CITY OF CAMBRIDGE

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

April 1, 1985

To the Honorable, the City Council:

Summary: The City of Boston, under the leadership of Mayor Raymond L. Flynn, has submitted a series of bills to the State Legislature concerning municipal revenue-raising and expenditure efforts. The Boston Plan seeks to grant municipalities the right to expand their local taxing authority and also to have the Commonwealth absorb the costs of certain services that the localities must currently pay for. As the table below indicates, should the whole package be approved by the legislature (which is perhaps an unreasonable expectation) Cambridge could expect to benefit by approximately $11,118,000 in the first year, and as most of the proposed new revenue enhancements are responsive to the overall economy and economic development, the City could expect annual increases in these revenue categories as well.

Proposal	Estimated Revenue/Savings to Cambridge in First Year
Entertainment Excise Tax	100,000
Parking Excise Tax	1,200,000
Hotel/Motel Tax	3,100,000
Regional Transportation Assessments	5,473,000
Pension Cap at 2-1/2%	750,000
House of Correction Costs	495,000
Total	11,118,000

While Cambridge is not currently in the same dire fiscal condition that Boston is in, there are at least five reasons why the City Council must seriously consider the Boston Plan.

- First, while Cambridge is currently in compliance with Proposition 2-1/2, any extraordinary or unforeseen expenses of a serious magnitude would cause fiscal chaos. The passage of any of these proposals would afford the City a greater degree of fiscal flexibility in responding to any such occurrences.

- Second, it is clear that Cambridge has become increasingly dependent upon State Aid. While the additional State Aid has been of tremendous benefit to the City, reliance upon it, as we have already learned, makes it very difficult to control our own fiscal destiny. If and when the State economy slows, growth in local aid will slow with it.

- Third, as the City Council is aware, the President has proposed and there appears to be considerable Congressional support for, the elimination of general revenue sharing, a program which has provided Cambridge with between two and three million dollars annually for the past decade. If revenue sharing is eliminated, the City will be faced with either a reduction in services or an increase in the property tax levy to offset the revenue loss.

- Fourth, the City Council should be aware of the impact that the granting of additional revenue-raising options will have on the City's bond rating. Both major bond rating firms, Moody's Inc. and Standard and Poor's Corporation, are concerned with the City's limited revenue-raising capacity and growing reliance upon State Aid. Should additional revenue-raising options be granted to the City, it could be expected to have a positive impact on the City's already improved bond rating.

- Finally, even in the unlikely event that the growth in State Aid does not slow down and general revenue sharing is extended by Congress, perhaps the most important reason to consider the Boston Plan is that the approval of the proposals would result in a tax break for property owners in Cambridge. If the hotel and parking taxes are approved (the entertainment tax does not appear to be of substantive value to Cambridge) they will generate approximately $4,300,000 annually, money that otherwise might have to be raised from the property tax levy. The fact that is most desirable in this is that these funds will be generated largely by suburbanites (parking) who use our streets and services but pay no taxes, and travellers (hotels).

For these reasons, I feel it is extremely important for the City Council to understand, consider and hopefully support at least some aspects of the Boston Plan.

ISSUES: The following is a brief discussion of each of the proposals in the Boston Plan that relate to Cambridge.

Entertainment Excise Tax: This proposal would create, at local option, a 6% excise tax on tickets to amusement or entertainment events which are currently exempt from the State sales tax. The excise would be paid by the person attending the event and collected by the person or operation sponsoring the event. All funds collected would be turned into the State Department of Revenue which in turn will distribute collected taxes to the city or town in which the event occurred. Because Cambridge does not have any professional sports franchises and Harvard Stadium is located in Boston, there is no single entertainment facility in the City that consistently draws large crowds. Therefore, it is estimated that this proposal will produce less than $100,000 on an annual basis.

Parking Excise Tax: The parking excise bill imposes, at local option, an excise tax of not more than 15% on each parking space within a parking facility. The excise is paid by the person using the parking space directly to the operator of the facility. Parking facility operators who are subject to the provisions of the excise tax will be required to file monthly sworn returns with the City and to remit the tax on or before the due date of the sworn return. If an operator fails to file a return by the due date, a penalty of five percent of the unpaid tax plus eighteen percent annual interest on the tax due is levied. An exemption is allowed for occupants of a residence to whom a parking space is provided or leased to in conjunction with their occupancy.

Because of the large number of parking facilities and lots in Cambridge (in excess of 9,000 spaces) this tax if approved would conservatively generate $1,200,000 in annual revenue to the City. It is expected that since the City would be responsible for the collection of this tax, there would need to be either a small addition of staff to the Finance Department or the selection of a private firm for enforcement.

HOTEL/MOTEL TAX: The Hotel tax would impose a statewide excise on a hotel or motel room at the rate of nine percent of the daily fee, up from the current 5.7%. The proceeds from this tax will be distributed quarterly by the State Treasurer to the city in which the hotel is located. The original bill submitted by Boston in 1984 would have continued to have the State receive the first 5.7% and granted the 3.3% increase to the City, as opposed to the new proposal which would return the full 9% to the locality.

Cambridge currently has 1,907 operating hotel rooms which lease for an average of $70.00 per day. Additionally, industry sources indicate that a 70% occupancy rate would be acceptable in making projections. As a result it is projected that Cambridge would realize $3,100,000 in revenue should this proposal be approved. If the submitted bill is amended to have the first 5.7% remain State revenue, and the 3.3% increase City revenue, then the City would still realize $1,100,000 annually. In addition to the existing 1,907 hotel rooms in Cambridge, there are an additional 700 under construction or proposed. At $70.00 per day with a 70% occupancy rate these new rooms would generate $1,125,000 annually at 9% and $410,000 annually with only the additional 3.3% going to Cambridge.

Because of the large number of hotel rooms in Cambridge, and because this tax would be paid directly by travellers, this is a particularly desirable proposal. Also, because this tax would be imposed Statewide, there would be no loss of competitive advantage between hotels within the State. It should be noted by the Council that the Massachusetts Convention Center Authority has also proposed to raise the hotel/motel room tax. Their proposal, however, calls for the proceeds of the increase to be used for the construction of a new sports arena in Boston.

REGIONAL TRANSPORTATION ASSISTANCE: The FY1986 Cherry Sheet charge to the City of Cambridge is $5,473,088 for the operation of the MBTA. One of the bills submitted by the City of Boston would have the State provide for 100% of all operating expenses of several regional transportation authorities, including the MBTA. If this bill were to pass, the savings to the City would be $5,473,088 annually plus the 2-1/2% allowable increase each year.

M.D.C. PARKS ASSESSMENT: This legislation would require the Commonwealth to absorb the cost of operating the M.D.C. Parks Division. In fact, beginning in FY1986, the State has already absorbed this cost administratively. The savings to Cambridge is $1,217,022 for FY1986.

PENSION FUNDING ASSISTANCE: Cambridge currently has a $123 million unfunded pension liability. Additionally, annual pay-as-we-go pension costs have been increasing at a rate of approximately 10% ($1,000,000 currently). This places a severe strain on the operating budget. One of the bills submitted by Boston would have the State fund any annual pension increase in excess of 2-1/2 percent. Cambridge would be expected to receive approximately $750,000 for FY1986 if FY1985 were the base year.

It should be noted that the Massachusetts Municipal Association has been working with the Governor's staff on a bill which would accomplish what Boston has proposed and then some. The Governor's proposal which may be unveiled in early April would not only cap pension increases at 2-1/2 percent as Boston has proposed, but would also have the State assume the unfunded pension liabilities of the State's various cities and towns. If this bill is submitted and approved, the positive impact on the City's long range fiscal condition would be phenomenal.

CORRECTIONS FACILITIES FUNDING: For FY1986 Cambridge will be billed $1,238,639 for the operation of Middlesex County. Of this amount, approximately $495,000 goes for the operation of the County's correctional facilities. Boston proposes that counties be allowed, by a majority vote of their commissioners, to have the Commonwealth pay all costs, including outstanding liabilities, for the operation of correctional facilities in their county. The bill also states that monies received by counties under this Chapter will not be considered in the determination of State aid to cities and towns within those counties.

CONCLUSION: In addition to the seven items mentioned above, there are at least three other proposals to improve Boston's financial condition. However, those proposals deal with Suffolk County Court costs and MASSPORT and Turnpike Authority in-lieu-of-tax payments, none of which impact Cambridge.

It is clear that the City of Boston needs financial help. It is also clear that while Cambridge is not in anywhere near as poor a financial condition as Boston is, most of the proposals submitted by Boston will benefit Cambridge and our local property taxpayers. We have already experienced what can happen to the City as we become increasingly dependent upon State Aid. While the Dukakis administration should be commended for getting the Cherry Sheet out earlier than ever before, the simple fact is that by not knowing what our overall revenue projection will be until four to six months before the start of a given fiscal year we are severely strained in our fiscal planning efforts. By granting Cambridge the right to impose certain new taxes, in areas where the tax will most likely be borne by non-

Cantibrigians, the State would be granting a greater degree of financial independence to the City.

In closing, I would suggest that the City Council concentrate on those areas that would be of greatest benefit to the City and that also have the best chance of gaining legislative approval. One of the proposals has already been achieved (M.D.C. Park Costs) administratively by the State, while another, the capping of pension costs, is about to be submitted to the Legislature by the Governor.

The State takeover of MBTA charges would save the City in excess of $5,400,000 annually. However, this proposal has been proposed many times in the past and, in my opinion, will be very difficult to achieve. The State takeover of County correctional facility costs is an item that would save Cambridge approximately $495,000 in the first year. This is a cost which affects all cities and towns in the Commonwealth and, as such, its approval might be possible.

In the area of new or expanded taxes, the entertainment tax will probably not mean a serious amount of additional revenue for Cambridge. The parking and hotel taxes, however, would have a significant positive impact upon both the City's financial condition and our property taxpayers. Both taxes would be borne largely by people not residing in the City, and would allow the City to obtain additional financial benefits from our economic development.

It is still unclear what the legislative response will be to these proposals. However, if the Cambridge City Council supports all or some of the proposals, it would significantly improve chances of passage.

Very truly yours,

Robert W. Healy

Robert W. Healy
City Manager

RWH/mbf

Agenda Item No. 8

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Re: The Boston Plan, which seeks to grant municipalities the right to expand their local taxing authority & have the Commonwealth absorb the cost of certain services municipalities currently pay for.

Copy sent to VMDrehan, Chairman of Finance Committee 4/5/85 mh

In City Council,

April 1, 1985

Referred to Finance Committee Hearing on Tuesday April 9, 1985