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August 11, 2009

REPORT OF THE COMMITTEE ON FINANCE

The Committee on Finance convened on August 11, 2009, with Vice Chairman Bruce Desmond presiding and Committee Members Aldermen John Connolly and Walter Pero also present and voting. Also present were Mayor Joe Curtatone, Administrative Assistant Matt Dias, Assistant City Solicitor Frank Wright, Finance Director Edward Bean and Stephen Mackey from the Chamber of Commerce.

The committee discussed item #187899, a request to accept G.L. 64L, § 2(a) to enact a new local option excise of 0.75% on sales of restaurant meals and item #187900, a request to accept G.L. 64G, § 3A to increase the rate of existing local room occupancy excise. Mr. Bean distributed and reviewed information with the committee, explaining that the Massachusetts Legislature passed these measures in an effort to help cities and towns offset their state aid reductions by allowing them to impose these local excise taxes.

Presently, the current state meals tax is 6.25%. The local option excise tax of .75% on sales of restaurant meals originating within the municipality would be added to the state tax, bringing the total meals tax to 7%. The non-negotiable figure of .75% has been set by the state and it is estimated that imposing this local tax would generate \$480,311 for Somerville in the current fiscal year (FY-2010). The second local option allows municipalities to increase their room tax from the current maximum of 4% up to a new maximum of 6%. This provision is estimated to generate \$140,404 for Somerville in the current fiscal year. A municipality's local meals tax becomes operational on the first day on the next calendar quarter after the date of approval by the municipality. Therefore, for the tax to begin on October 1, 2009, the option would have to be approved by the Board of Aldermen by August 31st. If that deadline is not met, the next possible date for implementation would be January 1, 2010 and would result in a 3 month loss of revenue. The state would notify vendors of their obligation to collect and pay over the local taxes and the Department of Revenue would distribute the funds to the cities and towns, as it does now, on a quarterly schedule.

Mr. Bean suggested that these additional revenues be kept in reserve until a better picture of the city's finances is known. Asked whether the city could cease to collect these taxes in the future, Mr. Bean replied that it could, however he made it clear that this is the city's opportunity to impose local option taxes. Alderman Connolly asked Mr. Mackey to inform the members of the Chamber of Commerce that the city does have the option to recind the tax in the future. Mr. Mackey was asked to speak on the subject and he stated that the expectation of the Chamber of Commerce is that the city will proceed with these proposals. The fiscal picture of the city and state is understood and appreciated by the Chamber, however, Mr. Mackey believes that it would be symbolic if the proposal's language clearly stated that the city would revisit the necessity of these taxes in 36 months, otherwise, it gives the appearance that the city is just taking as much

as it can get. Mr. Mackey told the members that when local business is down, state revenue is down, resulting in lower amounts of state aid given to cities and towns.

Mayor Curtatone addressed the committee and said that the added meals tax isn't something that patrons would see on the menu, but that it would appear on the final bill. He acknowledged that there will be the perception of "another adjustment", but he doesn't believe that it would prevent people from eating out. The mayor stated that he could not commit that the city would recind the tax in 3 years. He noted improvements made to enhance businesses in the past, such as sidewalk operations, 2:00 AM licenses, additional liquor licenses, infrastructure improvements, etc.

Alderman Pero stated his concern that the Board of Aldermen might be chastised for discussing this during the summer, without holding public hearings on the matter.

Alderman Connolly requested that a draft copy of the Finance Report be sent to Finance members for approval and then forwarded to all members of the Board of Aldermen.

No papers were acted on.

Alderman Bruce M. Desmond, Vice Chairman
Committee on Finance