

1. Municipal Partnership Represents Cooperation Between State and Local Government

- **Strengthening the partnership between local governments and state government will improve the health of each municipality and improve the Commonwealth as a whole.** The Commonwealth is home to 351 cities and towns, each having individual and specific needs.
- Among the provisions of the legislation are plans to **help lower property taxes**, allow cities and towns to **participate in the state's health insurance program**, **address underperforming municipal pension funds**, and **close a telecommunications tax loophole**.

2. Local Meals and Hotel Taxes

- **Diversifying a community's revenue base diminishes its reliance on the property tax.** Nationally, municipal revenue structures are more diversified. For example, most major American cities have local taxing authority over restaurant meals and other local activities.
- Homeowners bore the greatest tax increase in the last four years. **Property taxes paid by homeowners increased by \$1.4 billion.**
- Cities and towns may adopt a **hotel tax of up to 5%** and a **meals tax of up to 2%** of gross receipts.
 - If all cities and towns in Massachusetts adopted a 1% meals tax, more than \$120M is estimated to be available to cities and towns in Massachusetts.
 - **25% percent of new revenue** would be deposited into the **Municipal Property Tax Exemption Reimbursement Fund** and reimbursed across cities and towns for property tax exemptions for **qualifying senior citizens**.
 - The remaining balances will be returned to the originating city or town.

Local Taxes on Meals

Selected Major Cities

<u>Cities</u>	<u>State</u>	<u>City</u>	<u>Other Local**</u>	<u>Total</u>
Chicago	5.00%	2.50%	2.75%	10.25%
Washington D.C.	0.00%	10.00%	0.00%	10.00%
Seattle	6.50%	0.85%	1.95%	9.30%
New Orleans	4.00%	2.50%	2.50%	9.00%
New York	4.25%	4.125%	0.25%	8.63%
San Francisco	6.25%	2.25%	0.00%	8.50%
Austin	6.25%	1.00%	1.00%	8.25%
Atlanta	4.00%	1.00%	3.00%	8.00%
Denver	2.90%	4.00%	0.80%	7.70%
Philadelphia	6.00%	1.00%	0.00%	7.00%
Boston (PROPOSED)	5.00%	1.00%	0.00%	6.00%

** County, Transit authority districts, or other taxing authorities.

Compiled by Office of Budget Management, City of Boston

3. Telecommunications Tax Loophole

- Massachusetts has an outdated telecommunications property tax law that exempts above ground poles and wires from property taxation. This law, passed in 1915, was designed to bring the telephone to all areas of Massachusetts. That goal was achieved. Now, it is time for telecommunications companies to pay their fair share of the property tax.
 - Overall, **the telecommunications industry in Massachusetts is avoiding an estimated \$78 million in annual property taxes.**
 - This \$78 million could be used for **property tax reduction**, education, road construction and maintenance, or any other municipal expense.
- Electric companies and wireless companies are required to pay property taxes on their equipment. Currently, if a pole is jointly owned, the electric company owes property tax on its half, while the telecommunications company does not.
- Requiring telecommunication companies to pay their tax obligation will not translate into higher telephone bills.

- **Verizon's tax bill declined by 53%**, or nearly \$50 million, from 2003-2005 while the **average monthly bill rose 27.4%**.
- Of all the states in which Verizon does business, Massachusetts has the **4th lowest total tax burden** while Verizon customers in Massachusetts have the **5th highest monthly bill**. There is absolutely **NO correlation between tax burden and monthly bills**.
- The monthly bill in Massachusetts is 23% above the national average, while Verizon's Massachusetts state and local tax bill is 60% below the national average.

4. Group Insurance Commission Participation

- Rapidly escalating health insurance costs have put cities and towns across the Commonwealth in the untenable position of either cutting municipal services or increasing already high property taxes.
 - The **cost of health coverage to municipal employees has skyrocketed by an average of 63 percent from 2001 through 2005**, a growth rate nearly double the rate of increase for health coverage of state government employees over the same period.
- Cities and towns may choose to participate in the Group Insurance Commission. Decisions to participate would be made by agreement between the municipality and a public employee committee which would include representatives from each collective bargaining unit.

5. Municipal Pension Funds

- There are currently 106 different public pension systems in Massachusetts. The **State system** handles all state employees, while the **State Teachers system** handles all state teachers. Those two systems **alone have over \$37 billion invested in the state Pension Reserve Investment Trust (PRIT)**. The remaining **104 systems total under \$20 billion**, and are individually invested by the local pension board.
- The Patrick Administration supports the mandate that individual pension boards are the best vehicle for administering pension benefits to retirees. This legislation does not change that authority.
- Pension Boards have been able to invest their assets with PRIT since 1985. **Because of the size of the Trust, PRIT can diversify assets for maximum possible return**. Currently, 28 systems are fully invested with PRIT. An additional 40 systems are partially invested in the various asset classes that PRIT offers.
- Over the last 21 years, **PRIT has averaged an 11.27% return, making it one of the best pension systems in the country**. By choosing to not invest with PRIT, local systems have squandered the opportunity to increase their portfolios by over \$2.6 billion in the last eight years alone. This money could have been used for the myriad of municipal obligations.
- **This legislation would force the lowest performing systems to invest their assets with PRIT**. The Administration proposed that those systems that are under-funded and have had a 5-year return that is a certain percentage less than the same period for PRIT would invest their assets with PRIT.