



Our Communities and Our Commonwealth: Partners for Progress and Prosperity

MASSACHUSETTS MUNICIPAL ASSOCIATION Offers 10 Partnership Principles to Build a Stronger Commonwealth

State and local government in Massachusetts have a long and rich history of working together to make the Bay State one of the most prosperous and progressive states in the nation. Our leading rankings in knowledge and wealth are due in no small part to the investments made at both the state and local level in education and vital initiatives and services that support the creativity and ingenuity of all our citizens.

The partnership between cities and towns and state government must be strengthened if we are serious about meeting the needs of our residents and businesses in a rapidly changing world. Together, state and local government face many common challenges, ranging from investments in world-class education and public infrastructure to ensuring that we have safe neighborhoods and streets, an adequate safety net for needy citizens, and great recreational and cultural facilities.

The task facing state and local leaders is to bring forward new ideas and plans that keep Massachusetts a vital and exciting place to live and work.

The Massachusetts Municipal Association offers the following **10 Partnership Principles** to renew and revitalize the relationship between state and local government here in the Commonwealth so we can achieve lasting progress and prosperity for our communities and our residents.

Rebuilding a Strong and Lasting State-Local Financial Relationship

PARTNERSHIP PRINCIPLE 1: We must forge a new and enduring state-local fiscal partnership based on a fixed share of state tax collections dedicated to the support of local government services and reducing our over-reliance on the property tax.

Cities and towns in Massachusetts are responsible for a great variety of public services that are highly valued by citizens and businesses and play a fundamental role in the state's economic future. These services include the education of nearly one million schoolchildren; police, fire and emergency protection for six million residents and for thousands of businesses; the maintenance of 30,000 miles of roads and bridges; and the vital but less heralded cultural and human services that are provided locally. These local services are crucial to attracting and retaining families, businesses, jobs and investment in Massachusetts.

Increasing the overall fiscal capacity of cities and towns turns out to be central to the future prosperity of the Commonwealth.

Local voters and elected officials appropriated more than \$18.8 billion last year to pay for these services, drawing \$10 billion from the tightly capped property tax, the main source of locally controlled revenues. The enormous mismatch between locally controlled revenues and local service obligations has historically and rightly been addressed by state tax revenue-sharing through a variety of "local aid" programs. Revenue sharing through the municipal Cherry Sheet last year totaled \$4.6 billion, or about one-quarter of local spending.



Providing communities with the resources to deliver services and amenities for workers and families is critical to the state's future.

The deep local aid cuts in fiscal 2003 and fiscal 2004 following the 2001 recession have led to disarray and uncertainty in state revenue-sharing policy and to over-use of the property tax to support municipal and school services. The unfortunate truth is that these local aid cuts have reduced the quality of the municipal services that are so important to our economic prosperity and have forced communities to rely far too much on the property tax. Local officials deeply appreciate the positions taken by the Governor-elect and Lt. Governor-elect during the campaign in favor of restoring local aid to previous levels, and embracing revenue sharing as a lasting solution.

The Massachusetts Municipal Association recommends that the new Administration implement a revitalized state tax revenue-sharing policy based on a fixed share of

state tax collections dedicated to the support of municipal services and public education. The MMA recommends that 40 percent of the state's three growth taxes (personal income, corporate excise, and sales) be set aside for direct municipal and school aid payments and that 10 percent of growth taxes (one-quarter of the 40 percent amount) be dedicated to a renewed municipal aid program that is currently limited to Additional Assistance and Lottery distributions.

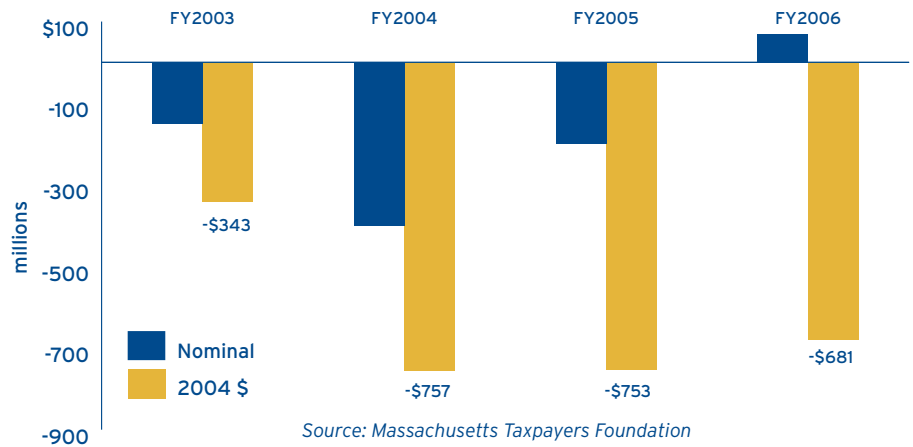
The "fixed-share" revenue-sharing policy has received widespread support, including backing by the Massachusetts Taxpayers Foundation (November 2005) and local

officials from every corner of the Commonwealth. This policy was included as a key recommendation in the September 2005 report of the Municipal Finance Task Force, *Local Communities at Risk*, and in the January 2006 report by the Center for Urban and Regional Policy at Northeastern University, *Revenue Sharing and the Future of the Massachusetts Economy*.

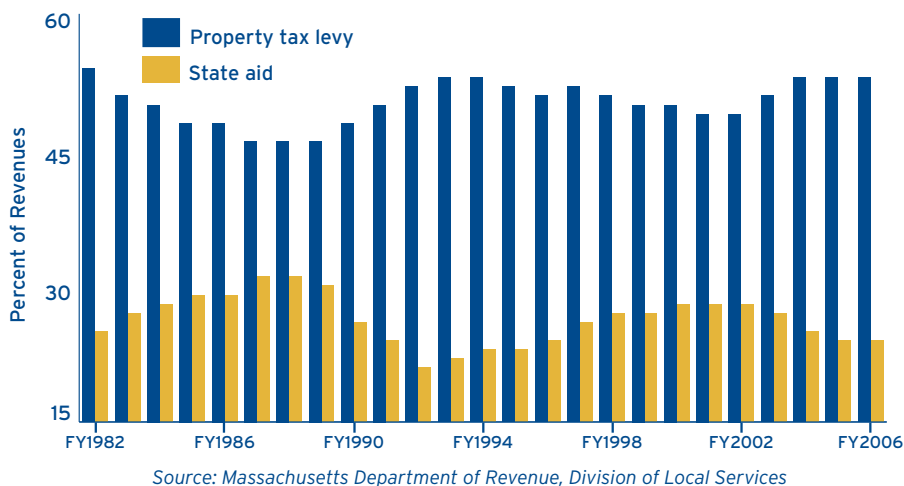
The MMA 40-10 plan is based on historical levels of revenue sharing over the past two dozen years since Proposition 2½ took effect. If it was in place during the recent recession, cities and towns would have received local aid cuts that matched the actual drop in state revenues, and eventually local aid levels would have been restored as the state's tax base recovered. For purposes of comparison, the MMA's analysis shows that at the 40 percent revenue-sharing mark, local aid would have been restored to pre-recession levels by fiscal 2007. As it is, local aid for cities and towns is now only 36 percent of state tax revenues, and municipal service cutbacks, fiscal distress, and skyrocketing property taxes at the local level are the result.

As this new revenue-sharing partnership is put in place, it could be implemented over time in a way that responds to fiscal needs at both the state and local levels. The Massachusetts Municipal Association recommends five years to phase in the proposed municipal aid program.

Reduction in Local Aid vs. Fiscal 2002



Main Municipal Revenue Sources



PARTNERSHIP PRINCIPLE 2:
We must review and change the state's property tax laws to eliminate loopholes and end unwarranted exemptions that narrow the tax base and shift a greater burden to tax-paying homeowners and businesses.

The state's property tax law is ancient and outdated, and in too many instances it has not kept up with rapidly changing social and business practices. There are loopholes in the law that enable certain taxpayers—most recently telecommunications companies—to avoid local taxation simply by changing business practices or company status. In other instances, exemptions provided decades ago may no longer serve their original purpose and should be reexamined.

When property becomes exempt from local taxation, the tax burden is shifted to homeowners, businesses and the remaining taxpayers in the community. Protecting and enhancing the local property tax base must be a key part of any attempt to ease property tax burdens and lessen property tax reliance.

As a start, the Massachusetts Municipal Association recommends closing the telecommunications loopholes that have allowed some telephone companies to avoid paying their fair share of local property taxes, and urges the Administration to embark on a comprehensive analysis of the state's property tax statutes to modernize the law and eliminate exemptions where they cannot be economically justified.

PARTNERSHIP PRINCIPLE 3:
We should reform and improve the cumbersome state-local system of targeted property tax relief to ensure that needy elderly and other taxpayers are protected from an excessive property tax burden.

The property tax burden is a major concern for municipal officials in cities and towns across the state, who increasingly find elderly homeowners and other needy

taxpayers experiencing real hardship due to normal property tax increases and the impact of override and exclusion votes.

While property tax increases are necessary to fund local services, the current system of exemptions and abatements at the local level and the state-administered property tax “circuit breaker” in the state income tax isn't providing adequate relief to many taxpayers who qualify and is missing many other burdened taxpayers completely.

The most effective means of reducing overall local reliance on the property tax is to enact the permanent 40-10 revenue-sharing plan (Principle 1), so that cities and towns can fund vital local services and lower the percentage of local budgets funded through real estate taxes. Beyond revenue sharing, additional measures can and should be offered to augment, improve and target tax relief.

The Massachusetts Municipal Association recommends that the Commonwealth expand the state circuit breaker program, which is funded through the state's more progressive tax system. Further, state and municipal officials should work together to evaluate the system of property tax relief in the so-called “clause exemption” programs to ensure that needy taxpayers are receiving adequate relief across all cities and towns. Any reforms or expansions should be drafted to provide effective and targeted tax relief, without eroding the ability of communities to fund services.

PARTNERSHIP PRINCIPLE 4:
Cities and towns should have the authority to adopt new “local option” taxes, including the meals tax, in order to diversify local revenue sources and reduce reliance on the property tax.

Local government in Massachusetts has strictly limited authority to raise taxes, mainly the property tax and a few much smaller taxes such as the motor vehicle and boat excises and the local option

room occupancy and jet fuel excises. Most states authorize their local governments to implement a broader array of local option taxes, including local option sales taxes.

At a minimum, the Massachusetts Municipal Association recommends that cities and towns be authorized to adopt a local option meals tax of up to 3 percent, which would immediately allow many communities to diversify their revenues and reduce their reliance on the property tax. Further, the Administration could work with municipal and state stakeholders to examine other ways to diversify local revenue sources and to provide an alternative to the property tax.

PARTNERSHIP PRINCIPLE 5:
The state must fulfill its funding commitments to support important investments in municipal services and public education, and make improvements when necessary.

The state's partnership with cities and towns and its investment in municipal and school services take shape in a real way through the variety of Cherry Sheet and other allocations of state assistance to individual cities and towns. These payments and programs frequently reflect joint commitments to achieve worthy program goals, such as community policing or special education services for disabled students.

The Massachusetts Municipal Association recommends that the Governor use the MMA 40-10 revenue sharing plan (Principle 1) as an overall funding framework, while supporting individual direct local aid accounts for both municipal and school programs.

On the municipal side, police, fire and other public safety services are dependent on an adequate and predictable stream of municipal aid that is not earmarked for school budgets or for any other purpose. This year, Additional Assistance and Lottery distributions totaled \$1.3 billion



in flexible unearmarked revenues for local appropriations, a bare minimum level of discretionary aid. The Massachusetts Municipal Association recommends that unearmarked municipal aid be increased according to the MMA 40-10 plan following a five-year schedule.

The Massachusetts Municipal Association recommends that flexible (unearmarked) aid distributions be the guiding policy for the Governor and that dedicated revenues be used for limited joint programs. Past experiences have clearly shown that it is not possible for state policy makers to develop mandate-based programs and formulas that anticipate needs and preferences across all 351 cities and towns. General discretionary municipal aid is essential to allow cities and towns to fund the full range of vital local services without state interference and the inefficiencies that would result.

The Massachusetts Municipal Association recommends that the Governor review the Chapter 70 school finance law, particularly the “Foundation Budget” defining the minimum level of adequate spending for each municipal and regional school district. The MMA, working with the education community, believes that the 15-year old foundation standard does not reflect the current cost of funding first-rate schools and should be updated. Indeed, most analysts agree that cities, towns and school districts generally spend an average of 20 percent more than the Foundation Budget in order to provide a basic education. Further, to help reduce reliance on the property tax and bring Massachusetts in line with most other states, the MMA recommends that Chapter 70 be based on a fair 50-50 local-state sharing of the statewide cost of schools rather than the almost 60-40 split that is now state policy.

While charter schools have become a part of public education here in Massachusetts, the funding system continues to create tremendous animosity—where cooperation should be the model—and

needs to be reformed. The Massachusetts Municipal Association recommends that the Governor convene a working group of stakeholders to take a fresh look at how charter schools should constructively fit into our education program.

There are a number of smaller but very important targeted programs that contribute to joint state-local public safety goals and public policies, including

the police incentive pay program, community policing grants, the payment-in-lieu-of-taxes program, and school transportation reimbursements. These are important state investments that dedicate revenue for particular purposes, and state and local leaders should work as partners to ensure that the state’s level of funding and reimbursement is appropriate to meet local needs.

Investing in Communities for Economic Development and Progress

PARTNERSHIP PRINCIPLE 6:
The state should invest in the “bricks and mortar” underpinnings of our public and private infrastructure at the state and local level to ensure that we can sustain and expand a modern economy and vibrant communities.

There is a great need in Massachusetts not only to maintain and modernize our existing inventory of roads, buildings, pipes and plants, but to make sure that state and local infrastructure expands where growth is occurring and where the state and communities seek future growth.

An adequately funded Chapter 90 local road program is essential to ensure that cities and towns can maintain local roads in safe condition and to help pay for the expansion of major roadways and bridges to accommodate growth. Communities control, maintain and repair more than 80 percent of the road miles in Massachusetts, and Chapter 90 has not kept pace with the needed investment to prevent our roads and bridges from crumbling.

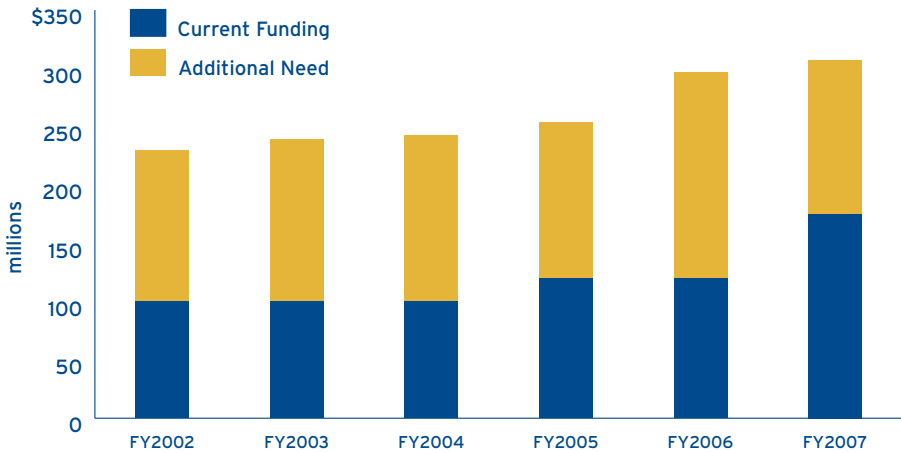
The Massachusetts Municipal Association recommends that the Governor file a transportation bond bill in early 2007 that includes a two-year \$500 million

Local communities play the dominant role in attracting people and business to the Commonwealth.

Chapter 90 program, with first-year allocations announced by April 1 to ensure use of the funds during the entire construction season. This is a modest figure when compared to a statewide analysis conducted by the MMA in 2002 that assessed the actual Chapter 90 need at \$230 million. Adjusting for rising construction and material costs, the projected need is more than \$300 million in fiscal 2007.

The Transportation Finance Commission has identified a wide gap between the cost of modernizing and maintaining our state and local transportation systems and the current outlay of funds devoted to this critical area of public investment. [This is why the MMA joined 15 other organizations in opposing the immediate revenue loss that would result from the elimination of tolls on the Massachusetts Turnpike.]

Chapter 90 Current Funding vs. Additional Need



Sources: MMA Chapter 90 survey, 2002; MassHighway; U.S. Bureau of Labor Statistics PPI-Asphalt

The state needs to raise its self-imposed bond cap to expand the investment in Chapter 90 and all other forms of public infrastructure improvement in order to reach our business development and economic growth goals.

Historically, state support for school buildings and libraries has been a major contributor to establishing a world-class education system and to ensuring local community-based cultural opportunities. Continued state funding is an absolute necessity, given the high local reliance on the property tax and the high cost of construction. In particular, the School Building Assistance program needs to recognize the impact of construction inflation when awarding all grants, including for projects under construction and planned; otherwise, students and taxpayers in some communities will be severely disadvantaged.

Environmental infrastructure is crucial to both economic development and local quality of life, and the state has a powerful role to play in facilitating and assisting with local water and sewer infrastructure investments through the state's SRF program, which should be expanded to leverage greater local capacity to address community and regional needs. State agencies also should not use the regulatory system

to impose unfunded environmental mandates that prohibit development and burden municipal taxpayers. Local and state leaders should collaborate on sustainable policies to protect the environment and ensure that communities can adapt, develop and expand housing and economic growth.

PARTNERSHIP PRINCIPLE 7:
The state should invest in the technology underpinnings of our public and private infrastructure at the state and local level to ensure that we can sustain and expand a modern economy and vibrant communities.

Ensuring a cutting-edge technology infrastructure for residents and businesses is a priority that requires close cooperation between state and local government. It is important that cities and towns retain their primary role in guiding local video, cable and telecommunications development to ensure that all citizens have access to new and emerging technologies.

The Massachusetts Municipal Association asks the Governor to support the authority of cities and towns to negotiate cable franchise licenses. Local control over the

cable franchise process ensures the proper care, control and accountability regarding the use of the public rights-of-way, adequate public, education and government access programming, fair and non-discriminatory network build-out to provide appropriate access for the entire community, and adequate provisions for service to schools and municipal buildings.

The deployment of wireless and broadband telecommunications technology must be a cornerstone of any economic development approach. Broadband, in particular, promotes economic development, stimulates innovation, and improves the quality and efficiency of municipal services. Local government should be included in any dialogue established to develop a model deployment plan to address the technology needs of underserved cities and towns. Once a model is established, each city or town may opt to utilize that approach, or tailor it, to meet its individual needs.

The Massachusetts Municipal Association recommends that the Governor take steps to ensure that the Wireless and Broadband Development Council, established to increase access to wireless and broadband technologies, has a full roster of members and encouragement to meet and take action.

PARTNERSHIP PRINCIPLE 8:
We should reform the state's Zoning Act and related laws to provide cities and towns with new authority and flexibility to guide residential and business land-use decisions in line with local and state goals for business siting and housing production.

Municipal zoning and land-use decision-making responsibilities are essential for effective community development and the implementation of "smart growth" principles to ensure sustainability, adequate transportation systems, and environmental and infrastructure capacity. Massachusetts,



however, was recently identified by the American Planning Association as one of the states with the weakest and most outdated land-use laws. The state's Zoning Act has resulted in commercial strips, subdivisions built on farm fields, traffic congestion, high housing costs, wall-to-wall parking lots, and the relentless consumption of open space. While the Zoning Act authorizes local action, it contains severe restrictions on the exercise of municipal power. A recent Rappaport Institute study, *Dispelling the Myth of Home Rule*, concludes that "home rule" authority in the area of land use is more myth than reality, and that the Zoning Act "not only protects potential developers but creates potential developers" at the expense of municipalities.

The Zoning Act subverts local planning by laying down a minefield of exemptions, prohibitions and zoning freezes. The current framework harms not only municipalities, but developers, local boards, and those in need of affordable housing. Any comprehensive reform needs to remove impediments that render local planning ineffective—and even discourage it. Remedies are contained in legislation, currently before the Legislature, developed by the Zoning Reform Working Group, whose members include planners, land-use attorneys, municipal officials, housing and environmental advocates, and state legislators.

Cities and towns have developed some 2,000 to 2,500 housing units a year, using federal, state and local subsidies, and innovative means. Unfortunately, a lack of incentives and flexibility, coupled with a concurrent retraction of federal and state subsidies, have handicapped local development initiatives, contributing to the serious affordable housing shortage in this state.

The state's best-known affordable housing statute, Chapter 40B, needs to be reworked to ensure that the need to create affordable rental housing and homeownership is appropriately balanced. The 40B process is inherently confrontational, from the

inception of a project to its completion, undermining local efforts to fulfill the goal of producing inexpensive housing, leaving many good projects behind due to delays, and frequently promoting sprawl. Chapter 40B allocates much power to developers without granting resources or authority to municipalities. An ongoing Inspector General's office audit of 40B projects across the state has uncovered a system of abuse in which developer profits were routinely and substantially understated. The results, in many cases, were profit windfalls to the developers while the respective municipalities were deprived of payments that should have been paid under the regulatory agreements to further advance the development of affordable housing. Much of this has occurred because the host cities and towns are prohibited from overseeing the 40B cost-certification process.

Chapter 40B should not be the only system in place to develop lower-cost housing. [Although the statute has

generated more than 30,000 units of affordable housing since its inception 35 years ago, this is a very small percentage of total suburban development.] In other states, cities and towns are able to utilize "inclusionary zoning," whereby the municipality can require the developer of a new subdivision to set aside a percentage of new units as affordable. While a number of cities and towns in Massachusetts have adopted this tool via local ordinance, the vast majority are rightly cautious about adopting or enforcing inclusionary requirements because state law does not expressly authorize their use and developers threaten costly legal action.

The Massachusetts Municipal Association recommends that the Administration support the enactment of a law expressly authorizing communities to adopt inclusionary zoning provisions, so that cities and towns can expand the development of affordable housing beyond the limited and problematic provisions of Chapter 40B.

Ensuring Efficient and Effective Government Administration

PARTNERSHIP PRINCIPLE 9:
State and local leaders should recognize that the archaic personnel management and benefit system in Massachusetts, which imposes burdens on municipal budgets and makes it difficult to attract and retain qualified employees, is in need of "stem to stern" modernization.

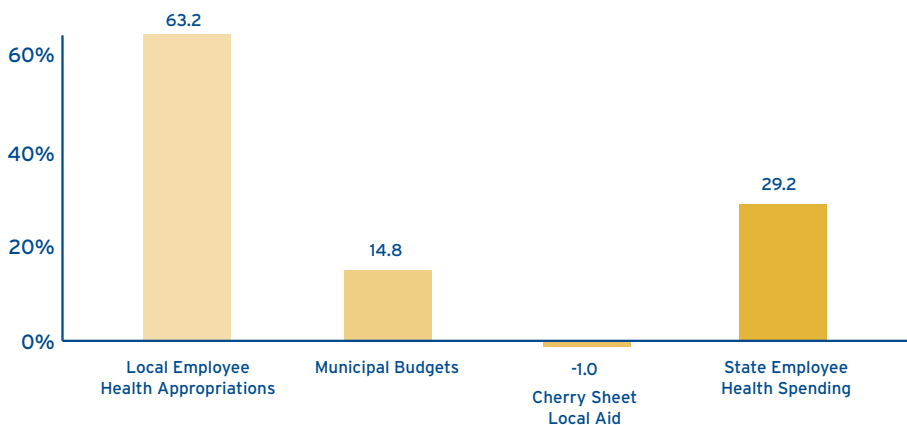
Collectively, local government is one of the largest employers in Massachusetts, providing direct services to every resident and business. Hiring, managing, motivating, and providing good wages and benefits for current and retired employees is an

enormous challenge because of decades-old employment and civil service laws that strictly limit flexibility at the local level.

Health insurance is crippling municipal finances and will continue to squeeze out other programs and services unless there is major reform of the way cities and towns design and set health insurance benefits for municipal employees. In order to address the crisis of rising employee health costs, cities and towns must have the same authority as the state in providing health insurance for employees.

Current state laws impose severe restrictions on the ability of local officials to manage municipal employee health insurance

Employee Health Costs, Budgets and Local Aid
Percent change, Fiscal 2001-2005



Sources: MMA/MTF 2005 Municipal Health Cost Survey, Division of Local Services, Group Insurance Commission

plans. Communities have done their best to manage these costs, given these restrictions. Most cities and towns have joined together in larger purchasing consortiums or programs to achieve the benefits of pooling and expanded purchasing power, or they are already large enough to self-insure. The major factor driving up the cost is that communities have little ability to modernize the plan design structure of their health benefits, except through collective bargaining. The state has exempted itself from these collective bargaining requirements, yet forces cities and towns to negotiate for approval locally.

The local cost of providing health coverage for municipal employees in Massachusetts has increased by 63 percent from 2001 to 2005, more than four times the rate of growth in local budgets and nearly double the rate of increase in the state government's own costs for state workers, according to a Massachusetts Taxpayers Foundation report. The report makes the case for reform to allow cities and towns to manage their health insurance costs using the same authority and flexibility that the state has. In nearly every municipality, health insurance now eats up at least 80 percent of the allowable property tax increase under Proposition 2½.

The Massachusetts Municipal Association recommends that cities and towns be given the same powers as the state to determine employee premium share and plan design: permit the local legislative body to set municipal contribution rates and allow locally adopted group insurance boards or commissions to determine the health insurance plan design. These changes would give municipalities the flexibility they need to respond effectively to rising employee health costs while ensuring that employees take part meaningfully in decisions about their health coverage.

In the interim, the MMA is supporting local option legislation that would allow cities and towns to access the state's employee health plan system administered by the Group Insurance Commission, an option that would be helpful to communities that are able to navigate through a challenging coalition bargaining process (a process the state does not follow). The permanent and lasting solution for all communities, however, would be to give localities the same authority as the state regarding plan design and contribution share.

The obsolete Massachusetts Civil Service law has been surpassed by modern

The permanent and lasting solution would be to give localities the same authority as the state regarding health plan design and contribution share.

collective bargaining agreements that universally include appropriate protections and procedures. The Civil Service system creates duplication, unnecessary paperwork and widespread inefficiency. The Massachusetts Municipal Association recommends that the Civil Service system be eliminated for all municipal employees, with a provision that gives cities and towns the local option to retain the testing system for the police and fire service employees.

The current local and state pension and post-employment benefit system has imbedded challenges and inequities. These include vesting requirements that make it difficult for those employees who enter and leave the workforce frequently, a diffuse system of administration with the potential for streamlining or simplification, differing benefits for different groups, and the enormous retirement health benefit cost as quantified by GASB 45. The Massachusetts Municipal Association urges a broad-based, high-level, collaborative review of the options and issues involved in modernizing and improving our public pension system.

The Massachusetts Municipal Association also recommends passage of local option legislation that would immediately facilitate pre-funding of retiree health benefits at the local level for communities that wish to set aside and invest funds for this purpose.



Creating a Working State-Local Partnership for the Future

Now more than ever, municipal and state leaders must stand together as partners to overcome the challenges and obstacles ahead and build a stronger Massachusetts for our residents and businesses. We must be open to change, innovation and shared responsibility. We must recognize that our economic competition is not New England or the rest of the nation; it is global. We must be prepared to listen and act, not just on state or local ideas, but all good ideas. To do this, we must create a dynamic dialogue, both formal and informal, to guide and shape this New Partnership.

PARTNERSHIP PRINCIPLE 10:
Both the Governor and Lt. Governor need to support, attend and actively participate in the Local Government Advisory Commission.

In the 1970s, state and local leaders established the Local Government Advisory

A collaborative working relationship between state and local government is central to the Commonwealth's economic competitiveness, growth and prosperity.

Commission, a unique undertaking to create a formal process for dialogue, advice and consultation directly between the Governor and municipal and school officials. From Gov. Michael Dukakis through Gov. Jane Swift, each Governor attended and participated in the meetings of the LGAC, creating a powerful forum for understanding and problem-solving. Gov. Mitt Romney is the only head of state not to participate.

The LGAC, which includes the elected leaders of the statewide associations representing Mayors, Selectmen, Managers, Councillors, School Committee Members and Finance Committee Members, as well

as Legislators, meets for one hour a month, on the afternoon of the second Tuesday of February, March, April, May, June, July, September and November.

This simple investment of time provides a formalized structure around which municipal leaders and Administration officials can create a dynamic forum and agenda for meaningful discussion, consensus and progress.

Local officials look to the leadership of Governor-elect Deval Patrick and Lt. Governor-elect Tim Murray, and know that the simple step of LGAC participation will move us all miles ahead.

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Massachusetts Municipal Association

One Winthrop Square

Boston, MA 02110

(617) 426-7272

www.mma.org