3

STRATEGY THREE

Strengthen Municipal Finance

MAPC
METROPOLITAN AREA PLANNING COUNCIL

Summary

Adopted in 2008, MetroFuture is Greater Boston's long term regional plan. The foundation of the plan is a well-defined vision for the region. Thirteen implementation strategies were included to support progress towards the vision. An extensive community engagement process ensured that MAPC constructed the vision and strategies from the hopes and dreams of the region. In anticipation of an update to the regional plan, MAPC is evaluating the extent to which regional actors, either intentionally or unintentionally, implemented these strategies. The authors gathered the information that follows through conversations with MAPC staff and content experts.

Strengthen Municipal Finance, the 3rd implementation strategy, offered recommendations to ensure that all municipalities possessed a strong financial foundation. MetroFuture acknowledged the dilemma Massachusetts municipalities face when trying to make sustainable and equitable decisions and offered strategies to help resolve them. Home rule[1] makes cities and towns responsible for most all aspects of land use and many services, but the state places severe restrictions on a municipality's ability to raise revenues. The result is significant municipal autonomy, but limited funds for services and programs. And with increasing fixed costs, little remains for new investments or initiatives. MetroFuture's Strengthen Municipal Finance Strategy offered recommendations that would help stabilize and strengthen municipal finances while increasing incentives and processes that encourage municipalities to plan regionally and equitably.

MetroFuture posited that one way in which municipalities could strengthen their finances was to modernize municipal charters and governance. MetroFuture advocated for strong executive authority, a legislative authority with clear authorizations on broad policies, and a system for governing public education that encourages excellence, efficiency and accountability. Since MetroFuture's release in 2008, only Framingham, Everett, and Bridgewater enacted major charter change and a small group of municipalities enacted minor charter changes. Some of these changes included town administration, where municipalities moved from administrators to managers. Framingham exhibited the biggest transition, recently moving from a town form of government to a city with a strong mayor.

MetroFuture also encouraged municipalities to better understand and control their costs while increasing transparency to constituents. Programs like Open Checkbook and public works service requests attempt to make finances and services more transparent and accountable. Budget document information should be as robust as capital planning, but while a handful of municipalities have significantly improved the quality of their budget documents, many have budget documents that provide minimal information. Many municipalities joined the Group Insurance Commission (GIC), a state agency that provides and administers health insurance to that state's employees and retirees, which cut down on redundancy among municipalities and leveraged better services, at lower cost. The state retirement system has $16.3 billion in unfunded liabilities. The Public Employee Retirement Administration Commission (PERAC) estimates that Massachusetts has an

1 The Home Rule Amendment in the Massachusetts Constitution grants and confirms "to the people of every city and town the right of self-governance in local matters."

unfunded liability for post-employment benefits (OPEB) of roughly $46.7 billion as of September of 2016[2].

MetroFuture advocated that the state increase local aid to municipalities through a new needs-based formula. Municipalities relied too heavily on property taxes, which resulted in land use decisions that maximize revenues often to the detriment of sustainability and equity objectives. Unfortunately, ten years later, those conditions remain largely unchanged and municipal reliance on the property tax has actually increased. MetroFuture also advocated for maintaining the income tax rate to take some of the pressure off property taxes, but after voters approved a reduced rate, legislative triggers have stepped it down from 5.3% to 5.1% in the intervening years. A further reduction to 5% is possible. The state did increase its Community Preservation Act match and the meal tax, but neither one drastically altered overall revenues for municipalities.

Sub-Strategy Review

Sub-Strategy A: Modernize municipal governance structures and practices

EXAMPLES OF PROGRESS

- There generally has been a positive trend towards updating municipal governance, with a collection of towns moving from Town Administrator to Town Manager structures, and the largest town in the region, Framingham, becoming a city with an elected Mayor.
- Many municipalities increased transparency. Budgets and other municipal documents are increasingly available online and public works activities can be requested and tracked through apps. Additionally, most every municipality publishes meeting minutes and town information on their website, if not through social media

BARRIERS TO PROGRESS:

- MAPC advanced a variety of bills that would allow more flexibility for municipalities to raise funds. The Legislature has consistently been reluctant to delegate additional taxing authority.
- Some municipalities lag behind in modernization, maintaining a “if it ain’t broke, don’t fix it” mentality that limits advances in municipal capacity.
- The Massachusetts constitution prohibits municipalities with populations less than 12,000 from converting to city form of government and prohibits those with less than 6,000 from representative town meeting (meaning their only option is open town meeting).

2 https://pioneerinstitute.org/blog/blog-better-government/blog-pensions/underfunding-opeb-losing-strategy/

Sub-Strategy B: **Control municipalities' fixed costs: Health care, pensions, and debt**

EXAMPLES OF PROGRESS:

- Most of region's municipalities take part in Medicare and the Group Insurance Commission (GIC), which offers more robust coverage than individual municipalities could afford.

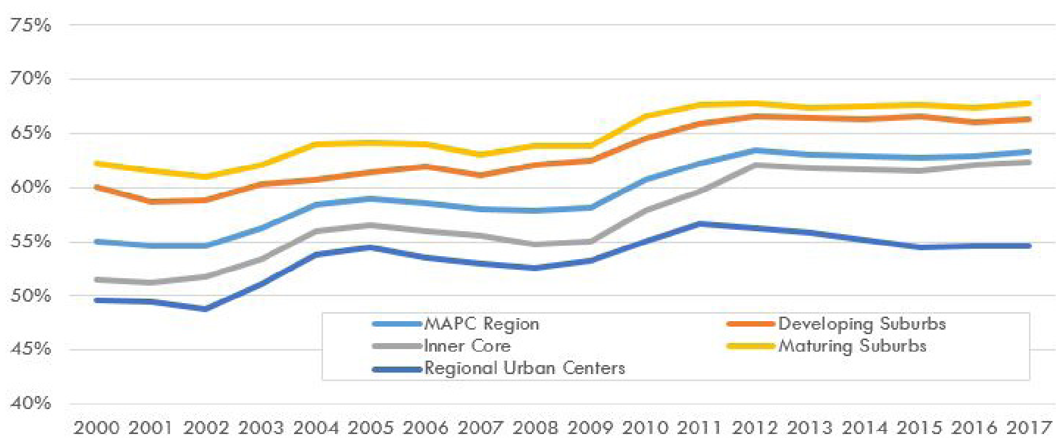
BARRIERS TO PROGRESS:

- The state retirement system has $16.3 billion in unfunded liabilities related to other post-employment benefits (OPEB). The Public Employee Retirement Administration Commission (PERAC) estimates unfunded actuarial liability for OPEB benefits across the state, including municipalities, to be roughly $46.7 billion as of September of 2016[3]. Many municipalities have not established a trust fund to cover future costs.

RELEVANT INDICATORS[4]

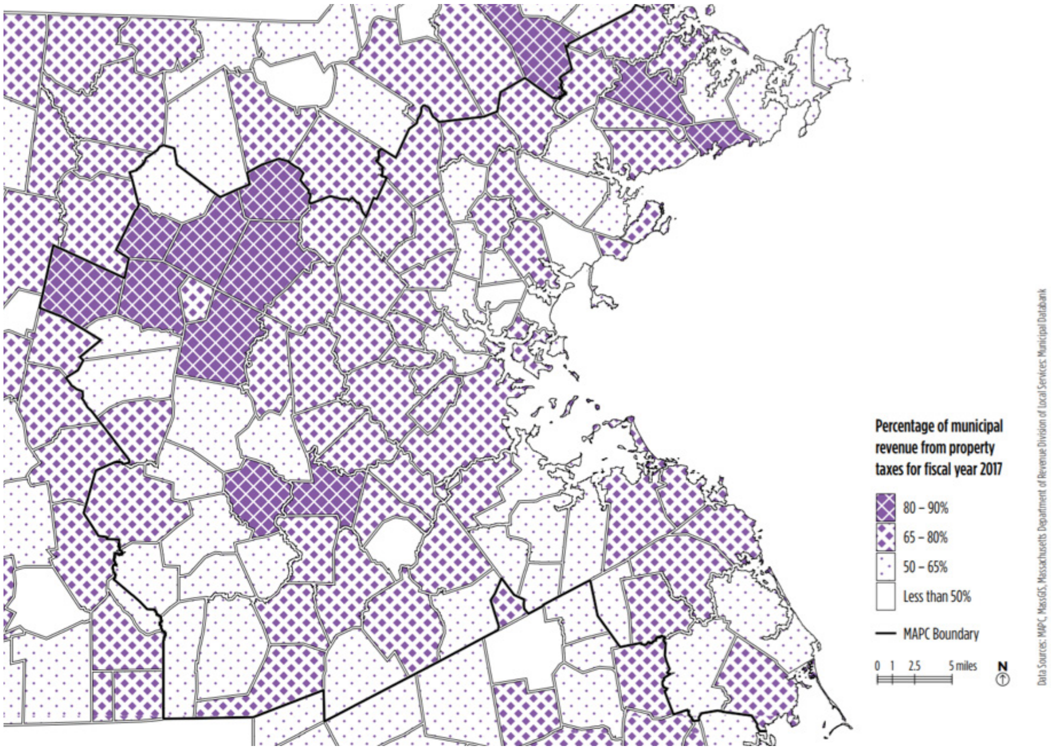
Massachusetts cities and towns provide many services to residents, from schools and parks to public safety, trash collection, and clean streets. Municipalities pay for these services by levying taxes on homes, businesses and personal property, which together provided nearly two-thirds of local revenue in the MAPC region in 2017. Other revenue comes from state aid, excise taxes, and optional hotel and meal taxes. Steep increases in the cost of employee health insurance and rising pension obligations have eaten a greater share of local tax revenue in recent years. This has negatively affected the ability of cities and towns to provide basic services without raising taxes. And, local tax increases are capped at 2.5% per year, unless voters approve an "override" of that limit. As a share of local revenue, the property tax increased steadily from 55% in 2000 to 63% in 2017 (see Figure 1).

Figure: 1: Percent of municipal revenue from property taxes by community type (2000 to 2017)
Data Source: Massachusetts Department of Revenue, aData



3 https://pioneerinstitute.org/blog/blog-better-government/blog-pensions/underfunding-opeb-losing-strategy/
4 While not directly tied to the success or failure of a sub-strategy, indicators show how the region has changed in the face of the aforementioned actions or inactions.

Figure 2: Percent of Municipal Revenue from Property Taxes for Fiscal Year 2017



Some places are almost entirely dependent on property taxes or residential property taxes, while others are almost entirely dependent on state aid (see Figure 2). Either of these extremes is dangerous. When state aid is cut, cities and towns like Lawrence (~72% of budget) suffer greatly, while a place like Carlisle (~5% of budget) much less so. However, in Carlisle, which gets 97% of its budget from property, discussions about new municipal expenditures—schools, public safety facilities, etc.—are often shaped more by concerns around growing tax bills than the long-term benefits to the community. Without diversification of revenue sources, such as increasing state aid, or encouraging more communities to adopt local taxes on meals and hotels, municipalities may find themselves unable to provide stable services in years to come.

Sub-Strategy C: Enable more cost-effective service delivery

EXAMPLES OF PROGRESS:

- A number of communities, mostly larger cities and towns, have instituted performance management practices and so-called "CitiStat systems" for tracking the quality of services provided to their residents, notably Somerville through their SomerStat system.
- There are a number of examples of communities sharing services to provide more cost-effective delivery. Areas where this takes place include veteran's services, inspectional services, animal control, information technology, emergency dispatch, and public health.

- Cities and towns are regularly using collective and cooperative purchasing arrangements to procure goods and services – which saves them both staff time and money in running procurement processes and reduces the costs of the procured goods and services.
- The Collins Center reports that capital planning for cities and towns is currently one of their biggest areas of technical assistance. They have worked with several dozen municipalities on it over the last few years. Much of this is funded by the Community Compact program.
- The state expanded enterprise funds, which establish a separate accounting and financial reporting mechanism for municipal services, in 2017. From 2006 to 2016 the number of municipalities using enterprise funds increased 23% from 199 to 244.
- Many communities have adopted the senior citizen tax write off program, whereby seniors receive a property tax relief in exchange for dedicating time to support municipal functions.
- While no municipality created a new municipal electric utility, the State adopted commercial Property Assessed Clean Energy (PACE) financing to promote energy efficiency and make it more affordable. Also, MAPC assisted municipalities in purchasing programs for aggregated electricity and clean energy.

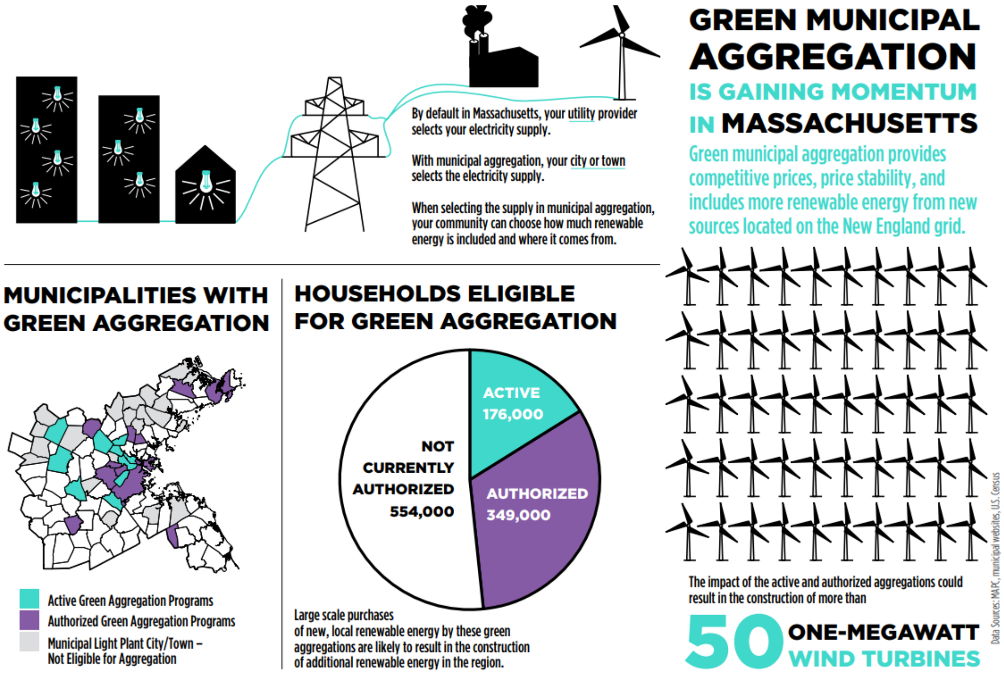
BARRIERS TO PROGRESS:

- The biggest barrier to progress is resources and capacity. The upfront investment in time and money required to reform the way services are delivered is often not available for many cities and towns.
- Municipal leaders and residents often are concerned that shared services will not be as accountable to their management and needs – having to juggle needs across multiple communities and not being responsive to a single chain of command.

RELEVANT INDICATORS:

"Municipal aggregation" is when customers band together to buy their electricity. With aggregation, a city or town contracts with an electricity supplier on behalf of all residents and businesses who have not already selected one. By entering into long-term contracts and leveraging significant buying power, aggregations can provide cost savings and more price stability than the utility. Figure 2 details Massachusetts Green Municipal Aggregation Program.

Figure 3: Example of Collaboration through Green Municipal Aggregation



Sub-Strategy D: **Ensure that state assistance to local government is sufficient and predictable**

EXAMPLES OF PROGRESS:

- Local aid has again started to track to levels of state revenue growth, but the cuts that occurred during the great recession have not been made up.

BARRIERS TO PROGRESS

- Reform to local aid would result in winners and losers, which forms a significant barrier to change. To change the local aid formula would likely require strong revenue growth that would allow the losers in any formulaic change to be relatively unharmed in the short-term. And despite Massachusetts' very strong economy, revenue growth has not kept pace.
- Aversion to new taxes from Governor and House leadership keeps new revenue initiatives in check.
- The Strengthen Municipal Finance strategy supported maintaining the 5.3% income tax rate, but since 2011 the rate has declined annually and currently sits at 5.1%.

Sub-Strategy E: Provide cities and towns with flexibility to raise local revenues

EXAMPLES OF PROGRESS:

- The Community Preservation Act (CPA) is a smart growth tool, which allows municipalities to create a local Community Preservation Fund for open space protection, historic preservation, affordable housing and outdoor recreation, continues to be a resource for municipalities. While the number of communities receiving CPA funds reached a new high (157) in 2016, the number of projects and money distributed from the state match fell to an all-time low as did percent of the distribution from the base fund (17% in 2016 versus 67% in 2008). Legislative change would be required to increase the state matching funds.
- Examples of payments in lieu of taxes increased across the state.
- The legislature increased the meals tax in 2009 to 6.25% from 5% and passed a law to allow local option hotel and meals taxes, which municipalities have actively pursued.
- Legislative proposals to allow for regional ballot initiatives to fund multi-municipal transportation projects and allowing expanded value capture have been introduced into the legislature, but have not yet passed.

BARRIERS TO PROGRESS:

- General opposition to new local taxes from those industries that would potentially be impacted thwarts efforts to expand revenue raising powers.
- The Supreme Judicial Court rejected the "Fair Share" ballot question that would have increased income tax rates over $1milllion, in order to fund transportation and education.

Sub-Strategy F: Reduce the burden of education funding.

BARRIERS TO PROGRESS:

- Chapter 40R, the smart growth housing law, and its companion, Chapter 40S, which covers any net increases in school costs, has resulted in only a modest number of new housing units. Concern over long-term funding availability leads some municipalities to be reluctant to take part in the program. As of May 2018, only five towns have applied and the state granted awards to three. However, experts think that some municipalities would have qualified if they had applied .
- The regionalization of certain school systems is raised periodically, but it would require the elimination of certain local governance structures, control, and jobs and the resulting economies of scale are never compelling enough to overcome these losses.

Emergent Themes

- Experts warn that municipal finance faces a wave of retirements and lacks a robust pipeline to fill it.
- Capital planning and financial forecasting are still limited in many municipalities. This is just recently starting to change.
- Many municipalities have major unfunded capital costs in the form of buildings, vehicles, and equipment that are past their useful life and will have to be replaced.