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Testimony of the Boston Municipal Research Bureau

Before the Legislature's

Special Municipal Relief Commission

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Regarding: Recommendations to assist municipalities in managing more efficiently and cost-effectively

Senator Rosenberg, Representative Donato and Members of the Commission, my name is Samuel R. Tyler, President of the Boston Municipal Research Bureau and I am pleased to present a few recommendations for the Commission's consideration that we believe would allow Massachusetts cities and towns to provide basic services more efficiently and cost effectively and enable municipalities to exercise more control over their operations. These changes would have long-term benefits but would be especially timely now when local government will be expected to provide basic services with restricted revenue growth. For that reason, it is important that this Special Commission establish concrete recommendations to provide municipalities with meaningful operational benefits without adverse future consequences. Rather than repeat too many recommendations made by others testifying or submitting testimony today, I will focus on a few issues that relate to recent work of the Research Bureau.

Local Health Insurance

If this Commission were to select just one issue that would provide the most benefit to each and every city and town, that issue would be local health insurance reform. Boston and other cities and towns are facing a crisis of unsustainable increases in employee health insurance costs that are absorbing a larger share of limited revenue growth, leaving fewer resources for other services. Municipalities find themselves in a fiscal straightjacket, severely restricted in their ability to manage health benefit costs because of existing state laws and practices. By comparison, the Commonwealth has operated a very successful health insurance plan for state employees through the Group Insurance Commission (GIC) since 1955, but under different authority than available to cities and towns. The consequence is that state spending for employee health insurance is far less than for municipalities which have to play by different rules.

Two years ago, the Research Bureau issued a report on health insurance that showed that in the six years from fiscal 2001 to fiscal 2007, Boston's spending for employee health insurance had increased by 92%, while during the same period state spending for health insurance increased by 61%. Had the City's health insurance costs increased at the same rate as the state from 2001 through 2007, the City would have saved nearly \$38 million for needed services. During this period, health insurance had grown from 7% of Boston's operating budget in fiscal 2001 to 11% in fiscal 2007.

The GIC's administrative authority over plan design is the key management distinction between state and local health insurance costs. Municipalities must negotiate any change in health insurance service with each employee union, making change difficult or too limiting. As part of Governor Patrick's Municipal Partnership Act, the Legislature enacted legislation that allowed cities and towns to join the state's Group Insurance Commission but the hurdles created to join have resulted in only 15 cities and towns joining the GIC in two years. This new law was touted as a solution that would provide significant property tax relief. However, help to 15 communities (4 cities and 11 towns) or 4.3% of the 351 cities and towns in Massachusetts hardly seems like significant relief for a budget item that continues to grow at an unsustainable pace.

Recommendation: Cities and towns should be given the same ability to manage health insurance costs as enjoyed by the Commonwealth since 1955 so that both are on the same level playing field and the double standard is eliminated. The existing conditions for municipalities to join the Group Insurance Commission should be eliminated and those communities interested in joining the GIC should be allowed to join on a phased-in basis to accommodate GIC administrative requirements. At the same time, legislation should be enacted that prohibits health insurance plan design from being subject to collective bargaining. This change would allow individual cities, towns, health group collaboratives or insurance pools to assume the same responsibility for plan design as employed by the state.

More Flexible Home Rule

The restrictive nature of existing home rule in Massachusetts is an issue the Commission should review. A comprehensive report on the scope and implications of Massachusetts home rule on Boston, titled *Boston Bound*, was released last year with the support of The Boston Foundation. The report compared the legal powers of Boston and six other comparable cities in the United States (Atlanta, Chicago, Denver, New York City, San Francisco and Seattle). The report found that Boston's power to control its own operation and shape its own future is constrained by the state "to an extent that is unique among the places studied." The comparison of Boston with the six cities shows how the existing legal structure restricts Boston's ability to make changes regarding its economic future, placing the City in an economic disadvantage.

The lack of opportunity to diversify revenue means that Boston is far more reliant on the property tax than any of the other cities in this study, which influences development decisions and use of incentives to encourage development. The City's effort to create a Business Improvement District (BID) for the Downtown Crossing area is another example of restricted power. Boston is the only major city in the country that does not have at least one BID. Yet, on two separate occasions, Boston submitted a home rule petition to the Legislature to create a BID. In both cases, the bill was not enacted for different reasons.

Recommendation: The Commission should consider steps to increase local authority in areas currently requiring state approval through home rule petitions, especially in areas involving a municipality's economic future.

Disability Pension Reform

Recent events in Boston have pointed to the need for Legislative review of the state's disability pension system that balances the need to deal with legitimate cases expeditiously with procedures that prevent questionable or fraudulent cases from being approved. Illegitimate disability cases that are approved can cost municipalities and their taxpayers millions of dollars. Disability pensions must be approved at both the local and state level so the review should encompass the total process. The situation of an employee who incurs a disabling injury while temporarily serving in a higher grade being able to receive a disability pension at the higher grade level deserves particular attention. The prevalence of this problem is demonstrated by the experiences of the Boston Fire Department which generated an alarming rate of disability pensions and out-of-grade disability pensions, especially over

the past three years. For example, 76% of all firefighters retiring in 2006 retired with a disability pension and of those disability retirees, 64% retired out-of-grade with a higher pension.

Recommendation: The Commission should work with the Special Commission to Study the Massachusetts Contributory Retirement Systems to undertake a comprehensive assessment of the existing disability pension system in Massachusetts to strengthen the evaluation process in order to limit approval of illegitimate requests and existing abuse of the system. All parties in the decision-making process should be made accountable for their actions. Legislation should be enacted that reforms the current “out-of-grade” pension practice (Ch.32, s.7) so that a pension is based on the annual compensation of the officer’s highest three years at his or her permanent rank rather than as little as one day as now exists.

Revenue Flexibility

Providing greater revenue flexibility or revenue diversity for cities and towns in Massachusetts should be addressed by the Commission. Over twenty years have passed since the last time the Legislature approved new revenue sources for municipalities. In 1986, the Legislature authorized a room occupancy excise up to 4% and a 5% jet fuel excise as a local option for cities and towns. Boston relies on the property tax for 56% of its total operating revenue, which as reported in *Boston Bound* and other reports, is significantly higher than for other comparable cities in the country. That situation is due to the ability of other cities to access more local revenue sources. This lack of revenue diversity results in the property tax and General Fund state aid representing 81% of Boston’s total operating revenues in fiscal 2009. Cities and towns should have greater discretion in how they finance municipal services to reduce the reliance on the property tax.

The state tax revenue structure does not allow venue cities like Boston to take advantage of the economic activity created in the city by conventions, events, tourism or general business. This activity generates sales, meals, liquor and hotel tax revenue but, with the exception of the 4% hotel tax, these revenues are allocated to the Commonwealth with no share for the host community which is required to provide services for these activities.

Recommendation: Cities and towns should have the flexibility to establish new local revenue sources through local option or other means to help reduce their reliance on the property tax. In venue cities like Boston, a mechanism to allow a sharing of state tax revenue from economic activity should be established. A local option meals tax of 1% is consistent with a local room occupancy tax and should be given serious consideration.

Other Research Bureau recommendations include:

1. **Medicare enrollment** – Require municipal retirees to enroll in Medicare when they are eligible. Currently, cities and towns can require eligible retirees to join Medicare if the municipality has adopted Chapter 32, section 18, but not all municipalities have adopted this section. Some range of adjustments may be considered if needed by retirees to mitigate any meaningful premium changes. This requirement would provide substantial premium savings by shifting much of the cost of retiree health insurance onto the federal government. Legislation was recently enacted (Chapter 374 of the Acts of 2008) that requires eligible employees to enroll in Medicare, but it only applies prospectively to those who retire after this new section of law is adopted by the municipality. This act will provide savings in the future but passes on the opportunity to achieve substantial savings in the short term.
2. **Regionalization** – The state should provide economic incentives to encourage active regionalization among municipalities and modify or eliminate state requirements that create barriers. A broader efficiency issue tied to regionalization is the greater consolidation of the local service delivery system rather than maintain 351 separate systems.

3. **Alcohol and drug testing for uniformed public safety personnel** – Drug and alcohol testing for uniformed public safety personnel should be a state requirement and not subject to collective bargaining. A uniform statewide system of annual drug and alcohol testing serves the best interest of the Commonwealth compared to a patchwork system in which some communities require testing but neighboring communities do not and different standards are utilized. Not having to bargain for alcohol and drug testing would enable municipalities to allocate limited resources for other important initiatives in negotiations. In addition, the exemption in Massachusetts that firefighters with a commercial drivers license (CDL) are not required to comply with annual alcohol and drug testing should be eliminated.

Avoid Future Adverse Consequences

The Bureau cautions the Commission about supporting any initiative that would provide some immediate relief for municipalities but create future adverse consequences. Options that would increase future benefit liabilities such as an early retirement incentive plan and extending the date for full funding of the pension liability should be avoided.

1. **Early retirement incentive** - The state should not authorize an Early Retirement Incentive (ERI) plan that would grant employees not now eligible for retirement added years of service or age to enable them to retire sooner. With the pressing need to begin to address the other post employment benefits (OPEB) liability, no option should be offered that would increase a municipality's existing pension liability. In 2002, the state approved a plan that granted five years in service or age or a combination of both to municipal employees to enable them to retire before they were eligible. In Boston, 476 employees accepted this offer, but the consequence was that the State-Boston Retirement System's unfunded pension liability increased by \$61.8 million.

2. **Full funding pension date** - The state requirement for full funding of each retirement board's pension liability by 2028 should not be extended. Reaching full funding of the pension system by 2028 or sooner is very important so that more focus can be placed on meeting the annual required contribution (ARC) for the OPEB liability which is beyond the means of most communities at present. For Boston and other communities, the actuarially determined liability for OPEB is greater than the current pension liability.

I appreciate the opportunity to present these suggestions to the Commission and I would be pleased to answer any questions now or at another convenient time.