

News Release

For Immediate Release

October 28, 2003



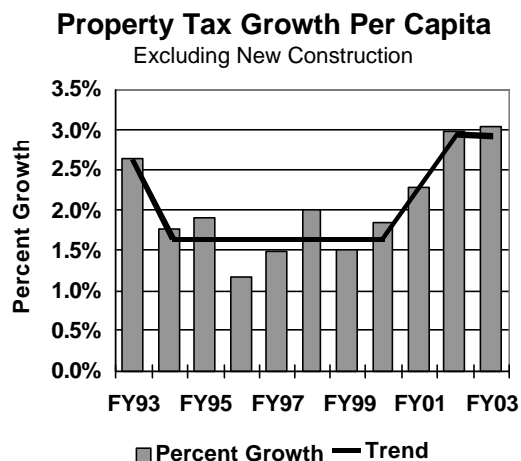
MTF Report: Cuts in State Aid Lead to Higher Property Tax Burdens

Deep cuts in state aid to cities and towns have produced significant increases in property taxes across the Commonwealth, according to the Massachusetts Taxpayers Foundation's 33rd annual analysis of local revenues and spending.

The MTF study, *Municipal Financial Data*, reports that total property taxes climbed 13 percent from 2001 to 2003, a 6.3 percent average rate of annual growth that is almost 40 percent higher than the average for the previous eight years. In 2002 and 2003, the per capita burden of taxes on the existing property base (excluding new construction) increased at roughly double the average annual rate since 1993.

The rising tax burdens are a particular problem for the state's poorer cities and towns. In the 39 communities with per capita incomes less than 75 percent of the statewide average, property taxes per capita (excluding new construction) grew in 2003 at more than double the rate as in 2001. This analysis does not reflect the impact of the even deeper cuts in local aid in 2004.

Cities and towns are increasing property taxes by more than the 2.5 percent benchmark established by Proposition 2½ in two ways: voter-approved overrides of the Proposition 2½ limit; and local decisions to reduce the gap between the amount of taxes Proposition 2½ allows and what communities actually tax themselves. In 2003, overrides of Proposition 2½ jumped to the highest level in over a decade, adding \$48 million to local tax burdens, roughly double the amount that was approved in 2002. So-called "excess capacity" -- how much communities tax themselves below the 2½ limit -- fell by \$65 million, or more than 50 percent, in 200 communities in 2002 and 2003.



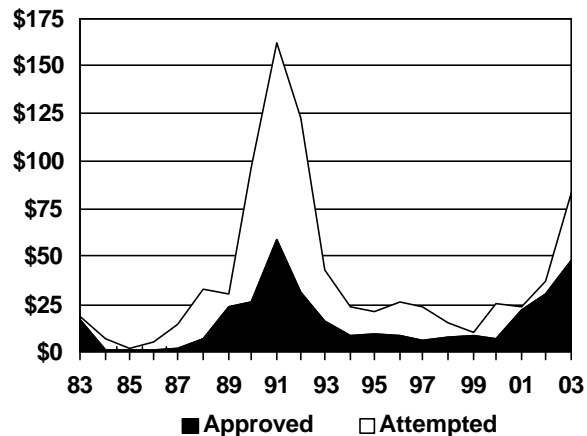
"The state's fiscal crisis is clearly placing a heavier burden on property taxpayers including those in poorer communities, as well as forcing reductions in local programs and services," said MTF President Michael J. Widmer.

Even with the significant jump in property taxes, because of cuts in local aid total local revenues grew only 2.3 percent in 2003, the lowest rate of growth in a decade and less than half the six percent or more annual increases of previous years. With health care and other built-in costs growing much more rapidly than revenues, municipalities have had to cut programs, eliminate services, lay off personnel, and curtail school spending in order to balance their budgets.

The rising property taxes and the squeeze on spending are symptomatic of a sharply deteriorating local fiscal picture that is reflected in almost every measure of financial health:

- Total state assistance to cities and towns was cut in both 2003 and 2004 after growing strongly for almost a decade, and a third year of reductions is virtually inevitable.
- Revenues from new construction were flat in 2003 after an extended period of rapid growth.
- Total "free cash" -- local operating surpluses minus uncollected taxes and other deficits -- tumbled 16 percent, the first decline in a decade.
- Local stabilization reserves shrank in more than 90 communities in 2002.

Proposition 2 1/2 Overrides
(\$, Millions)



More than 80 percent of cities and towns have sustained cuts in total aid since the fiscal crisis began, with an overall reduction of \$422 million, or nine percent, from the peak levels of aid in those communities. While the cuts were concentrated in the three major state aid programs -- Chapter 70 education aid, lottery aid, and additional assistance -- other, smaller local grant and reimbursement programs suffered harsh decreases as well.

Massachusetts cities and towns are almost certain to face even tougher times for at least the next two years. Even with an economic recovery, the state must contend with a structural deficit of more than \$1 billion in 2005, virtually ensuring another round of cuts in municipal assistance. This will lead to further depletion of reserves, even higher property taxes and fees, and additional layoffs and service cuts in most communities.

The 33rd edition of *Municipal Financial Data* was supported by a grant from First Southwest Company.

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, MTF ranks among the largest and most effective organizations of its kind in the country. The Foundation has won eight prestigious national awards in as many years for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.
