



News Release

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MTF Report: Little Fiscal Relief in Sight for Municipalities

A variety of factors is placing ever greater pressure on the finances of most cities and towns with little relief in sight, according to the Massachusetts Taxpayers Foundation's 37th annual analysis of local revenues and spending.

Fiscal 2007 saw a brief reprieve when local aid to municipalities grew by 8.1 percent, largely because of a \$159 million increase in lottery aid with the removal of the cap on lottery distributions that was in place during the state fiscal crisis. The increase in lottery aid helped limit the growth in property taxes to 5.1 percent in 2007, a slight decline from 5.3 percent in 2006 and significantly less than the 2001-2004 average of 6.1 percent.

"Nevertheless, there is growing evidence that the lottery has matured to the point that it can no longer provide dependable increases in state aid to municipalities, a critical problem since the lottery is the principal source of non-education aid for cities and towns," the report said.

The report highlighted several other factors that are squeezing municipal finances, leading to a greater dependence on property taxes and/or to continued cuts in local services:

- limited increases in local aid for the foreseeable future;
- escalating health care and other difficult-to-control costs;
- a weak economy that is producing only small increases in new growth;
- fewer and fewer communities with excess capacity;
- increasing voter reluctance to approve operating overrides.

Citing the state's fiscal problems, the report concludes that cities and towns are likely to see only small increases in local aid for the next several years. At the same time, state aid has not yet returned to 2001 levels when adjusted for inflation. Non-education aid of \$1.58 billion in 2008 barely surpasses the 2001 total of \$1.54 billion, a decline of 22.2 percent when adjusting for inflation. While Chapter 70 education aid has increased from \$3.5 billion in 2001 to \$4.3 billion in 2008, funding has actually declined by 5.9 percent after adjusting for inflation.

Limited increases in local aid will put more pressure on the property tax, the report said, yet local leaders are seriously constrained in several areas tied to property taxes – new growth, excess capacity, and overrides.

Growth from new construction rose only 1.6 percent a year on average between fiscal 2002 and 2007 compared to 15.4 percent annually from 1998 to 2001. Given the uncertain national economic picture and the problems confronting the housing sector, at best there will be only modest increases in new growth over the next several years.

At the same time, more and more communities have used up their excess capacity which allows them to raise property taxes more than 2.5 percent without an override. In fiscal 2007, 233 or two-thirds of the Commonwealth's 351 cities and towns had excess capacity of less than 1 percent, up from 55 percent in 2002.

Furthermore, in fiscal 2007, there was a notable decline in the approval rate of overrides – 34.9 percent of the 152 attempted overrides were approved, compared to an approximate 50 percent rate the prior three years.

In the spending area, the report emphasized that "any plan to provide sustained relief for municipalities will require reining in the skyrocketing growth in health care costs." The Foundation's recent joint study with the Boston Municipal Research Bureau concluded that \$2.5 billion in annual savings could be realized by 2018 if cities and towns joined the state's Group Insurance Commission. The report recommended that local legislative bodies be given the authority to bring municipal employees into the GIC without going through coalition bargaining as required by recently enacted legislation.

"Massachusetts cities and towns are likely to face even greater fiscal challenges over the next several years," the report concluded. "Without a more dependable revenue stream and decisive action to address health care costs, there will be an acceleration of the cuts in programs and services that have already impacted a large number of communities."

The 37th edition of *Municipal Financial Data* was supported by a grant from First Southwest Company. In addition to the analysis of overall trends in local finances, the report provides a series of statistical tables that detail basic financial information—expenditures, revenues, tax rates and debt characteristics—for each of the state's 351 cities and towns. The report also includes town-by-town comparisons of per capita income, equalized values and expenditures, as well as comparisons of average residential tax bills and the percent of low income students.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won a series of prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, government reform, and health care.

The full version of the report, including community-by-community statistical tables, is available online at www.masstaxpayers.org.

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