

# Massachusetts Communities *at Risk*



## A Report from the Municipal Finance Task Force

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For the past nine months, I have been privileged to be chairman of the Municipal Finance Task Force, a group of Massachusetts leaders from the business sector, the nonprofit community, unions, municipal government, state government, and academia. We were charged with analyzing municipal revenues, municipal expenditures, and local aid, focusing on the period from 1981 to 2005.



Framingham Town Memorial and Municipal Offices, Framingham, Massachusetts. Photographs for this article by Julie Weinstein.

The study, facilitated by the Metropolitan Area Planning Council, came about because Massachusetts cities and towns saw that local aid was increasingly restricted and unpredictable and were concerned about a long-term financial crunch for delivering core municipal services (non-school services).

Residents and taxpayers across the state—regardless of whether they live in cities, towns, or rural hamlets—have had a common experience with local government over the past five years. Their property tax bill has increased dramatically, and they are now paying fees for many services that used to be covered by general revenue.

All residents are affected, and perhaps none more so than those with low and moderate incomes. Strikingly, the largest cuts in municipal budgets have come in the “Health & Welfare” line item.

As a result of the long-term fiscal trends, Somerville, for example, has 16 fewer police officers, 13 fewer firefighters, and 34 fewer public works employees. In western Massachusetts, after a failed override vote, Hampden shut down its senior center and recreation department, and even turned off its streetlights to save money.

The Municipal Finance Task Force wanted, first, to understand long-term trends in municipal finances and their impact on local budgets and services; second, to help municipalities develop strategies and policies to better navigate the trends; and, finally, to provide recommendations for political leaders at the local and state levels. This fall, we released a comprehensive report distilling what we learned.

We are hopeful that our work will shine a light on the current, imperfect system for financing local government

and will prompt a public debate.

## The Findings

The research findings cover budget growth, health-insurance issues, core services, property taxes, and more.

### Municipal Budget Growth

Despite stereotypes to the contrary, municipal budgets have seen only modest real increases over the past 25 years. Since 1981, per capita annual growth for municipal budgets has averaged only 1.1 percent after adjustments for inflation. The anecdotal stories about municipalities’ profligacy with tax dollars might be true in specific cases, but overall the facts do not support the argument that municipal budgets are out of control.

Likewise, there is a misperception about union contracts. The task force found that municipal wages grew at only 0.7 percent in inflation-adjusted terms

between 1994 and 2003, compared with 1.8 percent for the private sector and 1.0 percent for state employees.

Beyond that, municipal governments in Massachusetts have been shedding employees more steeply than any other state in the nation. The Massachusetts Taxpayers Foundation reported last year that Massachusetts cities and towns cut 14,200 jobs, or 5.2 percent of municipal employees, between February 2002 and August 2004.

### **Municipal Health Insurance Crisis**

Like other employers, municipalities are struggling with soaring health-care costs. The Massachusetts Taxpayers Foundation recently surveyed a representative sample of Massachusetts cities and towns and found that local health-insurance costs have skyrocketed more than 60 percent since 2001.

The foundation's report also shows that many municipalities are now spending more than 10 percent of their total municipal budgets on health-insurance premiums. In addition, 80 percent of the 2½ percent annual growth in property tax levies—allowed by the state ballot initiative called Proposition 2½—is absorbed by that one line item. The rate of growth in health-insurance premiums for municipalities is nearly double the pace of premium increases for state employees.

### **Support for Core Local Government Services**

Some people argue that cities and towns benefited from enormous increases in local aid from state government through the 1990s. It is true that there has been a significant increase in education aid to cities and towns—although the growth in that aid has varied greatly by community.

At the same time, non-school aid has been stagnant or declining for more than 15 years. Most dramatically, non-school aid known as “Additional Assistance,” which formerly was distributed to all Massachusetts cities and towns, now serves fewer than half of our municipalities and has diminished by more than \$430 million since 1988.

### **Increasing Property Taxes**

Massachusetts cities and towns have long cherished their partnership with the Commonwealth in delivering public services such as local and state police protection, roads, and a range of educational services.

But despite the best intentions and sustained efforts of state policymakers, local aid, which was 20 percent of total state expenditures in fiscal 1988, stood at 16.4 percent in 2004. That decline has hurt the ability of the municipal side of partnership to deliver services.

**Since 1987, per capita expenditures by cities and towns for core municipal services (excluding employee health insurance, schools, and some fixed costs) have declined by an average of 0.3 percent annually.**

The cuts to local aid, in combination with a lack of other local revenue sources, have resulted in municipalities' increased dependence on property taxes. Whereas in 1988, property taxes accounted for 46.1 percent of all municipal revenues, by 2004, that had increased to 52.9 percent. In addition, stagnant commercial property values have increased the residential share of property taxes. Residential property now pays 72 percent of all property taxes, up from 68 percent in 2000. Excluding 11 communities with residential tax exemptions, the average single-family property tax bill increased \$910 from FY2000 to FY2005.

### **Diminishing Core Municipal Services**

All of these trends combined has put enormous pressure on core municipal budgets. Possibly the most remarkable statistic in the report is that since 1987, per capita expenditures by cities and towns for core municipal services (excluding employee health insurance,

schools, and some fixed costs) have declined by an average of 0.3 percent annually in real terms.

As an example of what that means, the task force highlighted that spending on public works declined from 15 percent of municipal expenditures in fiscal 1987 to 9 percent in 2004. Ultimately, these long-term trends mean that we have fewer employees filling potholes, picking up trash, or plowing snow—basic quality-of-life services that all citizens expect their communities to provide. We see the results of such trends in shortened library hours, fewer health and human services, closed fire stations, and fewer police patrols in neighborhoods. In addition, soaring health-insurance costs make it more expensive to deliver the services that remain.

### **A Blueprint for Reform**

The Municipal Finance Task Force has proposed a comprehensive set of recommendations to stabilize municipal finances and strengthen the partnership between the Commonwealth and its communities. There are no easy answers, but the viability of local government must be a central concern for all policymakers and will require sustained commitment. Future policies should ensure that state assistance is sufficient and predictable. In addition, communities should be given both flexibility to utilize revenues other than property taxes and the tools to control long-term costs.

We hope that the task force's recommendations will help shape the future through positive actions and improve residents' experience with local government in Massachusetts.

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**John Hamill** is the chairman of Sovereign Bank New England and served as chairman of the Municipal Finance Task Force. A full copy of the report and its recommendations is available at [www.mapc.org](http://www.mapc.org).