

## Frequently Asked Questions About Town Finances

November 2010

*I hear the Town can save hundreds of thousands of dollars by joining the Group Insurance Commission (GIC). Why aren't we so we can save money?*

### **Facts - Town**

- The FY 12 estimated increase in health insurance for current and retired employees is 13%.

Fiscal Year	Healthcare Expense	Annual % Increase	Cumulative % Increase
FY 11	\$ 5,193,724	13.2%	20.5%
FY 10	\$ 4,586,242	5.4%	7.2%
FY 09	\$ 4,353,000	1.9%	1.9%
FY 08	\$ 4,272,554		

- Bargaining Units
  - Town (5): police, fire, laborers, clerical and professional staff.
  - School (6): custodial, teachers, aides, administrative assistants, cafeteria and bus.
- Comparing Towns
  - Scituate, the employer-employee contribution rate is, on average 53% to 47%.
    - The amount varies between plan type and the cost of individual or family plans.
    - Minimum required under the law is 50%.
    - Only 10% of the 351 cities and towns have a 50% contribution rate.
    - Most communities have much higher contribution rates. For example:

Town	Employer % fo cost	Employee % fo cost	Comment
Scituate		53%	47%
Cohasset (1)		89%	50% HMO
Cohasset (2)		79%	50%
Cohasset (3)		50%	50% PPO
Hingham (1)		50%	50%
Hingham (1)		90%	10% Some teachers grandfathered
Norwell			
Marshfield			
Hanover			
Rockland		79%	21%
Rockland		75%	25% Retirees
Wareham		75%	25%
Abington		75%	25%
Mattapoisett		75%	25%
Halifax		50%	50%
Hanson (1)		90%	10%
Hanson (2)		80%	20%
Plymouth		80%	20%
Rochester		50%	50%
Marshfield		50%	50%
Freetown(1)		75%	25%
Freetown (2)		65%	35%
Freetown (3)		80%	20% Retirees
E. Bridgewater		50%	50%
E. Bridgewater		80%	20% HMO
Carver		75%	25%
Westport (1)		60%	40%
Westport (2)		50%	50% PPO
Middleborough		75%	25%

### Facts - State

- In July 2007, a change in law allowed municipalities to join the health insurance program offered to state employees and retirees: GIC.
- Under the law GIC determines:
  - Health benefits, design and types of plans, the insurance carriers, all applicable co pays, plan deductibles, plan members' rights and responsibilities, eligibility requirements and plan costs, excluding employee contributions.
  - Other requirements the municipality must meet include:
    - Agreeing to offer all GIC plans
    - Agreeing that all Medicare eligible retirees must apply to Medicare or prove they are already on it or are not eligible
    - Committing to GIC for either three or six years
    - Agreeing to pay any premium penalty the federal government assesses for eligible retirees who fail to sign up for Medicare when they are first eligible
    - Agreeing to pay GIC an administration fee of up to 1%, which is added to the premium rates

- The Town must adopt Section 19 of Massachusetts General Laws Chapter 32B by forming a Public Employee Committee (PEC).
  - This Section also requires that 70% of all town and school unions sign an agreement in which they agree to bargain about all aspects of health insurance as one unit.
  - Votes are weighted by the size of each bargaining unit, so the teachers' union would have the majority vote on all health plan decisions.
  - The law requires that a retiree participate on the PEC.
    - The retiree gets 10% of the weighted vote.
    - Currently the Town does not negotiate health insurance benefits with retirees.
- Through the agreement with the municipality the **PEC** can only negotiate:
  - whether or not to join GIC
  - the employee premium contribution
  - whether to opt out of CIG at the end of the term set in the agreement
    - the law states the term must be either three or six years
- All of these units need to individually vote to agree to bargain about health insurance collectively.
- Once Section 19 bargaining is completed the town is able to join GIC
- Membership in GIC
  - Allows GIC to pass on any rates increases, changes in plan design or increases in co-pays without collective bargaining.
  - Once in the GIC, the only item that the PEC negotiates is the split on contributions.
  - In addition, the only way to get out of Section 19 is if both the PEC and the Town management agree to do it.
- GIC also mandates some new provisions for municipal employees as a condition of membership:
  - Employees must receive coverage if they work 18 or more hours in a week.
    - Currently Scituate employees only receive health insurance benefits at 20 hours per week.
  - GIC requires that both individual and families have the same contribution percentage
    - Contribution structure the Town has would not be allowed under GIC.
  - Rates must all be uniform under GIC including for retirees.
    - Currently it is permissible to have different contribution rates for different unions

## **Savings**

Currently each town provides different plans and benefits to employees. The Town of Scituate offers 11 different plans. GIC offers 11, **however, the benefits offered through the GIC are significantly different than those currently offered through the Town, resulting in much higher out-of-pocket expenses for the members.** Benefit and plan design comparisons are challenging, but the Town did do a cost benefit analysis **(of premium costs only, not taking into consideration the additional out-of-pocket expenses**

due to changes in benefits) of current plans to GIC both in 2007 when the opt-in to GIC became available and this past May.

- The information showed that if the 11 town unions agreed to Section 19 bargaining the total potential savings would be approximately \$514,495.
  - This would be split between the Town and employee so the actual estimated savings in 2010 dollars would be approximately \$259,846 to the town.
  - This assumes using the current contributions, however, as mentioned above, the law would not allow that.
  - The savings just mentioned are gross savings.
    - Almost all of the communities who have joined the GIC had to increase their contribution toward premiums in order to get an agreement with their unions.
    - In addition, many communities have had to offer additional benefits such as a one-time bonus and increases in dental benefits.
  - Town would in most likelihood realize a lower amount than the \$259K once negotiated and implemented.

Since this analysis however, GIC costs have increased significantly. For example, since February of 2010 GIC has had a 26% increase in its rates. There have been new deductibles and co-pays implemented which had the effect of lowering increases by about 8% in February, but the rates were then increased again five months later. In addition to the large rate increase, the increase in co-pays and introduction of deductibles has increased the out of pocket expenses paid by members.

As noted above different communities also vary widely in terms of the percentage of cost borne by the employer and that by the employee. Some communities have different rates for retirees and current employees as well. Communities with higher contribution rates obviously will gain more significant savings with GIC. But, the program stills needs to be negotiated with all unions and in return, most communities split cost savings with unions thus limiting the maximum potential dollar yield

In the first year the GIC was offered, 10 municipalities, school districts, and charter schools joined; the second year, there were 15. But then the exodus from local plans ground almost to a halt; only Brookline and Hopedale have signed up to join, as of July 1 of this year

*What are the Town's obligations for municipal and school pensions?*

Pension benefits are extended to town and selected school employees once they become "vested" in the retirement system. In order to become vested, an individual must have worked a minimum of ten (10) years. The pension rates set each year are not under the Town's control and are established and voted by the Plymouth County Retirement Board based on actuarial information and mandated funding schedules.

Anyone who qualifies for a pension also qualifies for health insurance coverage.

In FY 11 pension costs were \$3,118,030 of the Town’s budget. In FY 09 they were \$2,668,612,000, an increase of \$449,418, in just two years. Our FY 12 costs are projected to remain stable at approximately \$3,103,047.

The pension system is challenged because those active employees who will be retiring over the next several years were contributing about 5% of salary to the pension system. New employees are paying up to 11%, but the system must cover the pensions of the 5% employees who are also living longer. Towns are mandated to fund the unfunded liability of future retirees, and this cost is also factored into the annual assessments.

*What is the Community Preservation Act and can we use some of that money for the town budget?*

The Town of Scituate was one of the first communities in the Commonwealth to adopt the CPA in 2005. The program allows for an additional 3% surcharge on real estate taxes to fund eligible projects in the community that benefit recreation, conservation, historic preservation or affordable housing initiatives. The first \$100,000 of real estate is exempt.

<b>Assessed Value of Home</b>	<b>FY10 Tax Rate</b>	<b>Real Estate Tax</b>	<b>3% CPC Surcharge, 1st \$100,000 exempt)</b>	<b>1.5% CPC Surcharge, 1st \$100,000 exempt)</b>
	10.56			
<b>\$ 500,000.00</b>		\$5,280.00	<b>\$126.72</b>	<b>\$63.36</b>
<b>\$ 450,000.00</b>		\$4,752.00	<b>\$110.88</b>	<b>\$55.44</b>
<b>\$ 400,000.00</b>		\$4,224.00	<b>\$95.04</b>	<b>\$47.52</b>
<b>\$ 350,000.00</b>		\$3,696.00	<b>\$79.20</b>	<b>\$39.60</b>
<b>\$ 300,000.00</b>		\$3,168.00	<b>\$63.36</b>	<b>\$31.68</b>
<b>\$ 250,000.00</b>		\$2,640.00	<b>\$47.52</b>	<b>\$23.76</b>

The CPA has been able to fund dozens of community projects that would not otherwise been possible. This includes athletic fields, restoration and acquisition of historic properties and open space, as well as expanding the Town’s inventory of affordable housing units.

*What would happen if we were to rescind the approval of the CPA?*

To rescind the Town’s approval of the CPA is a two-fold process. First, town meeting must approve an article to revoke its acceptance. If that passes, then a question is put on the Town election ballot asking voters to rescind its approval. If that happens then the CPA would go away. The Town could rejoin at a future date by the same process: town meeting approval and an affirmative ballot vote. For the following fiscal year, taxpayers would see a reduction in the real estate tax bill based on the above chart on average home assessed values.

*What is the Stabilization Fund and can it be used to help offset budget increases?*

The Stabilization Fund is traditionally referred to as a town's "Rainy Day" fund. It is considered as a reserve that is set aside to pay for unexpected or catastrophic events in a community. Years ago expenditures from the Stabilization Fund could only be made for capital expenditures. That was changed by the Legislature and now the funds can be used for any lawful purpose. A 2/3's vote of town meeting is required to move funds out of the Stabilization Fund. However, the amount, or lack thereof, of monies in a community's Stabilization Fund is also a key measure of financial health and is closely looked at by bond rating agencies when the Town borrows for long-term debt. In turn, this can affect the interest rate and overall bond rating the Town receives when it borrows money. Bond ratings agencies recommend 5% of a community's operating budget be in the Stabilization Fund.

Historically the Town appropriated funds into the account from the net difference between the levy and taxes raised. However, in recent years, this amount has been reduced to negligible amounts. For examples, in FY 08 the Town was able to allocate \$468,436.00 to the Stabilization Fund. In FY 10 this amount was just \$9,415.00 and because of FY 11 budget constraints, there were not funds at all appropriated. In addition, Free Cash was used to subsidize the operating budget and this further compromised our reserve position. This was of considerable concern and a concentrated effort to improve the Town's reserve position was employed beginning in the fall of 2009. FY 10 Free Cash was higher and it is anticipated that for FY 11 there will be an increased allocation into the Stabilization.

The Town will be floating a multi-million dollar bond issue in March of 2011 and it is vital that the new changes in financial policies continue to be followed.

The present amount of funds in the Stabilization Fund is \$ 2,202,033.

*Isn't the problem the union contracts and shouldn't the Town just ask the unions to forego pay increases?*

All of the Town-side contracts expired in June of 2009 and the Town has been negotiating for the past 15 months. Since then, two contracts have been settled. One extends through June of 2012 and the other through June of 2013. Long-term contracts provide predictability in costs and are a benefit to communities as long as the settlements are affordable. The recently settled Laborer's contract calls for the following through FY 12: 0%, 1%, 2%. The professional staff contract for four years calls for 0%,2%,2%, 2% and has important changes that allow management to evaluate staff, bargain health care changes, implement biweekly pay, and reduce the unfunded liabilities of compensated absences that are paid when employees retire or resign. The clerical and police unions are currently in mediation and the fire union is in arbitration. The length of time negotiating these contracts is an indication of the Town's position that funds are limited and may result in staff reductions.

*Why isn't the Town doing layoffs like the schools?*

The FY 11 budget eliminated the Assistant Shellfish Warden position and a custodial position in the Council on Aging. Two funded, but unfilled firefighter positions were cut and vacancies due to resignation or retirement have been delayed in numerous instances. Several town departments have budgets that were less in FY 11 than in FY 10.

A new budget process with tighter review of monthly expenditures, along with significant reductions in other expense line items has enabled the Town to absorb step increases in the operating budget without additional appropriation. The FY 11 budget approved at the April annual town meeting contained no funds for salary increases. Interdepartmental transfers of funds and nominal use of Free Cash are being requested for approval at the November 3 special town meeting to fund the two union contracts as well as allowances for non-union staff. The Town made no appropriation for FY 10 wage increases and remains firm in its position for all unions FY 10 is 0%.

In brief, the FY 11 town-side budget suffered the following budgetary reductions:

<b>DEPARTMENT</b>	<b>ITEM</b>
Fire	Two firefighter positions, equipment maintenance, overtime, SAFE program
Police task force	Patrol for New Inlet, academy training, specialized
DPW	Snow and Ice, roads, vehicle services, utilities, technical services
Library	Hours reduced
Town Hall*	office supplies, mileage, professional, development, technical services, printing, contract adjustments, landscaping supplies

\*This includes the following departments and committees: Accounting, Building, Assessors, Town Clerk, Board of Health, Conservation, Planning, Selectmen, Town Administrator, Zoning Board of Appeals, Beautification, Historical Society and Advisory Committee

*How does the Town plan to address its deteriorating infrastructure?*

Adequately maintaining the town and school facilities is not a problem that suddenly developed overnight and the solution will not fix years of unaddressed needs in the immediate future. Some of this is the result of lack of funds. The Town's capital planning committee is not as robust as it could be as money that could have been allocated for infrastructure and other capital equipment needs was foregone in the

interest of maintaining level services in operating budgets. This has negatively impacted the condition of some facilities along with the lack of a unified vision as to how all town and schools building needs for the next 10-20 year integrate with each other. There was a proposal in the FY 11 budget to undertake a study to address this need, but again it was cut as a result of operating budget challenges. For FY 12 the capital budget process has been revamped and a different approach to funding capital will be pursued. It will not be without a commitment on the part of residents to invest in future improvements in this area.

*What regional approaches are the Town and School Department making to provide services or develop partnerships?*

Both the town and school have various partnerships and collaborations in place to provide more efficient services or save funds by joining together for larger purchasing groups.

The school has sports programs with Cohasset and Hingham for gymnastics, swimming and ski programs. Through the South Shore Collaborative, joint purchase agreements provide electric and natural gas as well as food service products are provided. The North River collaborative provides SPED transportation,

The Town is currently exploring the provision of shared Board of Health services through a grant received by the Massachusetts Area Planning Council (MAPC), with surrounding towns. The Chief of Police has been actively participating in two groups studying the regionalization of dispatching services either through the Plymouth County Sheriff's Department or a regional consortium in Hingham. In addition, opportunities for shared resources are explore monthly as part of a group of South Shore managers. The Town is part of a regional county group for health insurance through Plymouth County. We also have various collaborations and partnerships with regional public health agencies, law enforcement and the fire service. That being said, there is more to do and the Town is continually exploring avenues in which to share equipment, services or staff.