finance

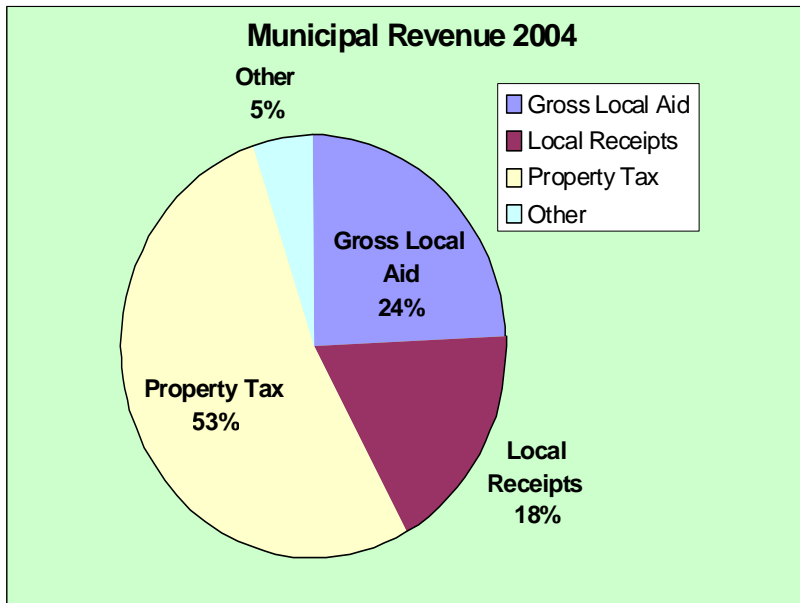


## MUNICIPAL FINANCE

In Massachusetts all taxing authority is held by the General Court (state legislature). This power was made explicit in the Home Rule Amendment in 1966. However the legislature has granted municipalities the right to use property tax, motor vehicle excise and airplane fuel tax and it can also pass statutes enabling municipalities to levy specific taxes in their own communities with the approval of local voters.

The state also distributes funding from its revenues to municipalities through a set of statutory programs as a part of its annual budget. The largest sources of state aid are Chapter 70 Education Aid, lottery proceeds and, for some cities and towns, Additional Assistance.

*Relevant LWVM positions: The League supports increased local aid from state-collected taxes to reduce the burden on the property tax. The League also supports user fees to fund local services. The League does not support new, local, non-property taxes. (See the most recent LWVM Fiscal Policy Study – 1993)*



*From Municipal Finance Taskforce, Local Communities At Risk, J.Hamill et al.*

## LOCALLY GENERATED MUNICIPAL FUNDS

As seen above, municipal revenue is made up of property tax, local aid (state aid), local receipts and a small amount of other sources. Locally-generated funds include the property tax made up of taxes on real and personal property (which makes up 53% of municipal revenue) and local receipts, which comprise 18% of local revenue and include the motor vehicle excise tax, local option taxes (taxes on jet fuel, Community Preservation tax) license fees, fines, rentals, charges for services such as water, sewer and waste collection, investment income, etc. "Other" available funds is also locally-generated and includes free cash (money left over from previous year's municipal budget) and stabilization funds. Local aid is money that comes from the state, also called state aid, comprised of Chapter 70 funds, lottery aid and additional assistance.

### Property Tax

Property taxes are the major source of revenue for municipalities. The percentage of municipal budgets funded by property tax has increased in the last five years. However, municipalities are limited in the total amount that they can raise through each year's property tax by Proposition 2 ½ (a referendum approved by the voters in 1980).

*LWVM opposed Proposition 2 ½ and has consistently supported amendments to loosen its restrictions.*

### **Motor Vehicle Excise**

The automobile excise, the second highest source of locally generated tax revenue, is charged annually on the value of every registered vehicle in Massachusetts according to scheduled depreciation. The rate for this tax was rolled back by Proposition 2 ½ in 1980 to \$25 per each \$1000 of vehicle value. The returns from this tax could be raised by extending the depreciation rate, without changing the tax rate.

*LWVM has a position supporting raising the yield from this tax.*

### **Airplane Fuel Tax**

Benefiting municipalities with airports, the airplane fuel tax is levied only on jet fuel (applying as of now to 18 airports). If it were to apply to all types of airplane fuel, it would benefit 45 communities.

### **Payments In Lieu of Taxes (PILOT)**

Land that is owned by the government or by non-profit organizations is exempt from property taxes. In some municipalities, this amounts to a large percentage of the total land. To partially compensate for the lost tax revenue, municipalities may negotiate PILOTs with individual non-profit institutions. The state makes PILOT grants to municipalities, subject to appropriation and only on basis of the non-improved value of state-owned property (i.e. not including buildings, etc).

### **Local Option Hotel Tax**

The room occupancy or hotel-motel tax, enacted in 1985 allows a municipality to levy an additional tax of up to 4% on short-term (less than 90 days) room occupancy, provided such tax is approved by the voters.

### **Community Preservation Tax**

The Community Preservation Act, which went into effect in 2000, allows municipalities to vote to adopt a surtax on annual property tax bills to fund affordable housing, open space acquisition and historic preservation. The yield from this tax may be matched with funds from the Commonwealth subject to appropriation. (Certain communities have been allowed by local option to tax the sale of real property in order to fund open space.)

*LWVM supported the CPA.*

### **Fees**

The Home Rule Amendment permits cities and towns to assess fees for locally provided services. The Massachusetts Supreme Judicial Court has tightly defined fees as costs that can be quantified and tied to a specific service; the court has thrown out municipal charges which are unrelated to services provided. (Examples: a charge for augmented fire protection on a building was not upheld; the court has rejected impact fees on developers to help cover the costs of education for students who live in new developments) Many municipalities have been raising fees substantially to cover expenses that were previously funded through taxes. Examples are water/sewer fees, building permit fees and parking fees.

## FUNDS PROVIDED BY THE STATE TO MUNICIPALITIES (LOCAL AID)

There are three main types of aid that the state provides to cities and towns: Chapter 70 aid to education, lottery aid and additional assistance aid. The latter two may be used for any purpose by the municipality, i.e. they are unrestricted, while Chapter 70 aid must be spent on education. State aid (also referred to as local aid) fluctuates as the state economy expands and contracts. This means state aid to local government is often reduced at the times when local revenues are already squeezed, economic downturns of 1990 and 2001, compounding local fiscal pressures.

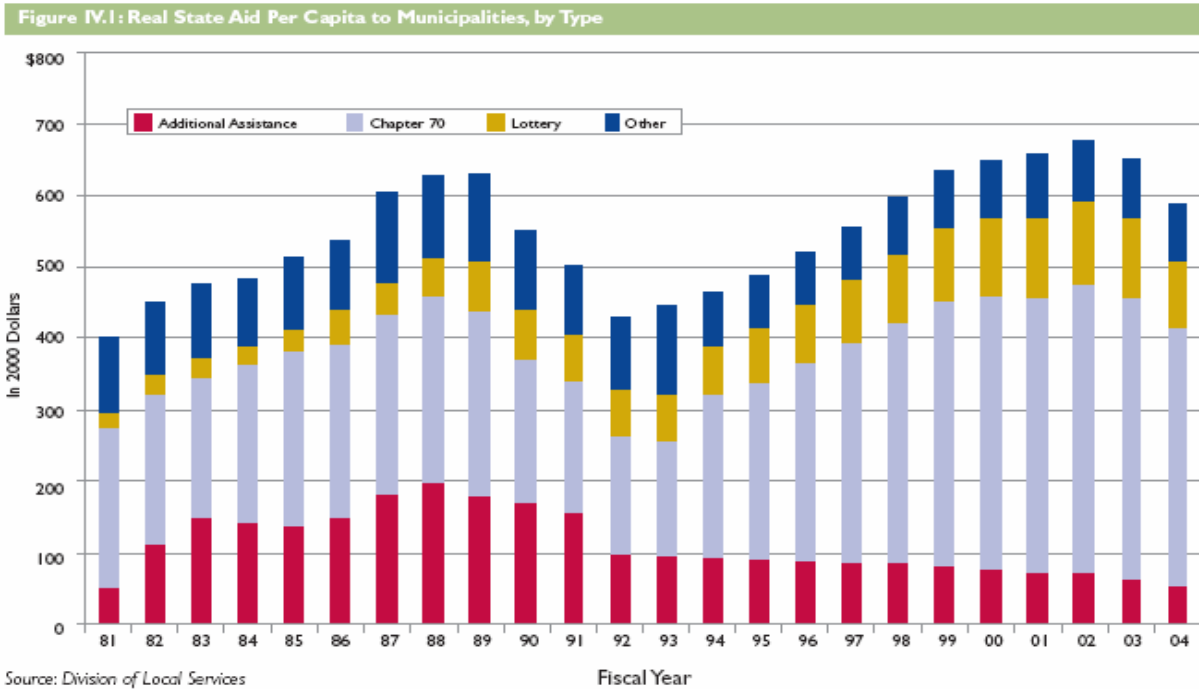


Figure from "Revenue Sharing and the Future of the Massachusetts Economy" Barry Bluestone, Alan Clayton-Matthews, David Soule, MMA and Center for Urban and Regional Policy at Northeastern 2006

### Education Aid

Chapter 70 Education Aid is the largest source of state aid for municipalities. This funding is distributed by a formula intended to equalize the resources available to municipalities of disparate means—that is, poorer communities receive more aid than wealthy communities.

*LWVM supports the reforms embodied in Chapter 70 but does not support the current formula used to distribute Chapter 70 aid.*

### Lottery Funds

The Massachusetts lottery was instituted in 1971 with revenue specifically intended for local aid. However, when the state economy faced hardship, the legislature diverted some lottery funds away from municipalities and into the state budget. Lottery funds are unrestricted funds (i.e. the state does not mandate how they are spent).

*LWVM, while opposed to lotteries as a source of governmental funding, does support the current formula used to distribute lottery aid.*

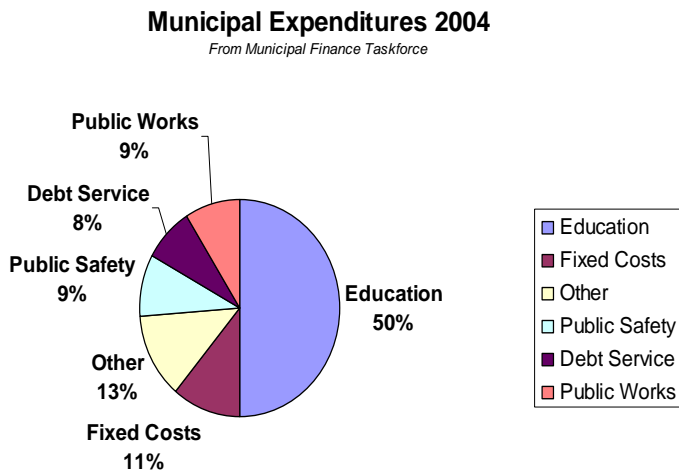
### **Additional Assistance**

This state aid program provides unrestricted revenue to 159 of the 351 cities and towns. Additional Assistance was part of the old resolution aid formula of the 1980s. However, during the fiscal difficulties in the 1990s, this program was cut, reducing some communities to zero, and then level-funded so that it no longer has a formulaic basis.

The Local aid packages outlined here are the major sources of state funding for municipalities', but there are numerous other categorical and incentive programs such as school building assistance, state aid to libraries, and CPA funds municipalities can seek.

### **MUNICIPAL EXPENDITURES**

The state legislature has by statute established programs that mandate to municipalities certain spending levels (primarily in the area of education); in addition, state laws govern spending in other local departments. Even programs that were intended to provide specific percentage reimbursements are subject to annual State appropriation and are often less than fully funded. Increases in three areas, education, health care and pensions have had a major effect on local budgets, often necessitating reductions in the level of other local services.



*From Municipal Finance Task Force, Local Communities At Risk, J. Hamill et al. 2005*

### **Education**

Chapter 70 as amended by the Education Reform Act of 1993, while distributing aid to public schools, requires the state to establish a minimum amount (“net school funding”) that each municipality must spend on education from its locally generated funds. The unfunded state mandate to educate special needs students is shifting funds away from regular classrooms. An unintended impact of these mandates has been to shift municipal dollars away from other local needs to provide the budget necessary for education.

### **Health Care**

State law requires municipalities to offer the same health benefits to all full-time employees, as well as mandating that any change in health coverage be approved by all local unions. In

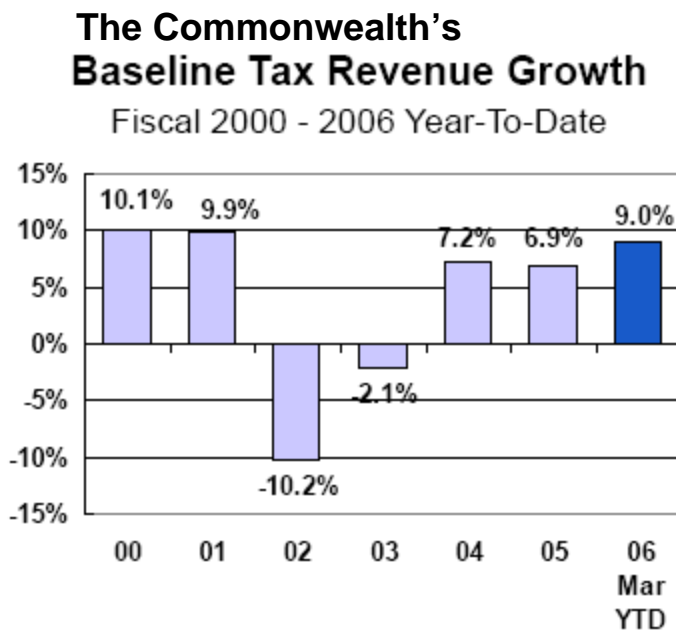
addition, collective bargaining statutes make health plan changes difficult to accomplish. Over the last five years, municipal employee health insurance has increased an average of 13% per year. Because municipal revenues have not been able to keep pace with these expenditures, a new state law now allows communities to join the Commonwealth's health insurance plan with expenditures over the last five years increasing an average of 8% per year. However, this is still well above the average municipal budget growth of 4.2% per year.

### Pensions

State law requires municipalities to have a public employee retirement system. A 1987 state law now requires each public pension system to eliminate its unfunded liability by 2028. Local pension systems generally had not been fully funded, so municipalities were forced to increase annual payments into pension funds to cover projected as well as current costs. In addition, local pension systems are set up by state law to be autonomous units making major changes at the local level difficult. (Health insurance and pensions are part of the "fixed costs" in the expenditure figure above.)

## STATE REVENUES AND EXPENDITURES

This study of fiscal policy from the point of view of localities needs to recognize the nature of the state's revenue and expenditure streams. The principle source of revenue for the Commonwealth is corporate and individual income tax. The yield from income tax varies with the economy and is extremely difficult to predict. The graph below, which includes all state revenues, illustrates the volatility of this revenue stream.



Source "State Budget: Soaring Appetites, Critical Choices" Massachusetts Taxpayers Foundation April 2006

A major expense of state government, entitlements, also varies with the economy. Medicaid and services to the unemployed and indigent go up when the economy and revenues go down.

Currently, expenditures for Medicaid and the State Children's Health Insurance Program (SCHIP) program are escalating; the cost of running the MBTA is ballooning; and delayed maintenance of Massachusetts roads and bridges necessitates significant capital expenditures, increasing the final cost to taxpayers.

## CONCLUSION

**Massachusetts cities and towns exist at the behest of the Commonwealth. They are restricted by state law in how they can raise money to pay for local services. State law also influences expenditures, especially by mandating certain spending.**

*The "Background to Municipal Finance" section provides an overview of how local finance operates in Massachusetts--where the money comes from and how it is spent. In addition, aspects of Massachusetts state law that place restrictions on communities' revenue and expenditures are also covered. This section is designed to provide the general context for the three consensus questions of the LWVM fiscal study update.*

## **Consensus Question 1**

### **What principles should govern the fiscal relationship between the state and local governments?**

This consensus question will propose a set of principles that could be used to evaluate possible changes in the fiscal relationship between the Commonwealth and its localities. Each will include an example of how that principle could be applied. The examples are intended to provide a concrete way to understand the principle.

#### **Current LWVM position**

*LWVM supports a state and local tax structure that will have an equitable impact on taxpayers and adequately support state services with consideration of the effect on the state and local economies; distribution of state aid in a manner that will equalize municipal resources; a comprehensive state budget system that will provide a basis for the evaluation of the cost and effectiveness of current state programs and long-range capital expenditures; up-to-date, uniform and accurate property valuation; and efficient management of the revenue collection systems. (1969-1979, 1992-93) Where We Stand. Government: Fiscal Policy.*

#### **TRANSPARENCY**

Transparency applies both to the budget and the budget process. The current budget and budget process at the State House are difficult to understand and monitor.

A transparent state budget should be clearly written and understandable for the general public. It should include sufficient information about spending, revenues and program in a clear and consistent format. Budget documents should be open and accessible to the public.

The budget is one of the most complicated pieces of legislation that is passed each year. The budget process is largely determined by the rules adopted at each legislative session. The constitution gives each house sole power to determine rules of operation. In contrast, municipalities must develop their budgets under the control of Open Meeting Law. The current budget process in the General Court is largely conducted in closed sessions.

Here in general is the process:

1. The Governor submits a budget, House 1, in January. This is a public document.
2. The House Ways and Means Committee reviews the governor's budget and develops its recommendations.
3. The full House debates, amends and passes the budget.
4. The Senate Ways and Means Committee takes this budget and develops its

recommendations.

5. The full Senate debates, amends and passes the budget.
6. The House and Senate leadership assign members to a joint conference committee. This committee negotiates the differences between the House and Senate budgets. This is often the most secretive part of the process. Conference Committee meetings are sometimes closed to other members of the legislature.
7. The Conference Budget is returned to the House for a confirmation vote. No amendment is allowed.
8. The Budget is sent to the Senate for a confirmation vote.
9. The Budget passes to the Governor who has ten days to approve it, veto it or veto or reduce some sections.
10. The House and Senate may override the Governor's vetoes.
11. The final budget is known as: The General Appropriations Act

A transparent budget process would allow the general public to see how the budget is dealt with in the legislature. In the current process, most budget discussions occur outside of the public eye.

### **Related proposals**

The Massachusetts Taxpayers Foundation has proposed a different format for the state budget as prepared by the Governor, that requires:

- Clearly listing all significant new programs and expansions and all programs that have been eliminated or cut deeply
- Including a clear and simple balance sheet that shows spending and revenue and indicates what spending and revenues are one-time and which are ongoing.
- Including a list of major risk factors to show when revenue sources are at risk and which cost categories have the greatest potential for rapid growth.

There is no current proposal to require the state budget to be developed in open session.

### **Current League Positions**

LWV has long supported and acted for open government under its principles: *LWV believes that democratic government ...requires that governmental bodies protect the citizen's right to know by giving adequate notice of proposed actions, holding open meetings and making public records accessible.*

LWVM adopted the following position in 1969: *The League supports: A comprehensive budget system, identification of expenditures in terms of the services to be performed, evaluation of governmental programs in relation to needs, informed action by the legislature and interested citizen groups, long-range planning, adequate accounting and auditing systems*

### **Pro Argument**

A more transparent budget and budget process allows better public input and facilitates better understanding of budgetary tradeoffs. This can result in better use of

state funds and more support for difficult budgetary decisions. It helps citizens to more easily assess who is working toward specific goals and who is in opposition.

### **Con Argument**

Legislative efficiency mandates that this process be somewhat closed. The legislature often needs to operate in suspension of its own rules. The courts have upheld the constitutional right of each legislature to determine its own rules of procedure. In addition, if budget negotiations are done behind closed doors, it is possible for the parties to explore compromises that would be difficult to discuss in public.

### **TIMELINESS**

A timely fiscal relationship between the state and municipalities would encourage the state to provide firm information on state aid to municipalities earlier in the budget cycle.

The state aid portion of the state budget is the money that is sent to municipalities (this is also sometimes called local aid). This information is known as the 'cherry sheet'. Cherry Sheet information frequently is finalized long after municipalities need to finish their own budgets. This creates a difficult situation where local spending decisions need to be finalized before revenue figures are known.

Local aid numbers are supposed to go to municipalities in March. However, this deadline is rarely met, in recent memory only once -- during the Dukakis administration.

**Current League Positions:** None

### **Pro Argument**

A large portion of each municipal budget is determined by state aid as documented in the annual Cherry Sheets. It is extremely difficult for municipalities to finalize their budgets without firm numbers for state aid.

### **Con Argument**

The State Budgetary process is long and cumbersome. It is difficult to know how this could be accomplished in less time. State revenues are extremely difficult to predict. Requiring a firm commitment for local aid in March reduces flexibility for the rest of the budget and might result in less money being allocated to state aid as legislators are still negotiating other parts of the budget.

### **EQUITABILITY**

Equitability can be defined in many different ways. Currently, the LWV supports progressive taxation along with distributing revenues in a way that helps equalize the resources of different municipalities. This means that the LWV supports giving poorer communities larger amount of state aid and giving similar communities similar amounts of state aid.

Unfortunately, the 'hold harmless' principle which is generally followed by the state legislature (also described in the 'dependability' section below) tends to lock in funding inequities by attempting to ensure that, in general, state aid for a given municipality will not be less than the aid received in the previous year. The 'hold harmless' principle causes the legislature to focus primarily on the distribution of new aid each year and to avoid examining changing circumstances that may affect existing aid programs. This is a particular problem in the distribution of Additional Assistance and in portions of the Chapter 70 Education Aid formula.

Additional Assistance was created in the 1980s as a way to ease the transition to a new funding model for aid to Education. However, since that time it has not been re-examined to determine which communities should receive Additional Assistance and what the levels should be. As a result, similar communities are treated very differently when it comes to Additional Assistance.

Several problems in the administration of Chapter 70 Education aid have resulted in similar communities receiving substantially different amounts of aid. The original program treated similar communities differently and these inequities have been protected by the 'hold harmless' provision. In addition, the Chapter 70 Aid program has not adjusted well to changing municipal circumstances resulting in various forms of inequitable treatment.

#### **Sample Proposals:**

- Eliminate Additional Assistance and distribute those funds using a different algorithm.
- Change the Chapter 70 Education Aid distribution algorithm to eliminate inequities.
- Eliminate the 'hold harmless' principle.

#### **Current LWV Positions**

In 1971, LWVM adopted the following position: *The League supports distribution of state aid to cities and towns on an equalizing basis for public education and other municipal services.*

*The League has supported...the concept that all state aid should work towards equalizing the ability of cities and towns to finance schools and other municipal services. Only by such equalizing distributions will the large discrepancies in the ability of cities and towns to raise property tax revenue, and thus adequately support both education and municipal services, be mitigated.*

However, the current system used by the legislature is not efficient at distributing funds in an equalizing fashion. Generally speaking, poorer communities receive more funds than richer communities. However, many similar communities receive substantially different amounts of aid. In 1971, the League developed the Equalizing Municipal Grant Formula, for the equitable distribution of municipal aid. This formula is used to distribute lottery funds.

### **Pro Argument**

LWVM's current positions advocate a more equitable distribution algorithm than is currently being used. Adopting this principle would reiterate our current support for using state aid as an equalizing tool for poorer municipalities and would allow the League to continue to take action on a range of potential proposals that could improve the distribution of state funds.

### **Con Argument**

Equitability could require the elimination of Additional Assistance funds and the communities receiving Additional Assistance are, generally, the communities with the greatest need. Eliminating this source of funds would cause true hardship in those communities. Additional Assistance is one of the few sources of aid that is not tied to specific mandated expenditures (i.e. earmarked). The 'hold harmless' principle as currently used is one way that the legislature attempts to implement the principle of dependability. Eliminating it in favor of equitability would make local budgeting even more difficult.

### **DEPENDABILITY**

A dependable relationship between the state and municipalities would ensure that year to year state aid to municipalities is consistent and generally predictable.

On a statewide basis, state aid constitutes approximately one-quarter of the total local revenue. (Property tax is the largest source of local revenue.) State aid to municipalities is not set by statute. It is subject to appropriation by the legislature each year, and therefore can change.

The state legislature generally follows a principle known as 'hold harmless' which means that the amount does not decrease.

"Hold harmless" does not mean that a municipality will never receive less money than it did the year before. Starting in 2000, the legislature cut Chapter 70 aid for all municipalities. For some municipalities, the cuts put them below their foundation budget. These municipalities had funding restored to bring them back to foundation level. The net effect was to concentrate the budget cuts on the communities who were spending above foundation level on their schools.

It is important to recognize that 'hold harmless' is a mechanism used by the legislature to increase the dependability of state aid to municipalities. It is, however, a mechanism that tends to reduce equitability.

However, even with the 'hold harmless' policy, when the state faces a fiscal crisis, all state aid to municipalities is subject to cuts. Starting in the 2000 recession, Education Aid (Chapter 70) was cut. In real dollar terms, Education Aid was cut for three successive years: 2003 - 2005.

The lottery was instituted in Massachusetts in the 1970's specifically to provide another source of local revenue. However, when the state faces budget difficulties, it has a tendency to divert some of this revenue stream away from municipalities to state programs. Lottery aid distributions was capped between FY1989 to FY1992 and then reduced in FY2003.

**Sample Proposal related to this principle**

The Mass Taxpayers Foundation recommends that municipalities share a fixed percentage of state tax revenue by statute. The specific recommendation is that 40% of annual revenue from three major state taxes (personal and corporate income, and sales) be devoted to local aid. Other states do this. For example, Illinois state law specifies that 10% of the income taxes collected by the state are redistributed to municipalities.

**Relevant League Positions:** None

**Pro Argument**

Making state aid more dependable would reduce the pressure on local property taxes and allow municipalities to continue to provide adequate local services within their budgets.

**Con Argument**

The current system of setting state aid 'subject to appropriation by the legislature' embeds the assumption that state- funded programs are more important than locally- funded programs. Setting an amount of local aid by statute reduces budget flexibility for the state legislature. This could force the state to curb spending on state programs. Even if state aid is set by statute, the legislature is legally free to change state aid unless the state constitution is changed.

**FLEXIBILITY IN LOCAL SPENDING DECISIONS**

Flexibility in local spending would allow municipalities to increase their budgetary control. Currently many municipal spending decisions are controlled by the state either through mandates, earmarked state funds that must be spent on certain programs, or through other laws that restrict municipal spending choices.

The state government requires municipalities to provide certain services. Some of these mandates include funding for a portion of the associated costs but the funding is generally insufficient and unreliable. In an effort to provide funding for mandates, State Aid is frequently earmarked for specific programs, which reduces the flexibility of municipalities to fund local priorities.

One of the impacts of Education Reform was to shift money away from other municipal needs to mandated school spending, i.e. the increase in state money for education has been accompanied by a decrease in state aid for other municipal purposes.

Current state law restricts the ability of municipal officials to manage their health insurance and other benefits costs. The State requires that municipalities cannot change the health benefits they offer without agreement from all of the affected unions. This requirement makes it difficult if not impossible to modernize the plan for health benefits. The state has exempted itself from these collective bargaining requirements.

### **Sample Proposals**

The Massachusetts Taxpayers Foundation is recommending that one quarter of the state aid that is distributed to municipalities should go to the general fund (i.e. not be earmarked for specific programs) to provide flexibility for municipalities in funding local services.

An alternate proposal that focuses specifically on the cost of health care would allow municipalities to establish health care benefits under the same rules that are used by the state.

### **Relevant League Positions**

The League has positions that support the right of federal, state and regional governments to set standards of performance in broad areas of public concern.

*In 1979, LWVM adopted a position supporting adequate levels of state funding for state-mandated programs...During the League's 1977-79 Financing Government Study, members examined the issue of state mandates and agreed that, in most cases, the state should not require cities and towns to perform functions that require the use of local tax dollars. Members also agreed, however, that the state has a legitimate interest in setting standards for many areas (education, safety, fire and police, for example) within local administration, and that state mandates are the only way such essential services will be provided throughout the state. Agreement was reached that fiscal notes should be enacted with any legislation that would have an impact on a local budget, that passage of major unfunded state-mandated programs should require a greater-than-majority vote of the Legislature, and that adequate levels of state funding for state-mandated programs should be provided.*

### **Pro Argument**

Local Government is closest to the community and best able to judge the efficient allocation of funds.

Voters are more easily able to hold local officials accountable for the spending decisions they make.

Local Governments should not be held to a significantly more stringent set of rules than the State Government uses.

### **Con Argument**

Communities may be unwilling to fund their portion of efforts that have a statewide benefit (such as creating more affordable housing and environmental protection). Increasing local control may end up undermining state efforts in these areas.

The League already has positions encouraging the federal, state and regional governments to provide adequate funding for their mandated programs.

## **FLEXIBILITY IN LOCAL REVENUE RAISING OPTIONS**

Under the Massachusetts constitution, local governments may not levy, assess or collect taxes except as specifically granted by the state legislature. Municipalities are also limited in the borrowing that they can do. Flexibility in local revenue raising would allow municipalities to increase their sources of revenue through local option taxes or fees.

Municipalities are allowed to collect Property Tax, auto excise tax, airplane fuel tax and hotel tax. All of these taxes are governed by state statutes. In addition, cities and towns are allowed to assess fees.

(Sample Proposals will be considered in Consensus Question 2.)

### **Relevant League Positions**

LWVM supports: *the use of certain commonly accepted criteria in judging taxes, particularly equitability, economic effect, flexibility, ease and cost of collections, and adequacy of yield (1967, 1979, 1993)*  
*user fees (1979)*

LWVM opposes: *Adoption of new, local non-property taxes by state-wide mandate or local option (1993)*

### **Pro Argument**

Since 1993, pressure on property taxes in Massachusetts has been inexorable. The State has repeatedly shown that it will cut local aid in times of fiscal difficulty. Municipalities need to have additional sources of local revenue that are not dependent on the good will of the state government.

Preventing municipalities from tapping their local financial options is similar to preventing a community from using a local lake for water because not all communities have lakes.

Local communities are best able to determine if border issues make a local tax desirable. The state should not prohibit local option taxes for all communities because it does not make sense for some.

The current law discourages municipalities from being innovative in the search for local revenue.

### **Con Argument**

This principle, to be effective, would require a constitutional change. The effect of 351 different local tax structures could lead to fiscal chaos.

The League studied this issue in 1993. Has the situation changed sufficiently to justify changing this position?

## **Consensus Question 2**

**The League of Women Voters of Massachusetts currently has a position opposing the adoption of new, local non-property taxes by statewide mandate or local option.**

**Should LWVM eliminate this position opposing the adoption of new, local non-property taxes by statewide mandate or local option?**

**If yes, should LWVM support the adoption of new local non-property taxes by statewide mandate or local option?**

In the 1990s, after 3 years of cuts to local aid, LWVM studied how to increase local tax yield. Since the League had a long-time position opposing high reliance on property taxes, we decided to look at other options for local governments. Because of our concern for equity among various municipalities and because of the practical limitations of differing taxes in neighboring communities, LWVM came to a consensus in 1993 opposing new, local, non-property taxes.

In the ensuing fifteen years, stresses on the revenue raising ability of the cities and towns have grown tremendously. Many people have proposed local non-property taxes to provide more revenue. We are now revisiting the issue to see whether the situation has changed or whether we have changed our minds.

### **Local tax sources other than real property**

Under the constitution of Massachusetts, cities and towns cannot levy taxes except when authorized by the Legislature.

The following taxes are granted to municipalities in Massachusetts: motor vehicle excise, aviation fuel tax, room occupancy tax which is a local option for up to 4%, and the community preservation surtax on property tax for specific purposes. These taxes and the opportunities for their enhancement are discussed in more detail in the Fiscal Policy Background document.

### **Other local non-property taxes used in other states:**

**Local sales taxes.** A local levy could be added to the current 5% sales tax. A levy of 1% would raise about \$750 million statewide if every locality adopted it. It could be collected by the state along with the current tax and remitted to the cities and towns.

**Local income tax** A 20% surcharge on the Massachusetts income tax would yield close to \$1.8 billion in total statewide revenue. Again, the state could collect it and remit it to the localities. A major problem with adopting a local income tax is that it would have to be statewide, not local option. The Massachusetts Constitution requires that the tax rate for the same class of income be uniform across the state. This means that adopting a local option income tax would require an amendment to the Constitution.

**Meals tax** There is a 5% tax on restaurant meals, and a surcharge could be added. Governor Patrick and his Working Group on Property Tax Over-Reliance has proposed that localities be enabled to levy a meals tax up to 2%. A bill was passed by the

Legislature last year, but then-governor Romney vetoed it, and it was not passed over his veto. It is, however, relatively low yield; a statewide levy of 1% would raise about \$120 million.

**Room Occupancy tax** The Governor's Task Force has proposed that municipalities be permitted the option of increasing the hotel/motel tax from 4% to 5%.

**Other** Suggestions have been made for admission taxes and parking taxes. Only a few communities would benefit; Boston would be one of them.

### **Problems of local option taxes**

The principle problem is a multiplicity of local jurisdictions (351) with wide disparities in both tax bases and opportunities for other sources of revenue. Some towns have malls, a source of sales tax revenue, while others have none. Some have large amounts of office and commercial property. Local income taxes would exacerbate the existing inequality in resources since income and property values are, for the most part, closely related.

Massachusetts's towns along the New Hampshire border know the problems of neighboring towns with different taxes very well. With local option taxes, particularly a local sales tax, such problems would be worse. If you don't want to pay the local sales tax, you can go to the next town. If local option taxes could be regionalized, they might be more feasible. But our county government structure has been abandoned and, except in a few localities, there is no activity on regionalization.

The question now is whether we want to continue supporting LWVM's position opposing new, local, non-property taxes, or to support the concept of allowing cities and towns to adopt other revenue options, regardless of equity or border issues.

Does a meals tax in Concord hurt Acton? Would a local sales tax decimate town centers neighboring a tax-free town with malls?

We can drop our current position, leaving no position on local-option taxes, or we could reverse our position and support local option taxes, or let the position against local-option non-property taxes stand.

### **Pro- Arguments**

Arguments in favor of local non-property taxes include the over reliance on the property tax and the difficulty many cities and towns face in funding services. Citizens of many localities are unwilling to pass overrides, and services must then be cut. The property tax is generally considered to be regressive, that is, a greater burden to low income residents.

Other reasons include the opportunity to tap non-residents with taxes such as a meals tax. A wider range of taxes, could distribute the tax load more fairly. A more diverse source of revenues might increase fiscal stability in an economic downturn.

Allowing local option taxes to benefit some towns could benefit all, as the need for resources from the state would be lessened. If the items, which would be taxed by a new local option tax

require additional local services, which could justify the additional tax. For example: a community with an airport would have to provide roads and traffic controls. Finally, local aid does not seem to be a high priority for the Legislature. When state revenues are decreased, the General Court does not hesitate to cut local aid, and the current leadership has stated that they would cut again.

In his 2005 Municipal Finance Task Force report, John Hamill states “municipalities should be granted additional flexibility in developing local revenue sources” and cites local option meals taxes, parking excise taxes or rental car surcharges as examples of special excise taxes that could diversify a municipality’s revenue sources.

### **Con- Argument**

The inequity between municipalities and the border problems mentioned above are reasons for opposing non-property taxes.

Administering these taxes in small jurisdictions would be inefficient

All of the proposed non-property taxes are more subject to fluctuations with changes in economic conditions than property taxes, making it hard to predict yield.

These additional taxes would increase taxation.

The only non-property taxes that are under serious consideration are a 2% meals tax and a 1% increase in the room occupancy tax. While these might help some localities a little, it will not provide sufficient revenue to solve the difficulties of most cities and towns.

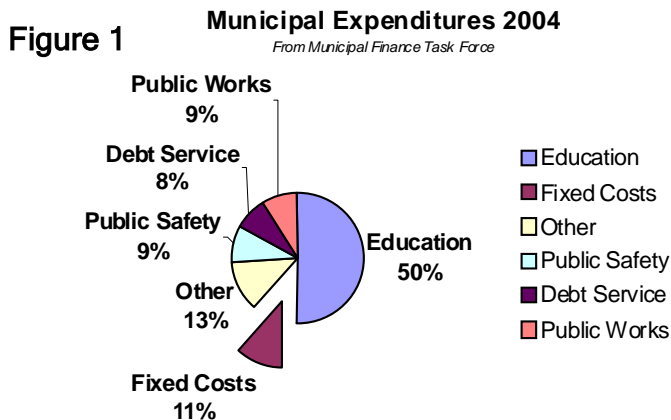
In the Report of the Governor’s Task Force on Local Finance (1990) John Hamill concluded that broad based, local option taxes on sales, income or payrolls are not suitable or appropriate revenue sources for Massachusetts’s cities and towns.

**Consensus Question 3 Part a**

**Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?**

**Municipal Employee Health Insurance**

**What portion of the municipal budget are municipal employee health insurance and pensions? They are part of the “fixed costs”. Fixed costs are defined as “costs that are legally or contractually mandated”.**



**How has the cost of Municipal Employee Health Insurance changed?**

The cost of municipal employee health insurance in Massachusetts has skyrocketed, paralleling the cost of healthcare nationwide. In fact, since 2001, health care premiums across the U.S. have increased 68%. In Massachusetts, the municipal expenditures for health insurance have increased 84% between 2001 and 2006. The annual increase ranged from 9.6% to 16%, with the average annual increase of 13% (see table 1, columns A and B).

**Table 1: MASSACHUSETTS MUNICIPAL HEALTH INSURANCE** FY 2001- 2006 Expenditures (A), % Annual Change in all 351 communities (B); and, State Health Insurance Expenditures (C) and % Annual Change (D)

|                                | A  | B               | C                                   | D               |
|--------------------------------|--|-----------------|-------------------------------------|-----------------|
| Fiscal Year                    | Massachusetts Municipal Employee Health Insurance Expenditures | Annual % Change | State Health Insurance Expenditures | Annual % Change |
| 2001                           | \$886,462,351  |                 | \$605,596,955                       |                 |
| 2002                           | \$1,028,585,452  | +16.0           | \$676,102,421                       | +11.6           |
| 2003                           | \$1,185,928,190  | +15.3           | \$694,982,613                       | +2.8            |
| 2004                           | \$1,313,050,960  | +10.7           | \$737,289,523                       | +6.1            |
| 2005                           | \$1,439,142,951  | +9.6            | \$785,103,811                       | +6.5            |
| 2006                           | \$1,634,274,679  | +13.6           | \$890,484,724                       | +13.4           |
| <b>Change FY01 - FY06</b>      | <b>\$747,812,328</b>   |                 | <b>\$284,887,769</b>                |                 |
|                                | <b>+84.4%</b>  |                 | <b>+47.0%</b>                       |                 |
| <b>Average Annual Increase</b> |  | <b>+13.0%</b>   |                                     | <b>8.1%</b>     |

**Figure 2**

**Total Massachusetts Municipal Employee  
 Health Insurance Expenditures:  
 FY2001-2006**

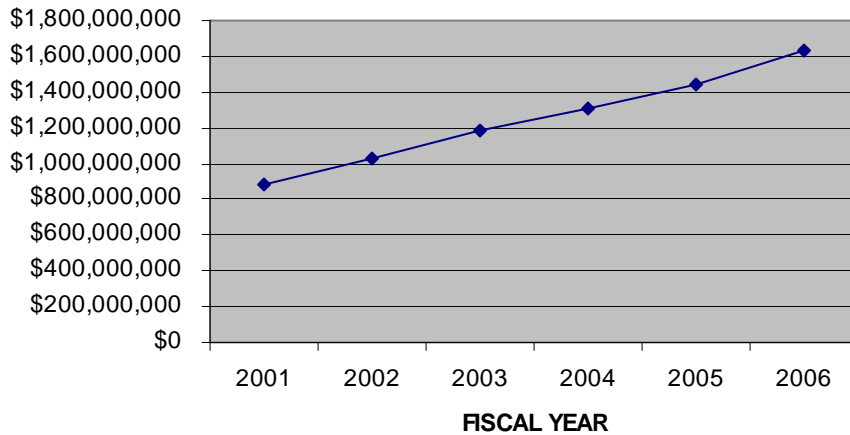


Figure 2 (above) shows that the expenditures on municipal employee health insurance have been increasing at a steady pace.

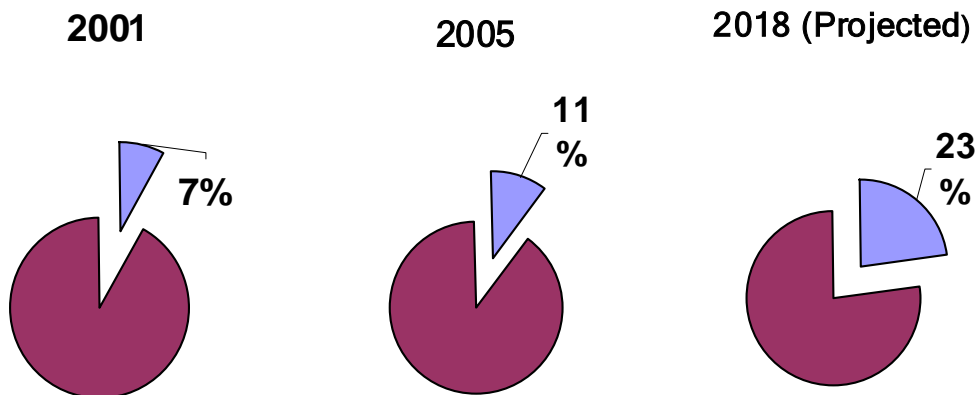
**Municipal Employee Health Insurance as % of Budget**

Another way to assess the cost of health insurance is to see how it relates to the rest of the budget. The data show that municipal employee health insurance

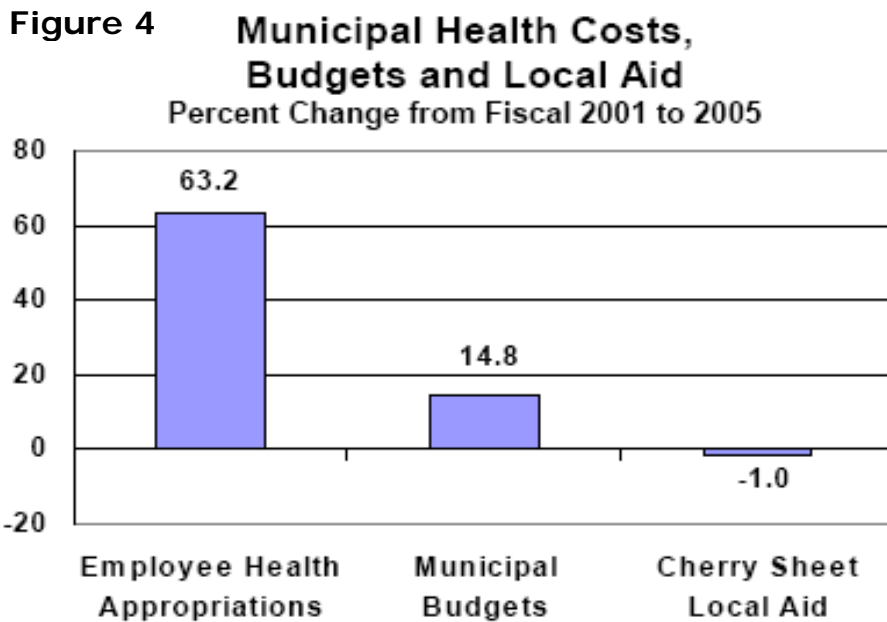
- in 2001 MRHI was 7.4% of municipal budgets
- in 2005 had increased to 10.6% of municipal budgets
- by 2018 will be 23% projected at current rate of increase - almost a quarter of municipal budgets (see figure 3)

**Figure 3**

**Municipal Employee Health Insurance as  
 % of Massachusetts Municipal Budgets**



**How do Municipal Employee Health Insurance costs compare to local revenues?** Figure 4 (below) shows that while municipal employee health insurance increased by 63%, municipal budgets increased only 14.8% and local aid that comes from the state actually decreased by -1% (between 2001-2005). This causes tremendous strain on local budget perhaps resulting in increases in property taxes, increased fees, or decreased services.



Source: MMA/MTF 2005 Municipal Health Cost Survey; Cherry Sheet Local Aid for survey communities

Studies by the Mass Taxpayers Foundation and the Boston Municipal Research Bureau found the annual growth in cost of municipal employee health insurance exceeded the 2 ½% increase in property tax allowed on existing properties by 8 % on average from FY2001 to FY2004.

**What are the Massachusetts state laws regarding Municipal Employee Health Insurance?**

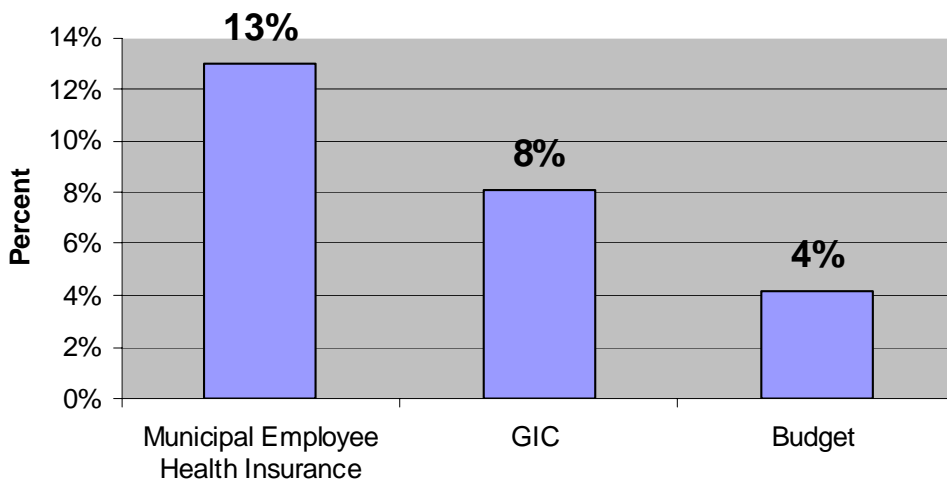
- Massachusetts General Laws (MGL Chapter 32) require that municipalities pay at least 50% of the cost of health insurance for full time employees. It also states that municipalities may not pay more than 90% of the share of the costs of HMOs for employees.
- Massachusetts public employee collective bargaining law gives most public employees the right to bargain collectively over terms and conditions of employment. 100% of the unions in a municipality must approve any change in health insurance before the change can be made.
- A new law (Chapter 67 of the Acts of 2007) gives towns the option of joining the health insurance system of the Commonwealth (GIC) using coalition bargaining.

Table 1 (columns C and D) shows that the state plan called the Group Insurance Commission (GIC) increased 47% at an annual average rate of increase of 8% compared to the municipal employee health insurance costs that increased at 84% and 13% annually (Columns A and B), a significant decrease for the state-run plan. This law allows a community to join the state plan if 70% of the coalition bargaining units of the union vote to make the change. If all municipalities joined the GIC in 2008, it is estimated that they would save between \$435 million and \$764 million by 2013; by 2018, between \$1.4 billion and \$2.5 billion would be save in municipal health insurance costs.

**If the rate of municipal health insurance annual increase were held to the Group Insurance Commission (GIC) rate of 8% increase per year, would the problem be solved?**

No. The overall budgets of municipalities are estimated to be increasing at a rate of 4.2% (the average for 2001-2006) compared to the GIC's rate of increase of 8%. Thus local budgets are not increasing sufficiently to absorb the increase, ultimately necessitating decreased services or repetitive overrides. Moreover, there is no guarantee the rate would stay at 8%. GIC plan adoption would save most municipalities substantial dollars but not solve the problem (see figure 5).

**Figure 5 Comparison of Rate of Annual Increase: Health Insurance VS Budget**



**What proposals have been suggested to control municipal health insurance expenditures?**

| <b>Proposals to control Municipal Health Insurance Costs</b> |   |
|--|---|
| <b>Topic</b>   | <b>PROPOSALS</b>  |
| Increase local control over insurance costs                  | 1. “ Increase local management authority...need authority to manage health insurance costs” ( <i>Barry Bluestone et al</i> )  |
| Retiree Health Insurance                                     | 1. Require all retirees to enroll in Medicare ( <i>Mass Taxpayers Foundation</i> )<br>2. Require municipalities to enroll employees in Medicare within 3 years ( <i>Municipal Finance Taskforce</i> )   |
| Union negotiations   | 1. Remove requirement to negotiate all health insurance with all unions ( <i>Mass Taxpayers Foundation</i> )<br>2. Additional flexibility to bargain with unions ( <i>Municipal Finance Taskforce</i> )<br>3. Give cities and towns some authority in setting rates; remove from collective bargaining ( <i>Mass Taxpayers Foundation</i> )   |
| Create or join GIC   | 1. Give communities authority to establish the equivalent to the Group Insurance Commission ( <i>Mass Taxpayers Foundation</i> )<br>2. Create individual GICs to govern local health plans ( <i>Municipal Finance Taskforce</i> )<br>3. Monitor the participation rate in GIC to see if coalition bargaining requirement needs to be relaxed (if low participation)( <i>Mass Taxpayers Foundation and Boston Municipal Research Bureau</i> ). |
| Municipal Insurance Options                                  | 1. Make it easier to purchase joint insurance plans ( <i>Municipal Finance Taskforce</i> )  |

**What are the League of Women Voters positions related to health insurance and health care?** The national League of Women Voters of the U.S. (LWVUS) and the Massachusetts League of Women Voters (LWVM) both have positions on health care.

- The LWVUS believes “ that a basic level of quality health care at an affordable cost should be available to all U.S. residents.” The LWVUS also “favors a national health insurance plan financed through general taxes in place of individual insurance premiums” commonly known as the ‘single payer’ approach.

- LWVM's goal is *"an affordable health care system that provides equal access to quality health care for all"*.
- LWVUS supports *"administration of the U.S. healthcare system whether by a combination of the private and public sectors or by a combination of federal, state and/or regional governmental agencies."*
- Under LWVM positions on Fiscal Policy, State Mandates: *"The League supports adequate levels of state finding for state-mandated programs"*
- Under Home Rule, the LWVM supports *"Constitutional home rule for Massachusetts cities and towns; Sharing of functions among all levels of government; Cost –sharing by all levels of government to implement standards."*

## **Consensus Question 3b**

**Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?**

### **Municipal Employee Pensions**

**What are the state laws regarding municipal pensions?**

- Massachusetts General Law Chapter 32 states that every city or town must have a public employee retirement system which covers all full time employees. This law determines both eligibility and benefits. PERAC (Public Employee Retirement Administration Commission) is the state body which administers this law. Public employees are not eligible for Social Security hence do not pay FICA taxes.
- In 1987, MGL Chapter 32 was amended (Chapter 697 of Acts of 1987) to require each public retirement system to provide for its normal costs and eliminate its unfunded pension liability by 2028. Every municipality must now have in place a state-approved plan to set aside sufficient additional annual funding to eliminate this liability by this date.
- A new law passed July 25, 2007 both identifies and requires the state's lowest-performing pension systems to invest with the state Pension Reserve Investment Trust (PRIT). The criteria for requiring this transfer are based on the funding level and the average rate of return, as compared to PRIT, over the last 10 years. Amesbury, Lawrence, Methuen and Peabody are affected by this requirement.

**What is Unfunded Pension liability?**

Pensions used to be accounted under a "Pay As You Go" system. Municipalities budgeted for the pension benefits to be paid out each year, augmenting these funds as needed. With the change in accounting, cities and towns now have to make up the difference between the actuarial cost of today's retirees and future retirees and the actual cost of today's retirees. That difference is the current unfunded liability. Recently the national Government Accounting Standards Board (GASB) has required that government pension systems fully fund their pension obligations and pay down the unfunded liability.

For Massachusetts municipalities, with 64% of retirement liability paid, local retirement boards still have an unfunded liability of \$9 billion remaining that will need to be funded by 2028. The amount varies widely among municipalities. Some towns are fully funded, while those with poorly administered plans are well below average. (See Table 2).

**Table 2. Massachusetts Contributory Retirement Board Profiles**  
(Source: Public Employee Retirement Administration Commission (PERAC)  
2006 annual report).

| <b>Retirement Board</b> | <b>Funded Ratio (Percent fully funded)</b> | <b>Year Fully Funded</b> | <b>2007 Total Pension Appropriation (Millions)</b> |
|-------------------------|--|--------------------------|--|
| Andover                 | 78.1%                                      | 2024                     | \$4.1  |
| Amesbury                | 56.3%                                      | 2026                     | \$2.1  |
| Boston                  | 64.4%                                      | 2023                     | \$221.9  |
| Braintree               | 62.4%                                      | 2023                     | \$5.9  |
| Berkshire Regional      | 76.8%                                      | 2018                     | \$5.6  |
| Concord                 | 90.5%                                      | 2012                     | \$3.0  |
| Everett                 | 33.6%                                      | 2028                     | \$6.9  |
| Dukes County            | 63.8%                                      | 2023                     | \$3.6  |
| Falmouth                | 66.4%                                      | 2028                     | \$3.8  |
| Hampshire County        | 58.8%                                      | 2028                     | \$11.4   |
| Hingham                 | 68.0%                                      | 2028                     | \$3.0  |
| Lawrence                | 43.7%                                      | 2028                     | \$12.8   |
| Lexington               | 88.4%                                      | 2015                     | \$3.3  |
| Lynn                    | 46.7%                                      | 2028                     | \$18.3   |
| MWRA                    | 100.0%                                     | NA                       | \$4.1  |
| Marblehead              | 83.3%                                      | 2023                     | \$2.3  |
| Natick                  | 66.6%                                      | 2026                     | \$5.1  |
| Needham                 | 75.0%                                      | 2022                     | \$3.8  |
| Newton                  | 66.2%                                      | 2028                     | \$10.7   |
| Norwood                 | 87.9%                                      | 2028                     | \$2.0  |
| Plymouth                | 61.0%                                      | 2028                     | \$5.8  |
| Shrewsbury              | 71.3%                                      | 2022                     | \$2.3  |
| Springfield             | 42.6%                                      | 2028                     | \$26.4   |
| State                   | 81.5%                                      | 2023                     | \$438.0  |
| State Teachers          | 67.2%                                      | 2023                     | \$767.0  |
| Swampscott              | 52.5%                                      | 2028                     | \$2.7  |
| Waltham                 | 51.1%                                      | 2026                     | \$11.4   |
| Wellesley               | 103.2%                                     | NA                       | 0  |
| Winchester              | 75.6%                                      | 2028                     | \$2.8  |
| Woburn                  | 72.6%                                      | 2026                     | \$4.2  |
| Worcester               | 79.8%                                      | 2023                     | \$23.3   |

### **How are pension funds managed?**

There are 104 Municipal Retirement Boards in Massachusetts which administer pension rules and supervise investments for their local districts. These boards have the option of investing their assets through the Pension Reserve Investment Trust (PRIT), which is managed by a state board called the Pension Reserves Investment Management (PRIM) board, or managing their own investments. In 2004, out of 104 local pension systems, 55 invested on their own, 20 invested with PRIT and 29 used a combination of the two.

### **What problems have been noted about the system?**

- Widely varying performance, administration and efficiency is the result of 104 separate retirement systems.
- Under-performing local pension funds (relative to the state's pension fund which all have the option of joining) will cost their municipalities and taxpayers. According to one report, the cumulative loss by under-performing funds in the last ten years is \$1.6 billion. Massachusetts taxpayers will be making up the difference. Since 1995, the cost being made up by taxpayers is \$3 billion.
- Lack of oversight and weak legal restrictions on retirement system boards (including an exemption from competitive bidding and no restrictions on travel expenses or business relationships with related parties) create the opportunity for favoritism and corruption.
- These "defined benefit" pensions use a complicated arithmetic (prescribed by Chapter 32) which can be manipulated for the benefit of some recipients. All pensions are based on four factors: years of service, an average of the three highest years of salary, group or job classification, and retirement age. All pensions allow early retirement at 55 with 10 years service, and at any age with 20 years service. Job classification can influence benefits in an arbitrary manner. An example at the state level is a former legislator /official whose benefits were calculated on a "salary" which included housing allowances and annuity payments. It should be noted that PERAC has suggested a number of reforms.

### **How do these liabilities impact municipalities?**

- Massachusetts city and town public retirement unfunded liabilities vary, but the estimated \$9 billion unfunded liability statewide will require full funding by 2028, impacting local budgets.
- A Pioneer Institute study states that Massachusetts taxpayers are in the process of paying an additional \$3 billion in taxes to make up for the poor investment performance by , i.e. lost earnings, since 1995. This will have an impact on local budgets as money that would go toward operations is diverted.
- In addition, estimates of the cost of the pension calculation inequities described in the same study amount to more than \$125 million annually.

**How has the private sector handled pensions?**

Since the 1980’s the business sector has moved toward “defined contribution” pension plans, IRAs and 401(k)s, etc. The accumulated contribution, plus accumulated return on investments, determine the amount of benefits. In these systems a business’s contributions (if any) to the fund stop when the employee retires or is no longer employed by the business. The amounts contributed are defined by the terms of the plan. Only 20% of private sector employees have “defined benefit” pension benefits, down from 40% in 1960. In contrast, 90% of public sector workers have traditional benefit plans.

Several large companies have stopped paying into pension funds, replacing traditional pension funds with 401(k) contributions. In the case of bankruptcies the Pension Benefit Guaranty Corporation insures worker pensions, although often at a lower level. In contrast, it is not possible to cut the pension of a public employee. Such efforts have been thrown out by the courts.

**What changes have been proposed?**

|                           | <b>Proposed Changes</b>   |
|---------------------------|---|
| <i>Benefits</i>           | <ul style="list-style-type: none"> <li>• End early retirement and health insurance coverage for early retirees (<i>Salem News</i>)</li> <li>• Cap individual annual pension benefits at \$100,000 (<i>Boston Globe</i>)</li> <li>• Tie benefits more closely to lifetime contributions(<i>Pioneer Institute, Ken Ardon, “Public Pensions: Unfair to state employees, unfair to taxpayers”</i>)</li> </ul>                                     |
| <b>Basis for Pensions</b> | <ul style="list-style-type: none"> <li>• Pensions should be based on average career earnings (<i>Salem News</i>)</li> <li>• Pensions should be based on salaries alone (<i>Salem News</i>)</li> </ul>   |
| <b>Type of Pensions</b>   | <ul style="list-style-type: none"> <li>• Move from defined benefit to defined contribution plan (<i>Pioneer Institute, Ken Ardon, “Public Pensions: Unfair to state employees, unfair to taxpayers”</i>)</li> </ul>   |
| <b>Funding Pensions</b>   | <ul style="list-style-type: none"> <li>• Require any change in benefits to be fully funded within 3 years(<i>Pioneer Institute, Ken Ardon, “Public Pensions: Unfair to state employees, unfair to taxpayers”</i>)</li> <li>• Reform Chapter 32 to make cost of changes transparent to taxpayers (<i>Pioneer Institute, Ken Ardon, “Public Pensions: Unfair to state employees, unfair to taxpayers”</i>)</li> </ul>                           |
| <b>Administration</b>     | <ul style="list-style-type: none"> <li>• The pension system should be centralized, putting all assets in one fund, e.g. PRIT(<i>Pioneer Institute Ken Ardon, “Leaving money on the table</i>)</li> <li>• Enhance oversight of PERAC, extend Uniform Procurement Act to local boards, set standards for travel expenses, conflict of interest; additional audits (<i>Pioneer Institute Ken Ardon, “Leaving money on the table”</i>)</li> </ul> |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"><li>• Bill requiring pension boards to utilize an open competitive process for vendors (<i>PERAC</i>)</li><li>• Restrictions on conflicts of interest for boards, financial disclosure for Board members, mandatory education for board members (<i>PERAC</i>)</li></ul> |
|--|--|

**What League positions relate to pensions?**

- Under LWVM positions on Fiscal Policy, State Mandates: *“The League supports adequate levels of state finding for state-mandated programs”*
- Under Home Rule, the LWVM supports *“Constitutional home rule for Massachusetts cities and towns; Sharing of functions among all levels of government; Cost –sharing by all levels of government to implement standards*

## **Selected Bibliography**

The following articles provide additional information on the consensus question topics

### ***Summary of Municipal Finance in Massachusetts***

“Communities at risk: Fiscal ties between the Commonwealth and its localities” by John Hamill, 2006 in Benchmarks vol. 8, issue 2  
<http://sites.donahue.umassp.edu/benchmarks/publications/issues/vol8i2/5.pdf>

“Local Services, Local Aid, and Common Challenges” by Phineas Baxandall, 2005  
Rappaport Institute Policy Briefs  
[http://www.ksg.harvard.edu/rappaport/downloads/policybriefs/brief\\_finance.pdf](http://www.ksg.harvard.edu/rappaport/downloads/policybriefs/brief_finance.pdf)

### ***Detailed Studies on the State of Municipal Finance in Massachusetts***

“Revenue Sharing and the Future of the Massachusetts Economy”, Bluestone, Barry, Clayton-Matthews, Alan, and Soule, David, Northeastern University Center for Urban and Regional Policy, Mass Municipal Association January 2006 *General article on fiscal issues facing Massachusetts communities and competitiveness*

“Local Communities at Risk: Revisiting the partnership between the Commonwealth and cities and towns”, Municipal Finance Taskforce, September 2005, [www.mma.org](http://www.mma.org)  
*General article on fiscal issues facing Massachusetts communities.*

### ***Transparent State Budget )***

“Creating a Transparent Budget for Massachusetts” October 2006 Massachusetts Budget and Policy Center [www.mbpc.org](http://www.mbpc.org)

“A More Transparent Budget: Continuing the Progress” November 2007,  
by Massachusetts Budget and Policy Center (MBPC) and the McCormack Graduate School at the University of Massachusetts [www.mbpc.org](http://www.mbpc.org)

### ***Legal constraints on Massachusetts Municipalities***

“Boston Bound: A comparison of Boston’s legal powers with those of six other major American Cities” Feb 2007 the Boston Foundation, [www.bf.org](http://www.bf.org) Article compares how Boston differs from other major cities due to the constitutional restrictions on all Massachusetts municipalities

### ***Municipal Employee Health Insurance***

Mass Taxpayers Foundation report “A mounting crisis for local budgets: the crippling effects of municipal health costs” July 2005 Report at [www.masstaxpayers.org](http://www.masstaxpayers.org) *Report on the financial pressure exerted on local government by health costs*

Massachusetts Municipal Health Insurance “Municipal Health Reform: Seizing the Moment”, joint report by Boston Municipal Research Bureau and Mass Taxpayers Foundation, August 2007, at <http://www.bmrb.org/content/upload/BMRBMTF.pdf>  
Massachusetts Municipal Health Insurance, opportunity for saving through GIC

### ***Municipal Employee Pensions***

“Public Pensions: Unfair to state employees, unfair to taxpayers” by Ken Ardon, White Paper from Pioneer Institute No. 30 May 2006.

[http://www.pioneerinstitute.org/pdf/06\\_pension\\_paper1.pdf](http://www.pioneerinstitute.org/pdf/06_pension_paper1.pdf) *This paper discusses the defined benefit pension plan of the Public Employee Retirement System.*

“Leaving money on the table; the 106 pension systems of Massachusetts” by Ken Ardon, Pioneer Institute White Paper No. 31, May 2006.

[http://www.pioneerinstitute.org/pdf/06\\_pension\\_paper2.pdf](http://www.pioneerinstitute.org/pdf/06_pension_paper2.pdf) *This paper discusses the inefficiency of 106 separate retirement systems and the cost to the taxpayers.*

### ***League of Women Voters Positions***

“Impact on Issues” [www.lwvus.org](http://www.lwvus.org) *National League positions*

“Where We Stand” [www.lwvma.org](http://www.lwvma.org) *Massachusetts League positions*

## **SCRIPTS FOR CONSENSUS MEETING ON MUNICIPAL FINANCE**

To assist Leagues in running the consensus meetings on municipal finance, scripts have been prepared for League leaders, discussion leaders and resource people (those presenting the information on each question to the group) as a guide to include all necessary information. The Fiscal Policy Update Committee has actually used these scripts in the pilot consensus meeting test run held in October 2007 with good results.

- Text in this font is information to present to meeting participants.
- *Text in this font gives instructions and suggestions to help the resource people or discussion leader present the meeting material effectively*

### **The Consensus Meeting Script**

*At the start of the meeting, copies of Consensus Meeting handouts should be ready for distribution. (Handouts can be obtained from the LWVM website.)*

*For Question 1, you will want to write the list of principles on the board or flip chart ahead of time. Leave space to the right of each principle so that you may record Yes or No, followed by “Low”, “Medium”, “High” next to each according to your meeting’s wishes.*

#### *Script for League Leader (Time: 5 minutes)*

Welcome to our League’s consensus meeting on Municipal Finance, part of the Massachusetts League’s Fiscal Policy Update’s Study.

Before we begin, I want to go over a few housekeeping items regarding the procedure for a consensus meeting.

- Thank you to attending guests but only members may participate in discussion.
- The Discussion Leader will lead the discussion.
- The Recorder will not speak or participate in the discussion except when she needs a clarification of items or conversation during the meeting.
- The report of the meeting completed by the Recorder will be given to the League Board (local) and the Board will approve the report and consensus meeting results before forwarding on the results to the State League.
- No voting will take place, only a discussion of the individual topics. The results of the deliberation and discussion and the sense by those in attendance as to how the discussion went helps to determine if there is consensus or not on a given subject.
- If you have any questions throughout the meeting, please don’t hesitate to ask.
- Have fun!

The Fiscal Policy Update Study that resulted in this consensus meeting on municipal finance was approved at the League convention in May of 2005. The impetus for the study was concern about the sporadic reports of laid off teachers and firefighters, closed schools and fire stations, reduced library hours, increased fees for athletics and trash, etc. across the Commonwealth—to find out what was behind these difficulties.

The FPU committee met for 2 ½ years studying municipal finances and then honed in on the fiscal relation between the state and local governments. Two forums were held in January of 2007 on municipal finances—entitled “where does the money come from and where does it go?”. The group also designed a local study on Municipal Finance for Leagues to evaluate their own community. *(If your League participated, note this and who was involved and perhaps have a copy of your summary reporting sheet available for the group).*

There are three questions for us to come to consensus upon. *(Have the questions written on the flip chart)*. The first asks us to think about what principles should guide the fiscal relationship between the state and local governments. For many years, there were unwritten agreements between the state and localities, such as when Prop 2 ½ went into effect restricting local revenues and the state stepped up its local aid to communities in response. However, more recently, the state has ignored some of its agreements, such as freezing Lottery Aid to communities and keeping the revenue for the state government. We ask you to choose principles to guide this relationship.

Question 2 concerns local revenue. It asks us to revisit the League position opposing local option non-property taxes, to see if we might change our minds, in light of the current fiscal reality.

Question 3 asks if state laws should be changed to help localities deal with two growing expenditures—health insurance and pensions for municipal employees.

Our discussion leader *(you may introduce her)* will facilitate comments and inquiries during the presentation of question 1 by the resource person after each principle is introduced. Discussion regarding questions 2 should occur immediately after the material is presented. Question 3 has two parts—health insurance and pensions, and each will be discussed separately.

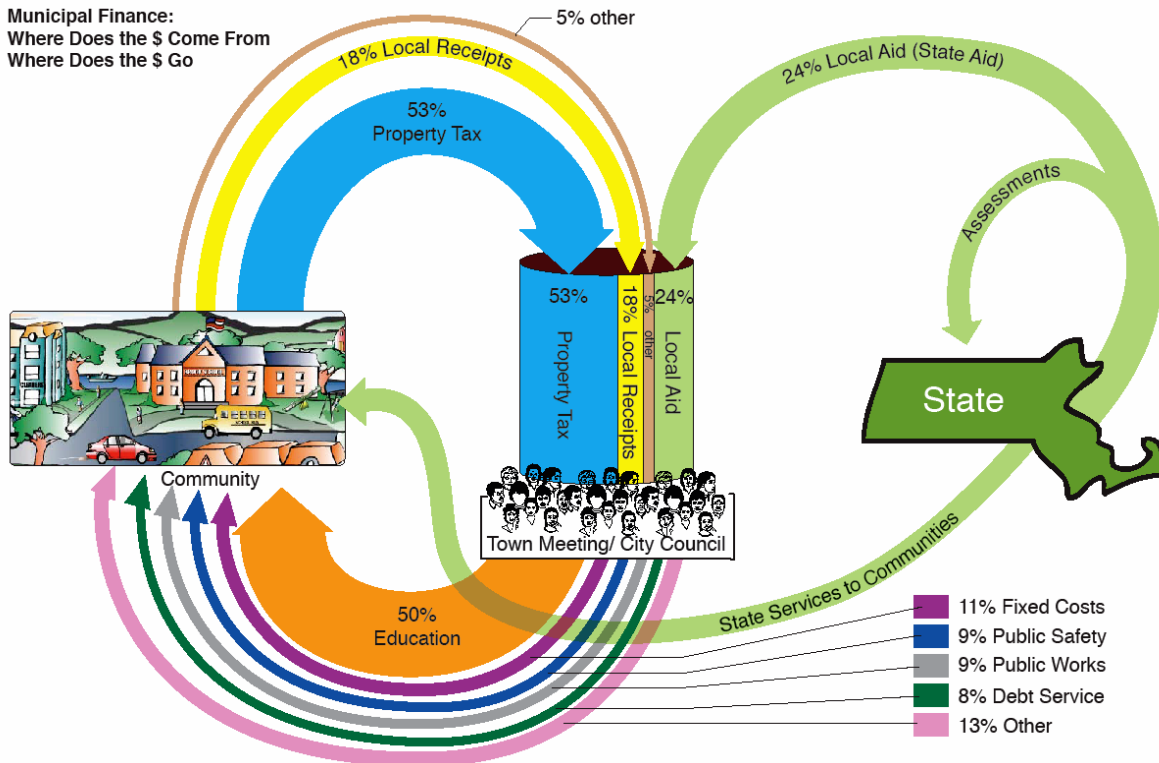
We'll begin with a very short background on municipal finance in preparation for the questions.

“Background to Municipal Finance” SCRIPT

(Time allowed for Background: 5-10 minutes)

Note to Resource person: The Handout should be distributed so attendees can follow along when you refer to figures;; you might want to use an enlargement of Figure #1 while discussing it.)

#1



Percentages based on 2004 Aggregate MASSACHUSETTS data,  
Data Source: Municipal Finance Task Force Report

I want to begin this introduction to the fiscal relationship between our state and its cities and towns by asking you to take a look at the diagram at the beginning of the handout (figure 1). We think it is the best graphic portrayal of the ins and outs of local funding that we have ever seen. The data is from 2004, but the relationship has not really changed.

- First – in the center is the local spending authority – city council or town meeting
- Then – look at the income (by percentage) coming from the community and state
- Note the state subtracts assessments directly from aid and also provides services
- Finally – look at the local expenditures (and percentages)

As we consider both the sources of funds and the locally budgeted expenditures, we must bear in mind that on both the revenue and expense side, state laws determine the range of options that are available to municipalities.

**And here's why...**

In Massachusetts, the relationship between state and local government is established by the state constitution and its Home Rule Amendment, enacted in 1966 with support from the Massachusetts League of Women Voters.

Before 1966 – cities and towns were completely controlled by the state – allowed to do only those things specifically enabled (allowed) by state law.

Since then – cities and towns have had more local autonomy and may do anything that is not specifically limited by state law.

While this was a significant change increasing the ability of municipalities to determine their own forms of government and removing some issues from state legislative control, local powers remain limited.

In particular, the state retained the power of the purse. Cities and towns local cannot levy, assess or collect taxes except as specifically allowed by state statute. For example, in Massachusetts, a municipality cannot impose a local sales tax or a local income tax. The state also has established maximums for many local fines and fees and sets limits on the amount a city or town may borrow.

**First let's look at this state/local fiscal relationship with respect to ...**

**LOCAL GOVERNMENT REVENUE**

According to the Massachusetts state constitution, all taxing authority is held by the state. However, the Legislature has granted to municipalities the right to collect (within specific limits) and use the following taxes: property tax, automobile excise tax and airplane fuel tax. The Legislature also has allowed itself to pass Local Option Taxes which give cities and towns the right to levy specific taxes in just their own communities with the approval of their own local voters.

The Massachusetts LWV supports increasing local aid from state-collected taxes to reduce the burden on the property tax. The League also supports the use of fees to fund local services, but does not support allowing cities and towns to levy additional taxes at the local level. (*See the most recent LWV of Mass Fiscal Policy Study – 1993*)

**To look at the revenue going FROM THE STATE TO MUNICIPALITIES (Figures 2, 3)**

The state distributes funds from the taxes it collects to the cities and towns through a number of statutory programs. The largest dollar amounts come through Chapter 70 Education Aid, the Lottery Fund distribution and Additional Assistance.

**Chapter 70 Education Aid** – The largest source of state aid for municipalities, Chapter 70 is distributed by a formula intended to be equalizing and must be used for education.

The Massachusetts LWV supports the reforms embodied in Chapter 70 but does not support the current formula used to distribute Chapter 70 aid.

**Lottery Funds** – A state lottery was approved by Massachusetts voters in 1971 with its revenue specifically intended for local aid. However, its distribution is still subject to annual state appropriation. And, when the state economy faced hardship, the legislature has diverted some of the lottery funds away from municipalities and into the state budget. Lottery funds are unrestricted funds (i.e. the state does not mandate how they are spent).

The Massachusetts LWV, while opposed to lotteries as a source of governmental funding, does support the current formula used to distribute lottery aid.

**Additional Assistance** – This state aid program now provides unrestricted revenue to only 159 of the 351 cities and towns. A holdover from the resolution aid formula of the 1980's, Additional Assistance was cut in the 1990's (reducing some communities to zero) and continues to be reduced proportionally so that it no longer has a formulaic basis.

**Other Programs** – A number of reimbursement programs have been established by state statute, but they all require up-front municipal expenditures. Some provide only partial reimbursements and all are funded subject to legislative appropriation.

### **But what about the state's role in LOCALLY GENERATED FUNDS (Figure 2)**

**PROPERTY TAXES** are the major source of revenue for municipalities and now provide over half of municipal income (53% in 2004). Although, the percentage of the local budget funded by property tax has been increasing in recent years, cities and towns are limited in the total amount that they can raise through each year's property tax by Proposition 2 ½ (a referendum-initiated state statute approved by the voters in 1980).

The Massachusetts LWV has a position opposing Proposition 2 ½.

The remaining sources of municipal revenue make up about 18% of the total and are grouped together as **LOCAL RECEIPTS**. However, even these locally-generated funds are limited.

**Automobile Excise Tax** – This tax is charged annually on the value of every registered vehicle in Massachusetts. However, the table of automobile values is established by the state and the rate itself was rolled back in 1980 by Proposition 2 ½ and has not been changed since then.

The Massachusetts LWV has a position supporting an increase in the revenue generated by this source of taxation.

**Airplane Fuel Tax** – This tax only benefits municipalities with airports and is only levied on jet fuel (applying now to 18 airports). If it were levied on all types of airplane fuel, it would benefit 45 communities.

**Payments In Lieu of Taxes or PILOTs** – Land that is owned by the government or by non-profit organizations is exempt from property taxes and, in some municipalities, this can amount to a large percentage of their total land. To partially compensate for the lost tax revenue from state-owned property, Massachusetts has instituted a state PILOT program. However, the state calculates these payments, which are subject to legislative funding, on basis only of the non-improved value of state-owned property (i.e. not including buildings, etc). PILOT payments from non-profits are entirely voluntary and are based on successful municipal negotiation with each individual non-profit institution.

**Local Option Hotel Tax** – As mentioned earlier, the state legislature can pass statutes allowing municipalities to levy specific taxes with the approval of their voters. The hotel tax, enacted in 1985, allows a municipality to levy an additional tax of up to 4% on short-term (less than 90 days) local room occupancy.

**Community Preservation Act** – Enacted in 2001, this statute allows municipalities, by local option, to add a surcharge of up to 3% onto their own property taxes, but the revenue (and matching state funds from registry fees) is totally restricted and can only be used for passive-use land acquisition, affordable housing and historic renovation.

**Fees** – the Home Rule Amendment allows cities and towns to assess fees for locally provided services and many municipalities have been establishing and raising fees to cover expenses that were previously in the budget. However, “fees” are carefully defined in statute as costs that can be quantified and specifically tied to a service, and the Supreme Judicial Court has been very restrictive when considering whether a charge is a tax (which is not allowed) rather than a fee (which is permitted).

The Massachusetts LWV supports the use of fees to fund local services.

#### **Now to look at how the state affects LOCAL GOVERNMENT EXPENDITURES (Figure 4)**

The state legislature can – and has – enacted statutes that mandate specific spending (primarily in the area of education) as well as statutes that control the options available to municipalities as they consider other types of spending. Even programs that were intended to provide specific reimbursements (like the Quinn bill which is supposed to provide half of police educational incentive increases) are subject to legislative appropriation and are often less than fully funded.

Broadly divided into categories, local governments spend 50% of their total revenue on education, 9% on public safety, 9% on public works, 8% on debt service, 11% on fixed costs, and 13% on everything else.

According to recent studies, significant and often uncontrollable increases in three areas have had a major effect on local budgets often necessitating reductions in the level of other local services. These areas are education (especially special education), health care and municipal pensions. State statutes and legislative mandates have had noticeable impact on these budgets.

By far the largest local budget item is, of course, **Education** – Chapter 70 as established by education reform in 1993, in addition to determining aid for education, requires the state to establish a minimum amount that each municipality must spend on education from its local fund sources. An unintended impact of this mandated “net school spending” has been to shift municipal dollars away from other local needs to provide the budget necessary for education.

Categorized as **Fixed Costs**, two other burgeoning budget items, established and controlled by legislative statutes, are Health Care and Pensions.

**Health Care** – State law requires municipalities to offer the same choices of health care benefits to all full-time employees. In addition, collective bargaining statutes mandate that any change in a municipal health plan be approved by all local unions, which makes changes difficult to accomplish.

**Pensions** – The state requires municipalities to have a public employee retirement system and a 1987 law requires each public pension system to eliminate its unfunded liability by 2028. At that time, local pension systems were not fully funded, so municipalities were forced to increase annual payments into pension funds to cover projected as well as current costs. Since local pension systems are set up by state law to be autonomous units making major changes at the local level difficult.

**So, as you can see, legislative actions impact local spending decisions as well as revenue raising options. Local budget struggles make our review of the state/local fiscal relationship both important and timely.**

## Consensus Question 1 Script

### What principles should govern the fiscal relationship between the state and local governments?

*(Total time for resource person presentation and discussion of Question 1 is 45 minutes.)*

This consensus question will propose a set of principles that could be used to evaluate possible changes in the state/local fiscal relationship. For each proposed principle, I will include background information on how that principle could be applied and relevant League positions. The Municipal Finance Study Guide includes more information on each proposed principle.

For some principles, I'll provide a concrete example.

**NOTE: We are not asking the LWV to come to consensus on any of these concrete proposals at this time. They are provided as example of proposals that the League could consider supporting or opposing based on these principles.**

First I will present the information on each principle. After each principle, the Discussion Leader will ask the group's opinion on the principle. *(Note: clarifying questions may be asked of the Resource Person during the discussion).* As you finish discussion of each principle, support or opposition to that principle. will be recorded on the flip chart and by the recorder. When you have finished discussing all of the principles, you will have the opportunity to rate the relative importance of each principle.

#### *Transparency*

Transparency applies both to the budget and the budget process. The current budget and budget process at the State House are difficult to understand and monitor.

A **transparent state budget** should be clearly written and understandable for the general public. It should include sufficient information about spending, revenues and program in a clear and consistent format. Budget documents should be open and accessible to the public.

Steps have been taken over the past year to implement portions of a proposal to make the budget document more transparent. *(See Municipal Finance Study Guide for details).*

The budget is one of the most complicated pieces of legislation that is passed each year. (The study guide shows the process that the budget follows each year). Discussions about the budget in Massachusetts are largely conducted in closed sessions. In contrast, municipalities must develop their budgets under the control of Open Meeting Law.

A **transparent budget process** would allow the general public to see how the budget is created.

The League does not have a position currently that requires budget or budget process transparency at the state level or national level. The League, however, has historically supported Opening Meeting Law. (*For details on the League's relevant positions, see Municipal Finance Study Guide.*)

**Pro Argument:**

A more transparent budget and budget process allows

- better public input
- facilitates better understanding of budgetary tradeoffs. This can result in better use of state funds and more support for difficult budgetary decisions.
- helps citizens to more easily assess who is working toward specific goals and who is in opposition.

**Con Argument:**

The current budget mechanism has evolved over a long time and reflects legislative efficiency. It invests a lot of power in the legislative leadership. This process allows legislators to provide benefits to their home districts by trading off support for each others projects.

In addition, if budget negotiations are done behind closed doors, it is possible for the parties to explore compromises that would be difficult to discuss in public.

At this point I would like to open up the meeting to discuss the following statements:

|   |     |    |
|---|-----|----|
| The Massachusetts LWV believes that the <i>state budget</i> should incorporate the principle of <i>transparency</i> .         | Yes | No |
| The Massachusetts LWV believes that the <i>state budget process</i> should incorporate the principle of <i>transparency</i> . | Yes | No |

*[Discussion led by discussion leader; Resource person can answer any informational questions]*

*Timeliness*

A timely fiscal relationship between the state and municipalities would encourage the state to provide firm information on state aid earlier in the budget cycle.

The State Aid portion of the State Budget is the money that is sent to municipalities (this is also called local aid). This information is known as the 'cherry sheet'. Cherry Sheet information frequently is finalized long after municipalities need to finish their own budgets. This creates a difficult situation where local spending decisions need to be finalized before revenue figures are known.

Local Aid numbers are supposed to go to municipalities in March. However, this deadline is rarely met (in recent memory, once in the Dukakis administration).

There are no current League positions that relate to the timeliness of the state budget.

### Pro Argument

A large portion of each municipal budget is determined by state aid as documented in the annual Cherry Sheets. It is extremely difficult for municipalities to finalize their budgets without firm numbers for state aid.

### Con Argument

Requiring a firm commitment for local aid in March reduces flexibility for the rest of the budget and might result in less money being allocated to state aid as legislators are still negotiating other parts of the budget.

At this point I would like to open up the meeting to discussion of the following statement:

|  |     |    |
|--|-----|----|
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>timeliness</i> . | Yes | No |
|--|-----|----|

*[Discussion led by discussion leader; Resource person can answer any informational questions]*

#### *Equitability*

Equitability can be defined in many different ways. The LWV has long standing positions in support of collecting money statewide on a progressive basis and distributing it in a way that helps equalize the resources of different municipalities. This suggests that the LWV supports giving poorer communities larger amount of state aid and giving similar communities similar amounts of state aid.

Unfortunately, the 'hold harmless' principle', which means that, in general, state aid for a given municipality will not be less than the aid received in the previous year, tends to lock in funding inequities. The 'hold harmless' principle causes the legislature to focus primarily on the distribution of new aid each year and to avoid examining changing circumstances that may affect existing aid programs. This is a particular problem in the distribution of Additional Assistance aid and in portions of the Chapter 70 Education Aid formula.

- Additional Assistance aid was created in the 1980s as a way to ease the transition to a new funding model for aid to Education. However, since that time it has not been re-examined to determine what communities should receive Additional Assistance and what the levels should be. As a result, similar communities are treated very differently when it comes to Additional Assistance.
- Several problems in the administration of Chapter 70 Education aid have resulted in *similar* communities receiving substantially *different* amounts of aid. The original program treated similar communities differently and these inequities have been protected by the 'hold harmless' provision. In addition, the Chapter 70 Aid program has not adjusted well to changing municipal circumstances resulting in various forms of inequitable treatment.

### Sample Proposals

There are a number of possible ways to increase equitability. The League might support the elimination of Additional Assistance in favor of distributing those funds in a more equitable way; the League already supports changing the Chapter 70 Education Aid

distribution algorithm to make it more equitable; or the League could support eliminating the 'hold harmless' principle.

The current LWV position supports distributing aid on an equalizing basis. (*See the Municipal Finance Study Guide for more details*).

**Pro Argument**

The LWV's current positions advocate a more equitable distribution algorithm than is currently being used. Adopting this principle would re-iterate our current support for using state aid as an equalizing tool for poorer municipalities and would allow the League to take action on a range of potential proposals that could improve the distribution of state funds.

**Con Argument**

The primary argument against equitability is that the government should not take money from some people to give it to other people.

In addition, there are arguments against these specific proposals:

- The communities who receive Additional Assistance are, generally, the communities with the greatest need. Eliminating this source of funds may cause significant hardship in those communities. Additional Assistance is one of the few sources of aid that is not tied to specific mandated expenditures (i.e. earmarked).
- The League already has a position on changing the distribution algorithm for Chapter 70 Education Aid based on the 'equalizing' principle and doesn't need another position to support this.
- The 'hold harmless' principle as currently adopted is one way that the legislature attempts to implement the principle of dependability. Eliminating it would make local budgeting even more difficult.

At this point I would like to open up the meeting to discussion of the following statement:

|  |     |    |
|--|-----|----|
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>equitability</i> . | Yes | No |
|--|-----|----|

*[Discussion led by discussion leader; Resource person can answer any informational questions]*

*Dependability*

A dependable relationship between the state and municipalities would ensure that year to year state aid is consistent and generally predictable.

On a statewide basis, state aid constitutes approximately one-quarter of the total local revenue (property tax is the largest source of local revenue). State aid to municipalities is not set in statute. It is subject to appropriation by the legislature each year.

The state attempts to increase the dependability of this aid by following a practice that is known as 'hold harmless', which means that, in general, state aid for a given municipality will not be less than the aid received in the previous year.

"Hold harmless" does not mean that a municipality will *never* receive less money than it did the year before. Starting in 2000, the legislature cut Chapter 70 aid for all municipalities. For some municipalities, the cuts put them below their foundation budget. These municipalities had funding restored to bring them back to foundation level. The net effect was to concentrate the budget cuts on the communities who were spending above foundation level on their schools.

It is important to recognize that 'hold harmless' is a mechanism used by the legislature to increase the dependability of state aid. It is, however, a mechanism that tends to reduce equitability.

Even with the 'hold harmless' policy, when the state faces a fiscal crisis, all state aid to municipalities is subject to cuts. Examples are listed in your Municipal Finance Study Guide.

### **Sample Proposal**

The Massachusetts Taxpayers Foundation recommends that municipalities share a fixed percentage of major state tax revenue *by statute*.

### **Relevant League Positions**

There are no current League positions on the dependability of state aid in general. There are League positions that relate to the adequacy of aid for state mandated programs.

### ***Pro Argument***

Making state aid more dependable would reduce the pressure on local property taxes and allow municipalities to continue to provide adequate local services within their budgets.

### ***Con Argument***

- The current system of setting state aid 'subject to appropriation by the legislature' embeds the assumption that state funding programs are more important than local funding programs. Setting an amount of local aid by statute reduces budget flexibility for the state legislature. This could force the state to curb spending on state spending programs in times of fiscal difficulty.
- Even if state aid is set by statute, the legislature is legally free to change state aid unless the state constitution is changed.

At this point I would like to open up the meeting to discussion of the following statement:

|   |     |    |
|---|-----|----|
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>dependability</i> . | Yes | No |
|---|-----|----|

*[Discussion led by discussion leader; Resource person can answer any informational questions]*

*Flexibility in Local Spending Decisions*

Flexibility in local spending would allow municipalities to increase their control of spending decisions. Currently many municipal spending decisions are controlled by the state either through mandates, earmarked state funds that must be spent on certain programs or through other laws that restrict municipal spending choices.

The state government requires municipalities to provide certain services. Some of these mandates include funding for a portion of the associated costs but the funding is generally insufficient and unreliable. In an effort to provide funding for mandates, State Aid is frequently earmarked for specific programs which reduces the flexibility of municipalities to fund local priorities.

For example, one of the impacts of Ed Reform was to shift money away from other municipal needs to mandated Education spending, i.e. the increase in state money for Education has been accompanied by a decrease in state aid for other municipal purposes.

Current state law restricts the ability of municipal officials to manage their health insurance costs. State law prevents municipalities from changing the health benefits they offer municipal employees without agreement from all of the effected unions. This requirement makes it difficult if not impossible to modernize the plan design structure for health benefits. The state has exempted itself from these collective bargaining requirements.

**Sample Proposals**

- The Massachusetts Taxpayer Foundation has a proposal that increases the amount of state aid that is distributed to the general fund (i.e. not earmarked for specific spending programs) to provide flexibility for municipalities in funding local services.
- Another proposal focuses specifically on the cost of health care and would allow municipalities to establish employee health care benefits under the same rules that are used by the state.

**League Positions**

- The League has positions that support the right of federal, state and regional governments to set standards of performance in broad areas of public concern.
- The League also supports “adequate levels of state funding for state-mandated programs...”

**Pro Argument**

- Local Government is closest to the community and best able to judge the efficient allocation of funds.
- Voters are more easily able to hold local officials accountable for the spending decisions they make.
- Local Governments should not be held to a significantly more stringent set of rules than the State Government uses.

**Con Argument**

- Local communities may be unwilling to fund their portion of efforts that have a statewide benefit (such as creating more Affordable Housing and Environmental Protection). Increasing local control may end up undermining state efforts in these areas.
- The League already has positions encouraging the federal, state and regional governments to provide adequate funding for their mandated programs.

At this point I would like to open up the meeting to discussion of the following statement:

|  |            |           |
|--|------------|-----------|
| <p>The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of granting <i>flexibility in local spending decisions</i>.</p> | <p>Yes</p> | <p>No</p> |
|--|------------|-----------|

*[Discussion led by discussion leader; Resource person can answer any informational questions]*

*Flexibility in Local Revenue Raising Options*

Under the Massachusetts constitution, local governments may not levy, assess or collect taxes except as specifically granted by the state legislature. For example, municipalities may not impose a local sales tax or a local income tax. Municipalities are also limited in the borrowing that they can do. Flexibility in local revenue raising would allow municipalities to increase their sources of revenue through local option taxes or fees.

Municipalities are allowed to collect Property Tax, auto excise tax, airplane fuel tax and hotel tax. All of these taxes are governed by state statutes. In addition, cities and towns are allowed to assess fees. However, the state is quite strict about what charges can be levied as fees and what charges are considered taxes. Most cities and towns cannot assess developer impact fees, for example, because the state considers this a tax and not a fee.

**Possible Proposals**

Governor Patrick's proposal to allow more local option taxes did not move forward in the legislature this year.

Another possible proposal would be to allow municipalities to charge impact fees on new developments as is done in many other states.

Question 2 will deal with some specific proposals on local option taxes in more detail. The discussion here should be on the principle - not the specific proposals.

### **League Positions**

- The LWV currently opposes adoption of new, local non-property taxes by state-wide mandate or local option. This position was adopted in 1993.
- The LWV supports the use of commonly accepted criteria in judging taxes, particularly equitability, economic effect, flexibility, ease and cost of collections, and adequacy of yield
- The LWV supports user fees
- The League did support the CPA program which is a local option property tax.

### **Pro Argument**

Since 1993, pressure on property taxes in Massachusetts has been inexorable. The State has repeatedly shown that it will cut local aid in times of fiscal difficulty. Municipalities need to have additional sources of local revenue that are not dependent on the good will of the state government.

- Inequitability issue. Preventing municipalities from tapping their local financial options is similar to preventing a community from using a local lake for water because not all communities have lakes.
- Border issues. Local communities are best able to determine if border issues make a local tax desirable. The state should not prevent local taxes for all communities because it does not make sense for some.
- The current law discourages municipalities from being innovative in the search for local revenue.

### **Con Argument**

- Unfair if all communities will not benefit (inequitability).
- Border issues between communities with and communities without tax could arise.
- This principle, to be effective, would require a constitutional change. The effect of 351 different local tax structures could lead to fiscal chaos.
- The League studied this issue in 1993. Has the situation changed sufficiently to justify changing this position?

At this point I would like to open up the meeting to discussion of the following statement:

|  |            |           |
|--|------------|-----------|
| <p>The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>flexibility in local revenue raising options</i>.</p> | <p>Yes</p> | <p>No</p> |
|--|------------|-----------|

*[Discussion leader takes over; resource person can answer any informational questions]*

*[When consensus reached on the final principle, Discussion leader should ask if there are any other principles that the group believes should be added to the list.]*

*(When the group has finished discussing all of the principles, please have them rate the importance of the principles that your group supports as low- medium or high , Led by Discussion Leader).*

|     | <b>Principle</b>  | <b>Importance</b>      |
|-----|---|------------------------|
| I   | <p><b>Transparency</b><br/>Transparency applies both to the budget and the budget process. A transparent state budget would be clearly written, unambiguous and understandable for the general public. In addition, a transparent budget process would allow the general public to see how the budget is created.</p> | <p>Low Medium High</p> |
| II  | <p><b>Timeliness</b><br/>A timely fiscal relationship between the state and municipalities would encourage the state to provide firm information on state aid to municipalities earlier in the budget cycle.</p>  | <p>Low Medium High</p> |
| III | <p><b>Equitability</b><br/>The Massachusetts LWV currently has positions that support the distribution of state funds in a manner that helps to equalize the resources of different municipalities. The equitability principle reinforces this position.</p>  | <p>Low Medium High</p> |
| IV  | <p><b>Dependability</b><br/>A dependable budget relationship between the state and municipalities would ensure that state aid to municipalities is consistent and predictable year to year.</p>   | <p>Low Medium High</p> |
| V   | <p><b>Flexibility in Local Spending</b><br/>Currently many municipal spending decisions are controlled either by state mandates or through laws that</p>  |                        |

|    |  |                 |
|----|--|-----------------|
|    | restrict municipal spending choices. This principle would support allowing municipalities to have more control over local spending decisions.  | Low Medium High |
| VI | <b>Flexibility in Local Revenue Raising</b><br>Currently Massachusetts municipalities have very few options for raising revenue locally. This principle would support allowing municipalities more flexibility in raising revenue. | Low Medium High |

**Consensus Question 2 Script**  
**(10 min for Resource person to present)**

**Consensus Question 2: The League of Women Voters of Massachusetts currently has a position opposing the adoption of new, local non-property taxes by statewide mandate or local option.**

**Should we ELIMINATE this position?      \_\_\_\_\_ YES                      \_\_\_\_\_ NO**

**If yes, should we SUPPORT local non-property taxes by statewide mandate or local option                      \_\_\_\_\_ YES                      \_\_\_\_\_ NO**

This question is really about which League positions which conflict are the most important. The long-standing League position on fairness was one of the principal reasons we reached consensus opposing local option, non-property taxes in 1993. But we also have a long-standing position calling for less reliance on the property tax, a position which might be construed to mean any non-property local tax should be supported.

The property tax has long been the principal source of revenue for local government because it is broad, stable, predictable, easily collected and understood by the taxpayers. It is closely tied to local control over how the money is spent. Real property cannot move out of the jurisdiction, and its value in great part depends on the value and services of the community in which it is located. However, over-reliance on the property tax has made local government less flexible in weathering economic downturns and has resulted in great disparities in the quality of schools and other services across the Commonwealth, especially in years when state equalizing aid cannot make up the difference. Finally, the constraints of Massachusetts' Proposition 2 ½ have made it difficult for municipalities to raise more revenue through the property tax.

The issue of fairness arises from the fact that local option taxes will not be passed by every municipality, leading to greater disparities in the tax levy between communities; for example, taxes on tourism are attractive to Cape Cod, but not to Worcester County. But is it fair to deny one town a source of revenue just because it is not accessible to every town in the Commonwealth?

Other concerns are border issues, which arise when adjoining towns have different tax structures, and yield; for example, a town with a meals tax may lose restaurant business to a neighboring town with no meals tax. Local sales or commercial taxes may result in dysfunctional land use such as over-building malls.

In evaluating the effectiveness of new local option taxes, it is important not to lose sight of the issue of adequacy. The major forms of taxation are already being used by the federal (income tax) and state (income tax, sales tax) which are politically unwilling to dilute their own revenues. The only non-property tax currently under serious discussion is a local add-on to the meals tax, a relatively low yield tax.

Our choices are to maintain the current position opposing local-option, non-property taxes, to drop the position, thereby agreeing to take no position on the issue, or to reverse position and support new local-option taxes. Adopting the option of supporting local non-property taxes does not mean that the LWV will be automatically in favor of every local option tax proposed. We would still review proposed taxes according to all our policies on taxation before deciding to support or oppose a specific tax.

### **Pro Argument**

Municipalities are struggling to raise revenue and the property tax is limited by Proposition 2 ½.

Local-option taxes maintain local control of revenue. Each municipality may decide for itself to adopt or ignore any particular tax.

A diversified tax structure would give municipalities more flexibility to deal with economic change.

A diverse array of local option taxes would recognize the inherent differences between communities while providing some tax options accessible to every community.

### **Con Argument**

If new local option taxes follow the pattern of the Community Preservation Act, they will tend to be adopted disproportionately by wealthier towns in which the voters perceive a substantial benefit from the tax, and thereby provide no relief to larger cities which have traditionally passed fewer overrides.

Many proposed local option taxes involve schemes to tax “outsiders” which may backfire by raising costs for the local residents.

Some local option taxes produce dysfunctional land use as communities strive to build new taxable entities such as malls.

*(Note the following table should be on the flip chart in front of the room during the resource presentation and discussion, to ensure all understand what each choice means)*

| <b>Summary of Question 2 Choices and Results</b>   |  |   |                     |  |  |    |
|--|--|---|---------------------|--|--|----|
| <b>Consensus Question 2</b>  | <b>If Yes</b>  | <b>If No</b>  |                     |  |  |    |
| <p>Should the League of Voters of Massachusetts ELIMINATE this position opposing the adoption of new, local non-property taxes by statewide mandate or local option?<br/>___Yes ___No</p>    | <p><b>Position Eliminated</b></p> <p><u>No position</u> on local non-property taxes</p>  | <p><b>Position Retained</b></p> <p><u>Opposing</u> local non-property taxes</p> |                     |  |  |    |
| <p>If YES,<br/><br/>should the League of Women Voters of Massachusetts SUPPORT the adoption of new, local non-property taxes by statewide mandate or local option?<br/><br/>___Yes ___No</p> | <table border="0"> <tr> <td><b><u>If YES</u></b></td> <td><b><u>If No</u></b></td> </tr> <tr> <td>New position supporting the adoption of local non-property taxes</td> <td><u>No position</u> on local non-property taxes</td> </tr> </table> | <b><u>If YES</u></b>  | <b><u>If No</u></b> | New position supporting the adoption of local non-property taxes | <u>No position</u> on local non-property taxes | NA |
| <b><u>If YES</u></b>   | <b><u>If No</u></b>  |   |                     |  |  |    |
| New position supporting the adoption of local non-property taxes   | <u>No position</u> on local non-property taxes   |   |                     |  |  |    |

**(Discussion leader takes over;10 minutes allowed to reach consensus)**

|  |     |    |
|--|-----|----|
| The LWV of Massachusetts should ELIMINATE its position opposing the adoption of new local non-property taxes by state mandate or local option. | Yes | No |
| The LWV of Massachusetts should SUPPORT the adoption of new local non-property taxes.  | Yes | No |

### Script for Question 3

(Note: Time for 3a script presentation: 10 minutes; consensus discussion 5 minutes; 3b script presentation 5 min, consensus discussion 5 minutes; our experience is that it is a challenge to fit the information in the time allowed; material could be trimmed from script if necessary).

**Question 3 asks:**

Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?

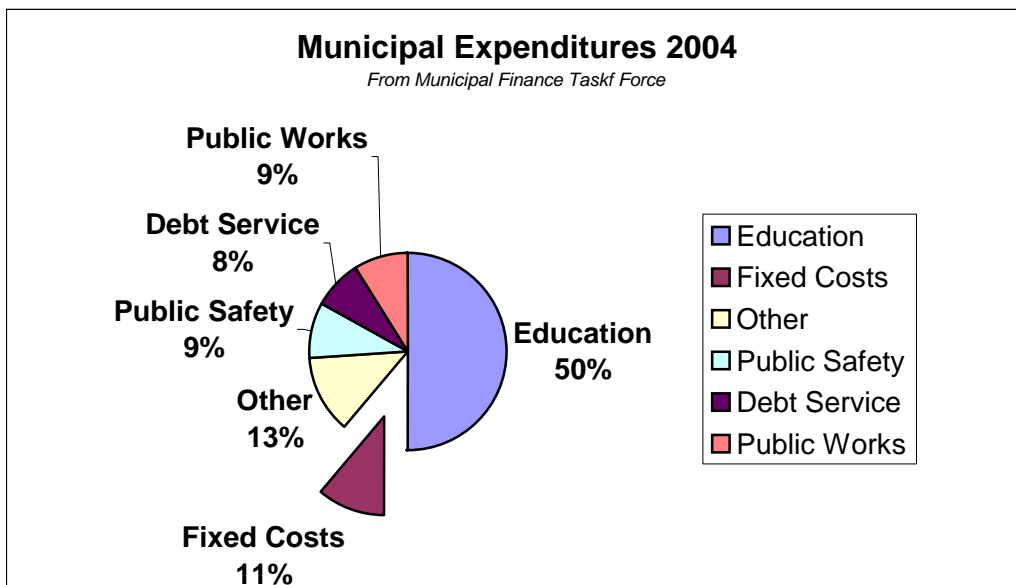
- a. Municipal Employee Health Insurance
- b. Municipal Employee Pensions

Unlike question 1 and 2, consideration of question 3 requires looking at data about these expenditures.

**First, what part do these expenditures play in local budgets:**

Look at **figure 5** f your hand out—both municipal employee health insurance and pensions are part of the “fixed costs” of municipal budgets. Fixed costs are defined as “Costs that are legally or contractually mandated”. So that right away puts them in a different category from almost all other expenditures—such as, for example, the fire department or teachers which can be cut if the budget is not sufficient. Keep this in mind. In a minute I’ll go over the laws that relate to these costs.

**Figure 5**



1. How has the cost of Municipal Employee Health Insurance changed?

- Table I, Columns A and B show that the **costs of municipal employee health insurance totaled for all communities in the state has dramatically increased from 2001 to 2006: 84%** (*Insert value for your own community here*).

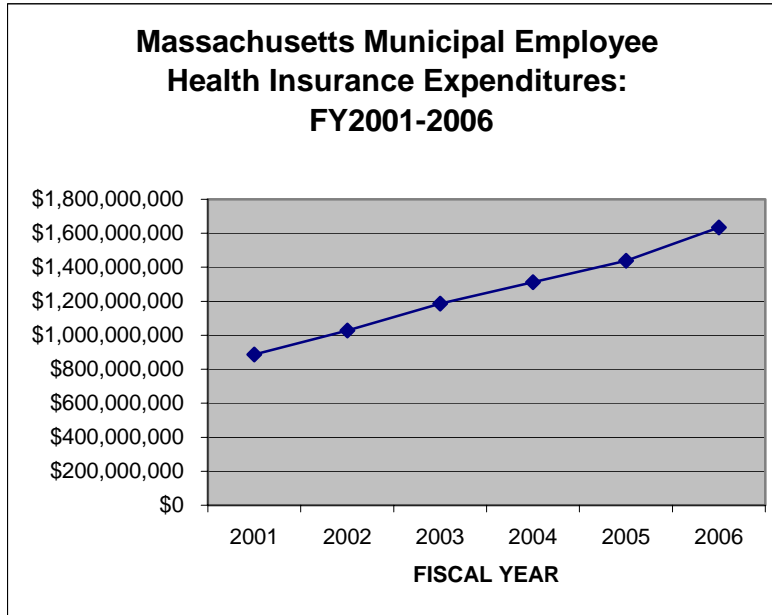
Table 1: MASSACHUSETTS MUNICIPAL HEALTH INSURANCE FY 2001- 2006 Expenditures (A), % Annual Change in all 351 communities (B); and. State Health Insurance Expenditures (C) and % Annual Change (D)

|                                | A  |                 | B |                                       | C               |  |
|--------------------------------|--|-----------------|---|---------------------------------------|-----------------|--|
| D                              |  |                 |   |                                       |                 |  |
| Fiscal Year                    | Massachusetts Municipal Employee Health Insurance Expenditures | Annual % Change |   | State Health Insurance Expenditures   | Annual % Change |  |
| 2001                           | \$886,462,351  |                 |   | \$605,596,955                         |                 |  |
| 2002                           | \$1,028,585,452  | +16.0           |   | \$676,102,421                         | +11.6           |  |
| 2003                           | \$1,185,928,190  | +15.3           |   | \$694,982,613                         | +2.8            |  |
| 2004                           | \$1,313,050,960  | +10.7           |   | \$737,289,523                         | +6.1            |  |
| 2005                           | \$1,439,142,951  | +9.6            |   | \$785,103,811                         | +6.5            |  |
| 2006                           | \$1,634,274,679  | +13.6           |   | \$890,484,724                         | +13.4           |  |
| <b>Change FY01 - FY06</b>      | <b>\$747,812,328</b><br><b>+84.4%</b>                          |                 |   | <b>\$284,887,769</b><br><b>+47.0%</b> |                 |  |
| <b>Average Annual Increase</b> |  | <b>+13.0%</b>   |   |                                       | <b>8.1%</b>     |  |

Source for Table 1: Massachusetts Municipal Health Insurance “Municipal Health Reform: Seizing the Moment”, joint report by Boston Municipal Research Bureau and Mass Taxpayers Foundation, August 2007

**Figure 6** shows the actual amount spent by Massachusetts communities over this period—an inexorable increase since 2001.

Figure 6 Total Municipal Employee Health Insurance Expenditures FY2001-2006



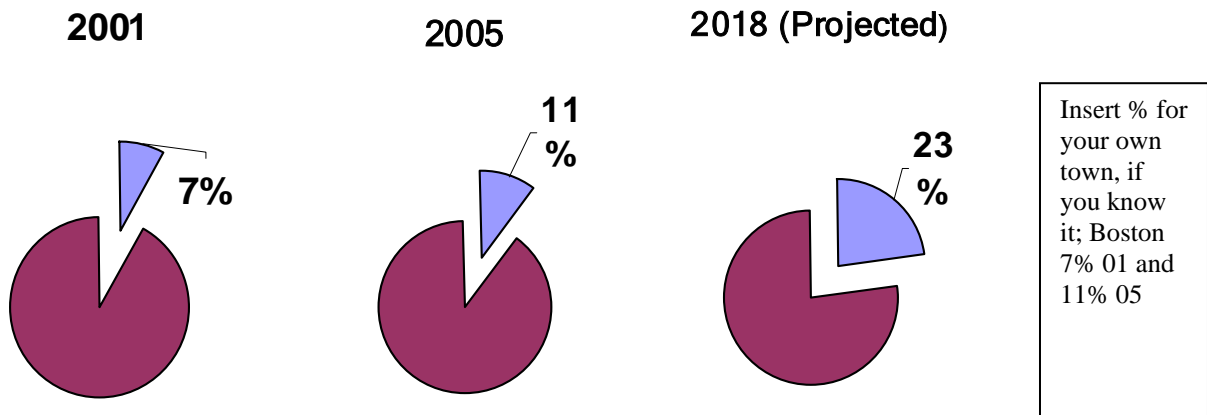
**2. Municipal Employee Health Insurance AS % of Budget**

It's important to think about the cost of health insurance as it relates to the rest of the budget. For example, if paper clips went up 300% in 5 years, it wouldn't be a huge problem because paper clips are a tiny part of the budget.

However, for municipal employee health insurance, we find that:

- in **2001** it was **7.4%** of municipal budgets
- in **2005** it has **increased to 10.6%**
- **Projection at current rate of increase will be 23% by 2018- almost a quarter of the budget!**

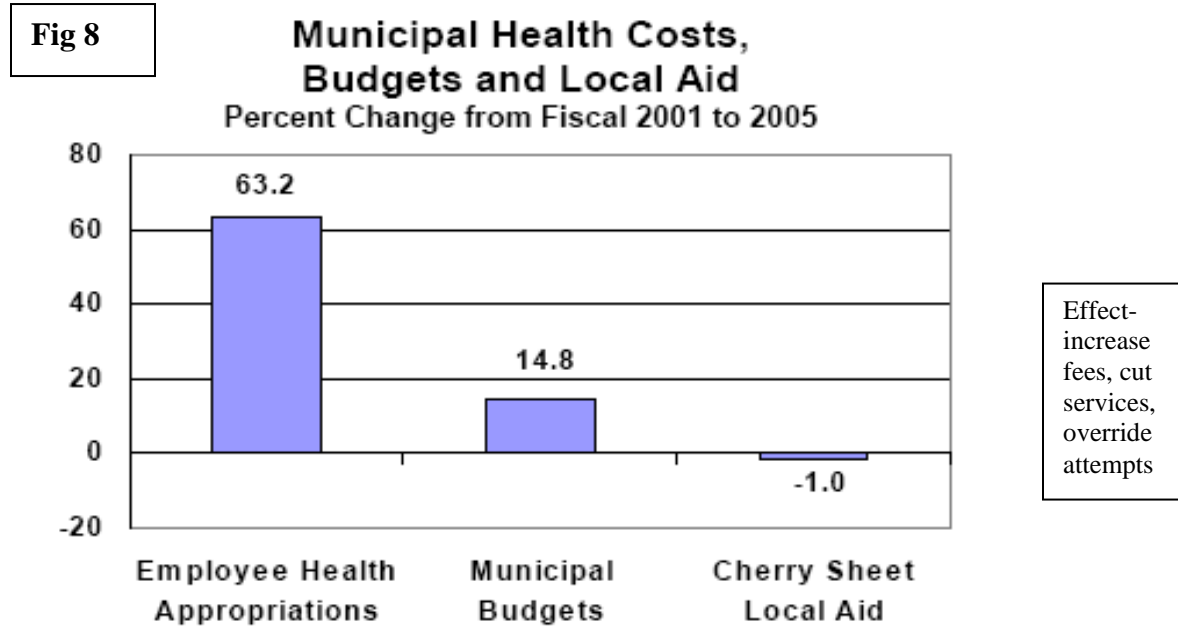
**Figure 7** Municipal Employee Health Insurance as a % of Massachusetts Municipal Budgets (percentages rounded)



**3. How do Municipal Employee Health Insurance (MEHI) Costs compare to local**

revenues?

**Figure 8** (below) illustrates why the increase in municipal health insurance cost is such a problem for communities.



Source: MMA/MTF 2005 Municipal Health Cost Survey; Cherry Sheet Local Aid for survey communities

Between 2001 and 05, expenditures for health insurance went up 63%- the first bar, while budgets increased 14.8% . One of the sources of funds for municipalities—local aid from the state, Cherry Sheet aid actually decreased 1% over this period. With a picture like this, you can imagine the pressure put on local budgets—cutting other departments and perhaps services, or seeking overrides i.e. increase to property taxes, in order to keep the budget in balance.

**4. What are the state laws regarding employee health insurance.**

When revenues for cities and towns don't keep up with expenses, teachers, libraries can be cut; equipment purchases can be put off. However, Municipal Employee Health Insurance is not an expense town's can cut when revenues go down, and here is why:

State Laws related to MEHI:

- **Massachusetts General Laws (MGL Chapter 32) require that municipalities pay at least 50% of the cost of health insurance for full time employees. It also states that municipalities may not pay more than 90% of the share of the costs of HMOs for employees.**

That is, towns must provide health insurance to full time employees

**FT is >  
20 hrs  
per wk**

- Massachusetts's public employee collective bargaining law gives most public employees the right to bargain collectively over terms and conditions of employment. Collective bargaining rules over MRHI—meaning that all unions must agree before any change can be made and the agreements are legally binding; So, municipalities are required by law to provide insurance and any change in the plans requires total union agreement. Most

towns have a number of unions, so this is not easy to accomplish--this is a stumbling block for communities to make changes in their health plans

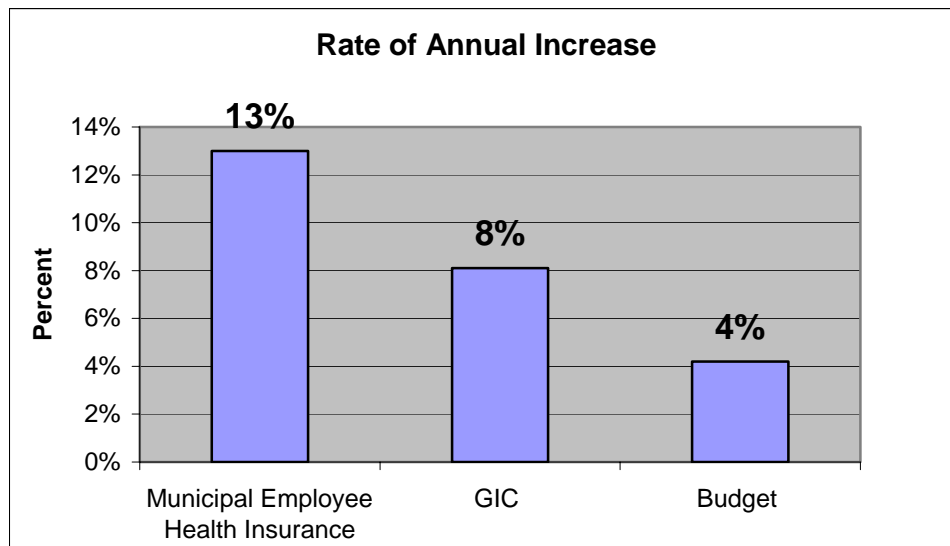
- **A new law (Chapter 67 of the Acts of 2007) gives towns the option of joining the health insurance system of the Commonwealth using coalition bargaining.**

A new law allows municipalities to join the State insurance program, passed this August, and get approval to join from unions using coalition bargaining method (Easier than getting 100% union approval to change MEHI plan), but still need 70%.

### 5. GIC

Table 1, columns C and D show municipalities could lower the rate of increase to 47% or 8% per year on average, if they joined the GIC This is still not sustainable for local governments. Figure 9 shows why.

**Figure 9.** Comparison of Rate of Annual Increase in Health Insurance Costs



If we compare the rate of annual increase in health insurance costs for municipalities (at 13%), with the GIC at 8%, and then at projections for budget increases of 4% we see that although the GIC plan would reduce the rate of increase, it still is twice the projected rate of budget increases so does not solve the problem.

**Insert your community's annual increase-**  
Boston has been 11% per year

### 6. A number of changes have been proposed to State Laws

| <b>Proposals to control Municipal Health Insurance Costs</b> |   |
|--|---|
| <b>Topic</b>   | <b>PROPOSALS</b>  |
| Increase local control over insurance costs                  | 1. “ Increase local management authority...need authority to manage health insurance costs” ( <i>Barry Bluestone et al</i> )  |
| Retiree Health Insurance                                     | 1. Require all retirees to enroll in Medicare ( <i>Mass Taxpayers Foundation</i> )<br>2. Require municipalities to enroll employees in Medicare within 3 years ( <i>Municipal Finance Taskforce</i> )   |
| Union negotiations   | 1. Remove requirement to negotiate all health insurance with all unions ( <i>Mass Taxpayers Foundation</i> )<br>2. Additional flexibility to bargain with unions ( <i>Municipal Finance Taskforce</i> )<br>3. Give cities and towns some authority in setting rates; remove from collective bargaining ( <i>Mass Taxpayers Foundation</i> )   |
| Create or join GIC   | 1. Give communities authority to establish the equivalent to the Group Insurance Commission ( <i>Mass Taxpayers Foundation</i> )<br>2. Create individual GICs to govern local health plans ( <i>Municipal Finance Taskforce</i> )<br>3. Monitor the participation rate in GIC to see if coalition bargaining requirement needs to be relaxed (if low participation)( <i>Mass Taxpayers Foundation and Boston Municipal Research Bureau</i> ). |
| Municipal Insurance Options                                  | 1. Make it easier to purchase joint insurance plans ( <i>Municipal Finance Taskforce</i> )  |

## 7. League Positions

League positions on health insurance relate to municipal health insurance costs via a goal of healthcare as a right, affordability to consumers and through favoring a national health insurance plan, i.e. single payer approach, which would affect costs.

League of Women Voters positions

- The National League position states that the LWVUS believes “*that a basic level of quality health care at an affordable cost should be available to all U.S. residents.*” The LWVUS also “*favors a national health insurance plan financed through general taxes in place of individual insurance premiums*” commonly known as the ‘single payer’ approach.
- The Massachusetts League goal is “*an affordable health care system that provides equal access to quality health care for all*”.
- The LWVUS supports “*administration of the U.S. healthcare system whether by a combination of the private and public sectors or by a combination of federal, state an/or regional governmental agencies.*”
- Under LWVM positions on Fiscal Policy, State Mandates: “*The League supports adequate levels of state finding for state-mandated programs*”
- Under Home Rule, the LWVM supports “*Constitutional home rule for Massachusetts cities and towns; Sharing of functions among all levels of government; Cost –sharing by all levels of government to implement standards.*”

**8. Summary:** Currently Massachusetts cities and towns are constrained in dealing with employee health insurance costs.

- They are required by state law to provide it
- State law makes it difficult to make changes due to collective bargaining requirements.
- Even if municipalities joined the state’s plan, the Group Insurance Commission, rates of increase would still be above the annual increases in local budgets, on average

*[DISCUSSION OF QUESTION ( 5 minutes ); discussion leader takes over;  
resource person may answer informational questions]*

**Consensus Question 3a**

**Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?**

**a. Municipal Employee Health Insurance**

-----YES

-----NO

**Consensus Question 3 B. Pensions:**

1. Pensions are the other state mandated expenditure that we are considering. Our State Pension system pre-dates Social Security. State law requires municipalities to have an employee retirement system for full time employees, and those employees are part of Massachusetts retirement system.

2. The way the pension system is set up, under Massachusetts law:

Municipal Retirement Boards (104 in Massachusetts) rule on pension eligibility and supervise investments for their local districts. Boards have the option of investing their assets through the Pension Reserve Investment Trust (PRIT), which is managed by a state board called the Pension Reserves Investment Management (PRIM) board, or managing their own investments. In 2004, out of 104 local pension systems, 55 invested on their own, 20 invested with PRIT and 29 used a combination of the two.

3. A state law requires that by 2028, any unfunded liability be eliminated, meaning communities must set aside additional money to cover the projected difference between the value of the invested funds plus interest and the projected costs.

- It is estimated that the unfunded liability for all cities and towns in the state is \$9 billion. This will have to be made up by cities and towns, and the amount varies widely among municipalities. (see table 1, funded ratio)

**Table 2. Massachusetts Contributory Retirement Board Profiles**

(Source: *Public Employee Retirement Administration Commission (PERAC) 2006 annual report*).

| <b>Retirement Board</b> | <b>Funded Ratio<br/>(Percent fully<br/>funded)</b> | <b>Year Fully Funded</b> | <b>2007 Total<br/>Pension<br/>Appropriation<br/>(Millions)</b> |
|-------------------------|--|--------------------------|--|
| Andover                 | 78.1%  | 2024                     | \$4.1  |
| Amesbury                | 56.3%  | 2026                     | \$2.1  |
| Boston                  | 64.4%  | 2023                     | \$221.9  |
| Braintree               | 62.4%  | 2023                     | \$5.9  |
| Berkshire Regional      | 76.8%  | 2018                     | \$5.6  |
| Concord                 | 90.5%  | 2012                     | \$3.0  |
| Everett                 | 33.6%  | 2028                     | \$6.9  |
| Dukes County            | 63.8%  | 2023                     | \$3.6  |
| Falmouth                | 66.4%  | 2028                     | \$3.8  |
| Hampshire County        | 58.8%  | 2028                     | \$11.4   |
| Hingham                 | 68.0%  | 2028                     | \$3.0  |
| Lawrence                | 43.7%  | 2028                     | \$12.8   |
| Lexington               | 88.4%  | 2015                     | \$3.3  |
| Lynn                    | 46.7%  | 2028                     | \$18.3   |
| MWRA                    | 100.0%   | NA                       | \$4.1  |
| Marblehead              | 83.3%  | 2023                     | \$2.3  |
| Natick                  | 66.6%  | 2026                     | \$5.1  |
| Needham                 | 75.0%  | 2022                     | \$3.8  |

|                |        |      |         |
|----------------|--------|------|---------|
| Newton         | 66.2%  | 2028 | \$10.7  |
| Norwood        | 87.9%  | 2028 | \$2.0   |
| Plymouth       | 61.0%  | 2028 | \$5.8   |
| Shrewsbury     | 71.3%  | 2022 | \$2.3   |
| Springfield    | 42.6%  | 2028 | \$26.4  |
| State          | 81.5%  | 2023 | \$438.0 |
| State Teachers | 67.2%  | 2023 | \$767.0 |
| Swampscott     | 52.5%  | 2028 | \$2.7   |
| Waltham        | 51.1%  | 2026 | \$11.4  |
| Wellesley      | 103.2% | NA   | 0       |
| Winchester     | 75.6%  | 2028 | \$2.8   |
| Woburn         | 72.6%  | 2026 | \$4.2   |
| Worcester      | 79.8%  | 2023 | \$23.3  |

4. Problems with pension system:

- Widely varying performance, administration and efficiency in the 104 different pension systems
- Under-performing pension funds—if perform below the state’s program (PRIT), means taxpayers will have to pay more, Currently, taxpayers making up \$1.6 billion from poor investments in the last ten years.
- **New law passed in 2007 requires underperforming pension funds to join PRIT** (if more than 2% lower returns than state’s average over last 10 yrs and less than 65% funded)
- Lack of oversight and weak legal restrictions on retirement system boards (including an exemption from competitive bidding and no restrictions on travel expenses or business relationships with related parties) create the opportunity for corruption There is lack of oversight of local boards, some corruption. Law is not restrictive enough.
- These “defined benefit” pensions use complex calculation of benefits, as defined by state law, that can be manipulated for the benefit of some recipients

5. Examples of the amount of money paid yearly into the local pension fund:  
(Boston: \$229.1 million in 2007—add your own town; see table 1))

6. **What changes have been proposed?** (*Presenter may mention a couple*)

|  |                         |
|--|-------------------------|
|  | <b>Proposed Changes</b> |
|--|-------------------------|

|                           |  |
|---------------------------|--|
| <b>Benefits</b>           | <ul style="list-style-type: none"> <li>• End early retirement and health insurance coverage for early retirees (<i>Salem News</i>)</li> <li>• Cap individual annual pension benefits at \$100,000 (<i>Boston Globe</i>)</li> <li>• Tie benefits more closely to lifetime contributions (<i>Pioneer Institute, Ken Ardon, "Public Pensions: Unfair to state employees, unfair to taxpayers"</i>)</li> </ul>   |
| <b>Basis for Pensions</b> | <ul style="list-style-type: none"> <li>• Pensions should be based on average career earnings (<i>Salem News</i>)</li> <li>• Pensions should be based on salaries alone (<i>Salem News</i>)</li> </ul>  |
| <b>Type of Pensions</b>   | <ul style="list-style-type: none"> <li>• Move from defined benefit to defined contribution plan (<i>Pioneer Institute, Ken Ardon, "Public Pensions: Unfair to state employees, unfair to taxpayers"</i>)</li> </ul>  |
| <b>Funding Pensions</b>   | <ul style="list-style-type: none"> <li>• Require any change in benefits to be fully funded within 3 years (<i>Pioneer Institute, Ken Ardon, "Public Pensions: Unfair to state employees, unfair to taxpayers"</i>)</li> <li>• Reform Chapter 32 to make cost of changes transparent to taxpayers (<i>Pioneer Institute, Ken Ardon, "Public Pensions: Unfair to state employees, unfair to taxpayers"</i>)</li> </ul>   |
| <b>Administration</b>     | <ul style="list-style-type: none"> <li>• The pension system should be centralized, putting all assets in one fund, e.g. PRIT (<i>Pioneer Institute Ken Ardon, "Leaving money on the table"</i>)</li> <li>• Enhance oversight of PERAC, extend Uniform Procurement Act to local boards, set standards for travel expenses, conflict of interest; additional audits (<i>Pioneer Institute Ken Ardon, "Leaving money on the table"</i>)</li> <li>• Bill requiring pension boards to utilize an open competitive process for vendors (<i>PERAC</i>)</li> <li>• Restrictions on conflicts of interest for boards, financial disclosure for Board members, mandatory education for board members (<i>PERAC</i>)</li> </ul> |

7. League Positions related to pensions- none

8. Summary: Currently Massachusetts cities and towns follow state law when providing pensions.

- State law sets the date for full funding.—state could change date
- State law defines the way benefits are calculated
- State law sets the rules for local pension board operation.
- New state law requires long term underperforming pension plans to join the state investment system

*[DISCUSSION OF QUESTION ( 5 minutes ); discussion leader takes over;  
resource person may answer informational questions]*

---

**Consensus Question 3b: “Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?”**

**B. Municipal Employee Pensions**

**Yes** \_\_\_\_\_ **NO** \_\_\_\_\_

---

## Consensus Meeting Format

*We have run a pilot consensus meeting to determine the ideal timeframe for the meeting. The meeting should run between 1 ½ and 2 hours. Note the resource people should practice the presentation scripts to get to the times suggested.*

| Consensus Section                           | Suggested Total time (Resource presentation and discussion Total) | How time distributed between presentation and discussion   | Script ? | Handout?                 |
|---|---|--|----------|--------------------------|
| <b>Introduction to Consensus Discussion</b> | 5 minutes   | All presentation script  | Yes      | Yes; consensus questions |
| <b>Background to Municipal Finance</b>      | 5-10 minutes  | All presentation script  | Yes      | Yes- figures             |
| <b>Question 1</b>                           | 45 minutes  | Each principle presented via script, followed by discussion; at the end evaluated low, med, high | Yes      | No                       |
| <b>Question 2</b>                           | 20 minutes  | 10 minute script; 10 minute discussion   | Yes      | No                       |
| <b>Question 3a</b>                          | 20 minutes  | 10 minute script; 5 minute discussion  | Yes      | Yes                      |
| <b>Question 3b</b>                          | 10 minutes  | 5 minute script, 5 minute discussion   | Yes      | Yes                      |

**CONSENSUS REPORT FORM**  
**Due: APRIL 30, 2008**

Local League Sponsoring Meeting:

Date of Meeting:

Discussion Leader:

Meeting Recorder:

Meeting Resource Person(s):

Number of Attendees:

League members:

General public:

Total:

This Consensus Report was approved by the Board of Directors of the League of Women Voters of \_\_\_\_\_.

Form Submitted by: (Name and League Affiliation):

\_\_\_\_\_  
\_\_\_\_\_

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**Return Form by April 30, 2008.**

Return Form using ONE of the methods below

Fax to State League: 617/248-0881 OR

E-mail to [lwvma@lwvma.org](mailto:lwvma@lwvma.org)

Mail to:

Fiscal Policy Update Committee- Municipal Finance Consensus  
League of Women Voters of Massachusetts  
133 Portland St.  
Boston, MA 02114

### Consensus Question One

What principles should govern the fiscal relationship between the state and local governments?

|  |  |
|--|--|
| Does your League support this principle? | If yes, how important is it? (Low, Medium, High) |
|--|--|

Circle -----Circle-----

| PRINCIPLE  | Yes | No | Low | Medium | High | IA.  |
|--|-----|----|-----|--------|------|------|
| IA. The Massachusetts LWV believes that the state budget should incorporate the principle of <i>transparency</i> .   |     |    |     |        |      |      |
| IB. The Massachusetts LWV believes that the <i>state budget process</i> should incorporate the principle of <i>transparency</i> .  |     |    |     |        |      | IB.  |
| II. The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>timeliness</i> .                           |     |    |     |        |      | II.  |
| III. The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>equitability</i> .                        |     |    |     |        |      | III. |
| IV. The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>dependability</i> .                        |     |    |     |        |      | IV.  |
| V. The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>flexibility in local spending</i> .         |     |    |     |        |      | V.   |
| VI. The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>flexibility in local revenue-raising</i> . |     |    |     |        |      | VI.  |

Comments on your consensus on Question 1:

Were additional principles agreed upon? \_\_\_YES \_\_\_NO What are they?

Please note anything you feel the consensus reading committee should know about your League's consensus. This is where you may include information about areas of agreement and disagreement, minority opinions and strength, areas the group was undecided or needed more information. Please feel free to attach additional sheets if necessary:

### Consensus Question 2

The League of Women Voters of Massachusetts currently has a position **opposing** the adoption of new, local non-property taxes by either statewide mandate or local option.

Should the League of Voters of Massachusetts ELIMINATE this position opposing the adoption of new, local non-property taxes by statewide mandate or local option?

\_\_\_\_\_ YES      \_\_\_\_\_NO

If yes, should the League of Women Voters of Massachusetts SUPPORT the adoption of new, local non-property taxes by statewide mandate or local option?

\_\_\_\_\_ YES      \_\_\_\_\_NO

Comments on your consensus on Question 2:

Please note anything you feel the consensus reading committee should know about your League's consensus. This is where you may include information about areas of agreement and disagreement, minority opinions and strength, areas the group was undecided or needed more information. Please feel free to attach additional sheets if necessary:

### Consensus Question 3

Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?

a. Municipal Employee Health Insurance

\_\_\_\_\_YES      \_\_\_\_\_NO

b. Municipal Employee Pensions

\_\_\_\_\_YES      \_\_\_\_\_NO

Comments on your consensus on Question 3:

Please note anything you feel the consensus reading committee should know about your League's consensus. This is where you may include information about areas of agreement and disagreement, minority opinions and strength, areas the group was undecided or needed more information. Please feel free to attach additional sheets if necessary:

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CONSENSUS MEETING EVALUATION

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Please share any general comments or suggestions made by attendees:

Thank you for your time and work on this project!

**Return Form by April 30, 2008.**

Fax to State League: 617/248-0881 OR

E-mail to LWVMA@LWVMA.org

Mail to:

Fiscal Policy Update Committee- Municipal Finance Consensus  
League of Women Voters of Massachusetts  
133 Portland St.  
Boston, MA 02114

### Consensus Question One

What principles should govern the fiscal relationship between the state and local governments?

|  |  |
|--|--|
| Does your League support this principle? | If yes, how important is it? (Low, Medium, High) |
|--|--|

Circle                      Place X

| <b>PRINCIPLE</b>   | Circle |    | Place X |        |      |
|--|--------|----|---------|--------|------|
|  | Yes    | No | Low     | Medium | High |
| The Massachusetts LWV believes that the state budget should incorporate the principle of <i>transparency</i> .   | Yes    | No |         |        |      |
| The Massachusetts LWV believes that the <i>state budget process</i> should incorporate the principle of <i>transparency</i> .  | Yes    | No |         |        |      |
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <b>timeliness</b> .                           | Yes    | No |         |        |      |
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>equitability</i> .                         | Yes    | No |         |        |      |
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>dependability</i> .                        | Yes    | No |         |        |      |
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>flexibility in local spending</i> .        | Yes    | No |         |        |      |
| The Massachusetts LWV believes that the Fiscal Relationship between the state and local government should incorporate the principle of <i>flexibility in local revenue-raising</i> . | Yes    | No |         |        |      |

### Consensus Question 2

The League of Women Voters of Massachusetts currently has a position **opposing** the adoption of new, local non-property taxes by either statewide mandate or local option.

Should the League of Voters of Massachusetts ELIMINATE this position opposing the adoption of new, local non-property taxes by statewide mandate or local option?

\_\_\_\_\_ YES      \_\_\_\_\_NO

If yes, should the League of Women Voters of Massachusetts SUPPORT the adoption of new, local non-property taxes by statewide mandate or local option?

\_\_\_\_\_ YES      \_\_\_\_\_NO

| Consensus Question 2   | If Yes  | If No   |
|--|---|---|
| <p>Should the League of Voters of Massachusetts ELIMINATE this position opposing the adoption of new, local non-property taxes by statewide mandate or local option?<br/>___Yes      ___No</p> | <p><b>Position Eliminated</b><br/><br/><u>No position</u> on local non-property taxes</p>   | <p><b>Position Retained</b><br/><br/><u>Opposing</u> local non-property taxes</p> |
| <p>If YES, should the League of Women Voters of Massachusetts SUPPORT the adoption of new, local non-property taxes by statewide mandate or local option?<br/>___Yes      ___No</p>            | <p><b><u>If YES</u></b>      <b><u>If No</u></b><br/><br/>New position <u>supporting</u> the adoption of local non-property taxes      <u>No position</u> on local non-property taxes</p> | <p>NA</p>   |

### Consensus Question 3

Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?

a. Municipal Employee Health Insurance

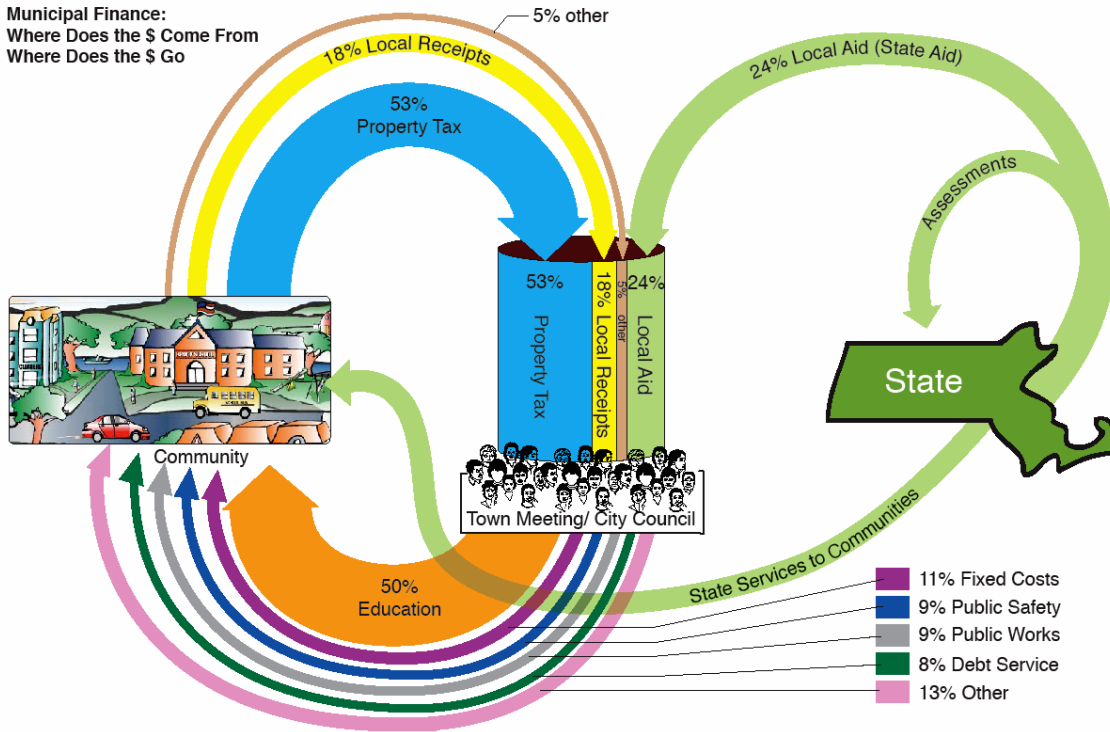
\_\_\_\_\_YES      \_\_\_\_\_NO

b. Municipal Employee Pensions

\_\_\_\_\_YES      \_\_\_\_\_NO

**Figure 1**

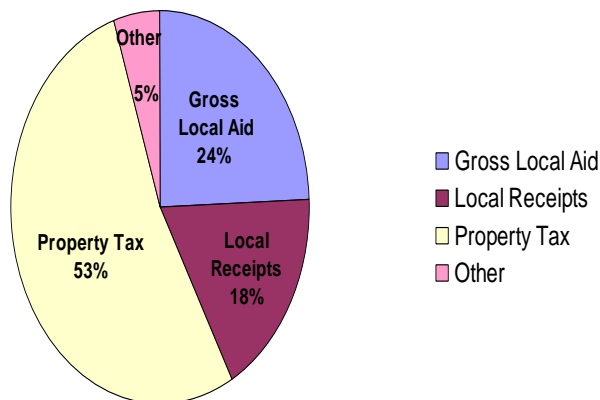
**Background to Municipal Finance**



**Figure 2**

**Municipal Revenue 2004**

*From Municipal Finance Taskforce*



**Fig 3**

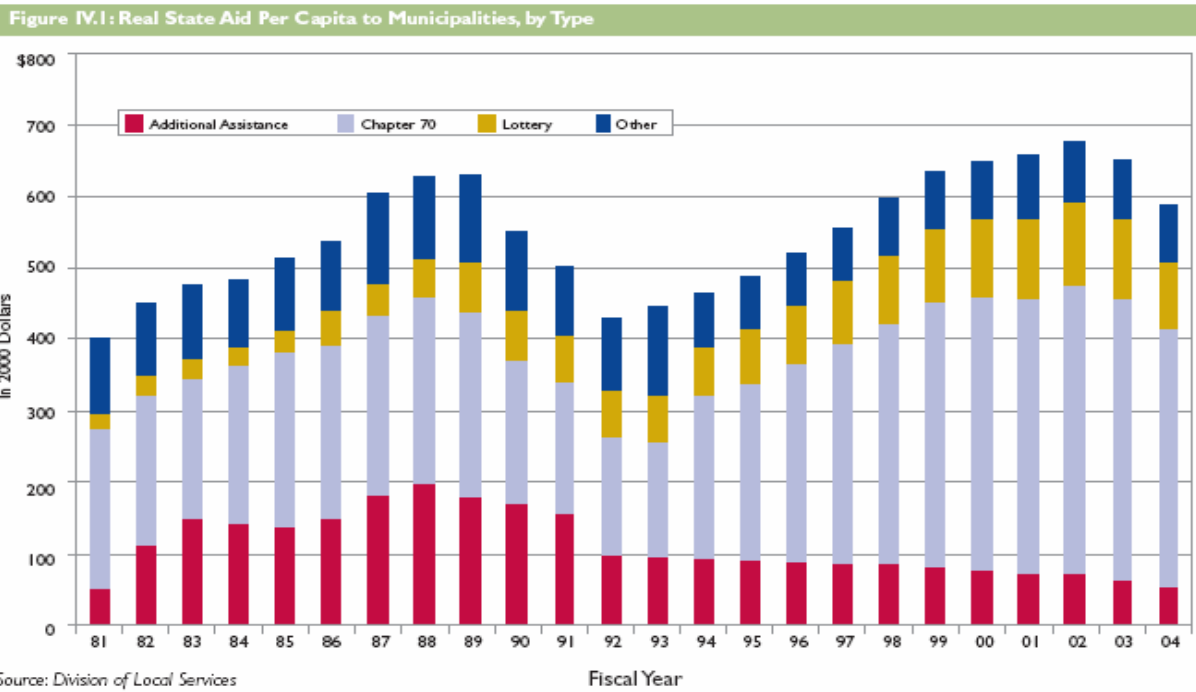
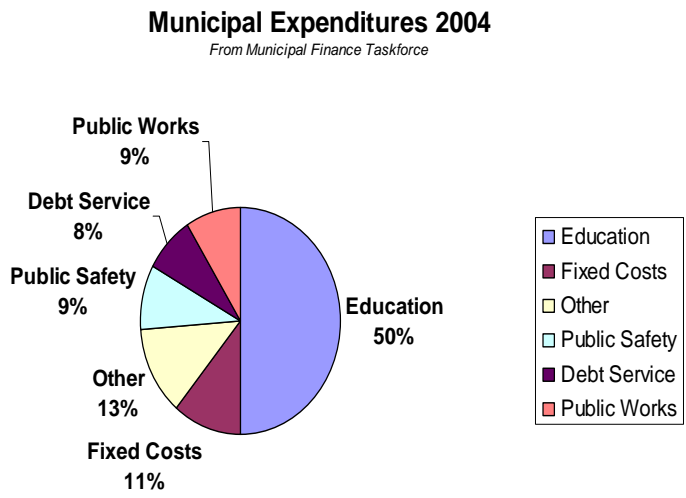


Figure from "Revenue Sharing and the Future of the Massachusetts Economy" Barry Bluestone, Alan Clayton-Matthews, David Soule, MMA and Center for Urban and Regional Policy at Northeastern 2006

**Figure 4**

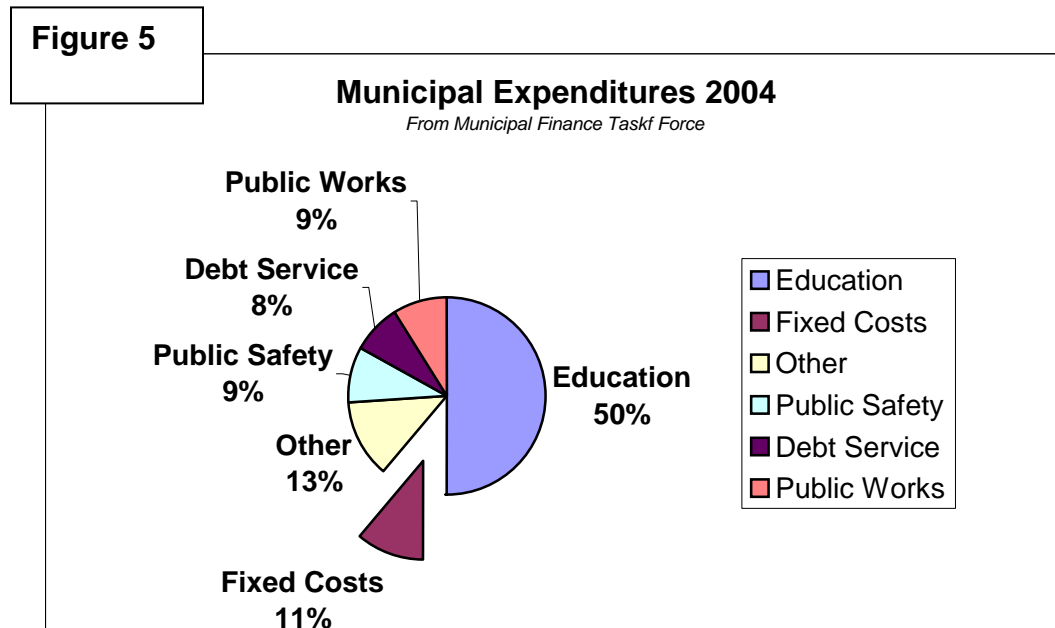


### Consensus Question 3 Figures

#### Question 3

Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?

- c. Municipal Employee Health Insurance
- d. Municipal Employee Pensions



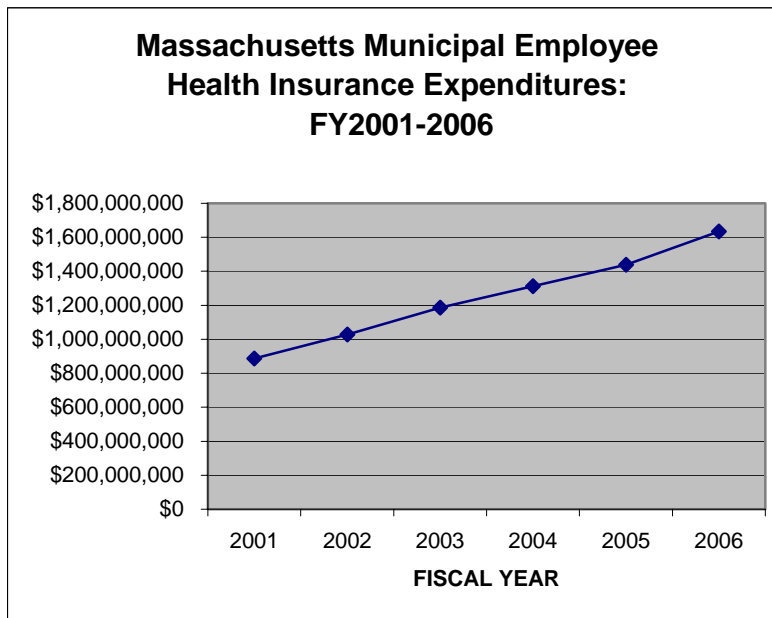
**Table 1: MASSACHUSETTS MUNICIPAL HEALTH INSURANCE** FY 2001- 2006 Expenditures (A), % Annual Change in all 351 communities (B); and. State Health Insurance Expenditures (C) and % Annual Change (D)

|                                | A  | B               | C                                   | D               |
|--------------------------------|--|-----------------|-------------------------------------|-----------------|
| Fiscal Year                    | Massachusetts Municipal Employee Health Insurance Expenditures | Annual % Change | State Health Insurance Expenditures | Annual % Change |
| 2001                           | \$886,462,351  |                 | \$605,596,955                       |                 |
| 2002                           | \$1,028,585,452  | +16.0           | \$676,102,421                       | +11.6           |
| 2003                           | \$1,185,928,190  | +15.3           | \$694,982,613                       | +2.8            |
| 2004                           | \$1,313,050,960  | +10.7           | \$737,289,523                       | +6.1            |
| 2005                           | \$1,439,142,951  | +9.6            | \$785,103,811                       | +6.5            |
| 2006                           | \$1,634,274,679  | +13.6           | \$890,484,724                       | +13.4           |
| <b>Change FY01 - FY06</b>      | <b>\$747,812,328<br/>+84.4%</b>                                |                 | <b>\$284,887,769<br/>+47.0%</b>     |                 |
| <b>Average Annual Increase</b> |  | <b>+13.0%</b>   |                                     | <b>8.1%</b>     |

Source of Table 1: "Municipal Health Reform: Seizing the Moment", joint report by Boston Municipal Research Bureau and Mass Taxpayers Foundation, August 2007

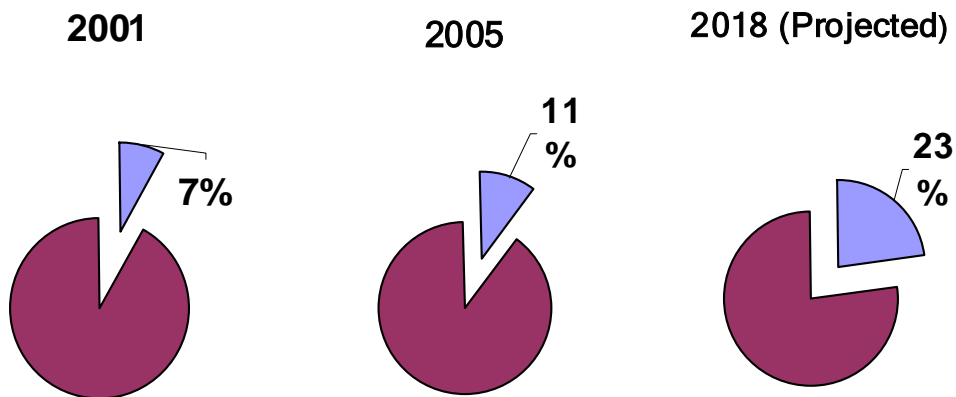
**Figure 6**

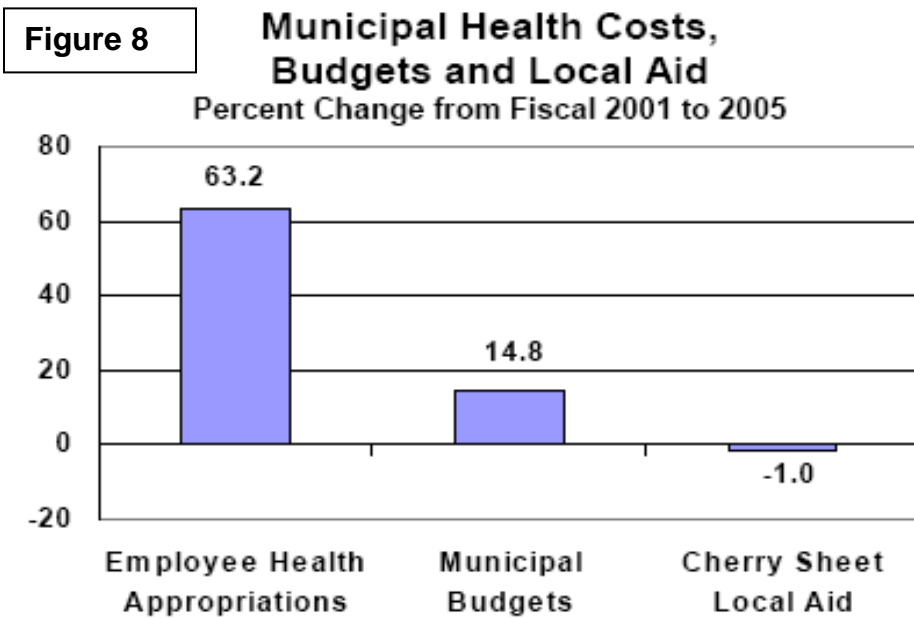
Total Municipal Employee Health Insurance Expenditures FY2001-2006



**Figure 7**

Municipal Employee Health Insurance as a % of Massachusetts Municipal Budgets





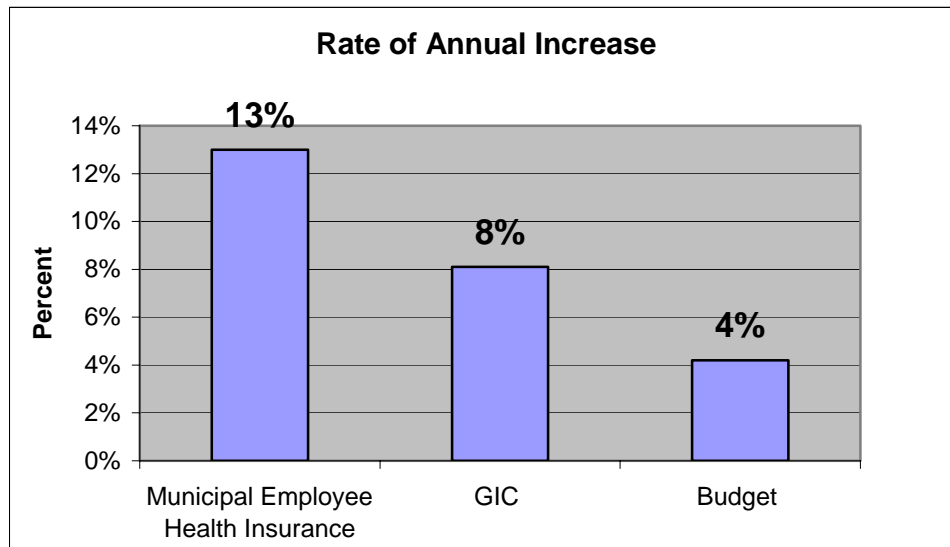
Source: MMA/MTF 2005 Municipal Health Cost Survey; Cherry Sheet Local Aid for survey communities

**State laws regarding employee health insurance.**

- Massachusetts General Laws (MGL Chapter 32) require that municipalities pay at least 50% of the cost of health insurance for full time employees. It also states that municipalities may not pay more than 90% of the share of the costs of HMOs for employees.
- Massachusetts public employee collective bargaining law gives most public employees the right to bargain collectively over terms and conditions of employment<sup>1</sup>.
- A new law (Chapter 67 of the Acts of 2007) gives towns the option of joining the health insurance system of the Commonwealth using coalition bargaining.

**Figure 9**

Comparison of Rate of Annual Increase in Health Insurance Costs



### League Positions related to health care/ insurance

#### League of Women Voters positions

- The National League position states that the LWVUS believes “that a basic level of quality health care at an affordable cost should be available to all U.S. residents.” The LWVUS also “favors a national health insurance plan financed through general taxes in place of individual insurance premiums” commonly known as the ‘single payer’ approach.
- The Massachusetts League goal is “an affordable health care system that provides equal access to quality health care for all”.
- The LWVUS supports “administration of the U.S. healthcare system whether by a combination of the private and public sectors or by a combination of federal, state and/or regional governmental agencies.”
- Under LWVM positions on Fiscal Policy, State Mandates: “The League supports adequate levels of state finding for state-mandated programs”
- Under Home Rule, the LWVM supports “Constitutional home rule for Massachusetts cities and towns; Sharing of functions among all levels of government; Cost –sharing by all levels of government to implement standards.”

### Consensus Question 3 b Pensions Table

Table 2. **Massachusetts Contributory Retirement Board Profiles**

(Source: *Public Employee Retirement Administration Commission (PERAC) 2006 annual report*).

| <b>Retirement Board</b> | <b>Funded Ratio<br/>(Percent fully<br/>funded)</b> | <b>Year Fully Funded</b> | <b>2007 Total<br/>Pension<br/>Appropriation<br/>(Millions)</b> |
|-------------------------|--|--------------------------|--|
| Andover                 | 78.1%  | 2024                     | \$4.1  |
| Amesbury                | 56.3%  | 2026                     | \$2.1  |
| Boston                  | 64.4%  | 2023                     | \$221.9  |
| Braintree               | 62.4%  | 2023                     | \$5.9  |
| Berkshire Regional      | 76.8%  | 2018                     | \$5.6  |
| Concord                 | 90.5%  | 2012                     | \$3.0  |
| Everett                 | 33.6%  | 2028                     | \$6.9  |
| Dukes County            | 63.8%  | 2023                     | \$3.6  |
| Falmouth                | 66.4%  | 2028                     | \$3.8  |
| Hampshire County        | 58.8%  | 2028                     | \$11.4   |
| Hingham                 | 68.0%  | 2028                     | \$3.0  |
| Lawrence                | 43.7%  | 2028                     | \$12.8   |
| Lexington               | 88.4%  | 2015                     | \$3.3  |
| Lynn                    | 46.7%  | 2028                     | \$18.3   |
| MWRA                    | 100.0%   | NA                       | \$4.1  |
| Marblehead              | 83.3%  | 2023                     | \$2.3  |
| Natick                  | 66.6%  | 2026                     | \$5.1  |
| Needham                 | 75.0%  | 2022                     | \$3.8  |
| Newton                  | 66.2%  | 2028                     | \$10.7   |
| Norwood                 | 87.9%  | 2028                     | \$2.0  |
| Plymouth                | 61.0%  | 2028                     | \$5.8  |
| Shrewsbury              | 71.3%  | 2022                     | \$2.3  |
| Springfield             | 42.6%  | 2028                     | \$26.4   |
| State                   | 81.5%  | 2023                     | \$438.0  |
| State Teachers          | 67.2%  | 2023                     | \$767.0  |
| Swampscott              | 52.5%  | 2028                     | \$2.7  |
| Waltham                 | 51.1%  | 2026                     | \$11.4   |
| Wellesley               | 103.2%   | NA                       | 0  |
| Winchester              | 75.6%  | 2028                     | \$2.8  |
| Woburn                  | 72.6%  | 2026                     | \$4.2  |
| Worcester               | 79.8%  | 2023                     | \$23.3   |

## Bulletin Articles for Local Leagues

**You may also use the Background section of the study materials for a bulletin article.**

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### Article 1

#### **Municipal Finance Consensus Meeting needs your two cents' worth**

Over the last several years, serious financial problems have beset the majority of cities and towns in the Commonwealth. The constraints of Proposition 2 ½ and escalating local expenses threaten local services – including the advances made by the Education Reform Act. The Commonwealth's source of revenue (income tax) is volatile and recent economic declines have resulted in more limited state aid to municipalities.

A Fiscal Policy Update Study, adopted by the LWVM convention in 2005, was undertaken to “evaluate the current status of the financing of local government.” The 17 member FPU committee has been busy ever since. Kathy Leonardson and Zaxaro Bennett Chair the committee populated by seasoned fiscal policy analysts along side newcomers to the field.

In January of last year, the committee organized two all-member forums entitled: “Municipal Finance: Where does the money come from and where does it go?” Next, the committee designed a study on municipal finance so that Leagues could assess the fiscal health of their own communities. Then in October 2007, Fall Conference featured a panel on “Who pays for local government? Why is it that my property taxes continue to go up while funding local services is a struggle?”

Now the committee is seeking consensus on three questions dealing with the fiscal relationship between state and local government. Question 1 asks members to decide what principles should guide the fiscal relationship between state and local government. Question 2 revisits a 1993 LWVM position opposing new local option taxes. Question 3 asks if there should be new statutes to help municipalities deal with two growing expenditures: health insurance and pensions for municipal employees.

“For us, studying municipal finances for the last 3 years was like unraveling a mystery, trying to figure out what was causing funding problems on the municipal side,” says Leonardson. “This study evolved to look at the fiscal relationship between the state and local governments from the local viewpoint, something that organically developed as we learned more along the way. We encourage all Leagues to join us, learn from our materials, and tell us what you think through the consensus process.”

Come to the Consensus meeting(s) which will be held at

\_\_\_\_\_. There is more information about this topic on line at [www.lwvma.org/fiscalpolicystudy.shtml](http://www.lwvma.org/fiscalpolicystudy.shtml).

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**Article 2**

**Municipal Finance: Introduction to Consensus Questions**

**(Note your League can insert time and date of your consensus meeting in this article)**

The Fiscal Policy Update Committee (FPU) was approved at the May 2005 biennial State League Convention to restudy/update fiscal policy positions. Leagues across the state will be holding Consensus Meetings on Municipal Finance from January through April 2007.

The study approaches fiscal policy from the perspective of local communities delivering services to residents and the balance between revenue and expenditures. The consensus questions are as follows:

**MUNICIPAL FINANCE Consensus Questions**

1. What principles should govern the fiscal relationship between the state and local governments?
  
2. The League of Women Voters of Massachusetts currently has a position **opposing** the adoption of new, local non-property taxes by statewide mandate or local option.  
  
Should the League of Voters of Massachusetts ELIMINATE this position opposing the adoption of new, local non-property taxes by statewide mandate or local option?  
  
If yes, should the League of Women Voters of Massachusetts SUPPORT the adoption of new, local non-property taxes by statewide mandate or local option?
  
3. Should the League of Women Voters of Massachusetts support changes in state laws to ease the financial burden on municipalities in the following areas?
  - a. Municipal Employee Health Insurance
  - b. Municipal Employee Pensions

The Commonwealth controls the ways municipalities can raise money and requires a variety of expenditures which affect local budgets. Therefore, the first question that Leagues will be studying for municipal finance consensus asks what principles should govern the fiscal relationship between the state and localities. The principles that will be included for discussion are transparency, timeliness, equitability, dependability, flexibility in local spending and flexibility in local revenue-raising, summarized below.

**Transparency**

Transparency applies both to the budget and the budget process. A transparent state budget would be clearly written, unambiguous and understandable for the general public. In addition, a transparent budget process would allow the general public to see how the budget is created.

**Timeliness**

A timely fiscal relationship between the state and municipalities would encourage the state to provide firm information on state aid to municipalities earlier in the budget cycle.

**Equitability**

The Massachusetts LWV currently has positions that support the distribution of state funds in a manner that helps to equalize the resources of different municipalities. The equitability principle reinforces this position.

**Dependability**

A dependable budget relationship between the state and municipalities would ensure that state aid to municipalities is consistent and predictable year to year.

**Flexibility in Local Spending**

Currently many municipal spending decisions are controlled either by state mandates or through laws that restrict municipal spending choices. This principle would support allowing municipalities to have more control over local spending decisions.

**Flexibility in Local Revenue Raising**

Currently Massachusetts municipalities have very few options for raising revenue locally. This principle would support allowing municipalities more flexibility in raising revenue.

Question 2 addresses revenues, asking whether the League should reconsider its opposition to the adoption of new local non-property taxes by statewide mandate or local option. If yes, it then asks if the League should support the adoption of new local non-property taxes by statewide mandate or local option.

Question 3 concerns the expenditure side, specifically municipal employee health insurance and pensions. It asks whether the League should support changes in state law to ease the financial burden on localities in these two areas.

## ANATOMY OF A LEAGUE STUDY

The process of study, consensus, and action used by the League of Women Voters at all levels is based on the premise that the League is a grassroots organization. Proposals for studies come from the membership and it is the membership, through the process of consensus, who determines the positions that the League will take. This process has altered and changed over the years to reflect changing circumstances but the essentials are still there. **It is important to remember that the League does not undertake a study in anticipation of a certain outcome.** It draws its conclusions after an examination of all aspects of the subject.

**PROPOSING A STUDY** -Topics for study are suggested by the membership, usually at a program-planning meeting. After said meeting, the Board reviews the suggestions. In the case of a local League, the Board determines what to present to the membership at its annual meeting based on the outcome of the meeting. If the planning is being done for the National or State Leagues, the Board forwards the suggestions to the appropriate Board. In making its determination, the Board will consider the strength of the suggestions, the availability of people to work on the study, etc.

**APPROVING A TOPIC FOR STUDY** At the Annual Meeting of the local League or at the Convention of the State or National League, the membership votes on whether or not to approve the proposed new studies recommended by the Board. It is possible for members to propose studies that the Board did not recommend. This is relatively rare at the local level but fairly common at the State or National levels.

**STUDY** Once a new topic for study is approved, a committee is formed to conduct the study. If the item is a State or National study, there will be committees formed at those levels as well as locally. Recently, many local Leagues have found it useful to join together on State and National studies.

In the case of State or National studies, local Leagues can count on research materials being supplied to some extent. A local study will, of course, be on its own. In all cases, the study committee meets regularly to study the background material and add to it through its own research.

**CONSENSUS** After a suitable period of study and research, the study committee will present its information to the rest of the League members. League members will be asked to come to agreement or non-agreement on certain questions known as **consensus questions**. The appropriate Board must approve these questions in advance. Thus in the case of a National or State study, league members may be assured that their counterparts in other cities and towns are addressing the same questions. Traditionally, a study committee has presented a background meeting of general information followed by specific consensus meetings. In recent years these have tended to be done at the same time. If no general meeting can be scheduled, a special mailing or extra edition of the Bulletin may be used to give background material as was done for the Health Care. The consensus questions are always published beforehand in the Bulletin.

**A CONSENSUS MEETING** should have the following: A resource person or persons (members of the study committee), a discussion leader, a recorder, and of course an audience of members at large. The discussion leader facilitates discussion and sees that the questions are

League of Women Voters of Massachusetts 85

addressed. Resource people provide background including the pros and cons of each question. The Recorder takes notes of the ensuing discussion. It is the goal of the meeting to reach some kind of agreement on each of the questions positive or negative, however sometimes no consensus is reached. If the local League is having more than one consensus unit, then the results will eventually be pooled. If it is a State or National study, the report will be forwarded to the appropriate body and the results of the consensus will be combined with those of other Leagues.

Customarily the recorder meets with the study committee after the consensus meeting to refine the report. If there is not a strong thread of agreement on an issue, no consensus has been reached on that question. For the local League, a consensus is final after it has been approved by the Board, published in the Bulletin, and affirmed by the membership at Annual Meeting. The State and National Leagues follow the same basic procedure although they must review the results of many more consensus meetings. Again, the membership affirms the final consensus at the State or National conventions, which are held every two years, in alternate years.

Once a consensus is reached, it becomes part of the League's program and may be used as the basis for action by the League. Local leagues may take action under State and National positions as well as local ones. Local leagues may also choose to concur with the position of another local League.

**PROGRAM AND ACTION** As part of its Annual Meeting or Convention, the members reaffirm their existing positions. Positions may be dropped if the membership no longer feels that they apply or are needed, or they may be proposed for restudy. Once the League has dropped a position, it is gone forever. It cannot be reinstated without a new study.