

# Municipal Finance Task Force

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## **Task Force Releases Comprehensive Report on Municipal Finances**

*“Local Communities At Risk” provides comprehensive analysis of long-term trends in municipal finance and makes recommendations for reform*

BOSTON – The Municipal Finance Task Force, a group of private sector, public sector, and academia experts and leaders led by John P. Hamill, Chairman of Sovereign Bank New England, today released a comprehensive report on the state of municipal finances. The report, *Local Communities At Risk: Revisiting the Fiscal Partnership Between the Commonwealth and Cities and Towns*, provides a comprehensive analysis of municipal revenues, municipal expenditures, and state local aid over a 25-year period and makes a series of recommendations to stabilize municipal finances.

“Our fundamental task was to step back from anecdotes and rhetoric and to look seriously at the long term trends in municipal finance and local aid, to understand how those trends have affected government services, and to develop strategies and proposals that will be relevant and useful to municipal leaders, the Legislature, and the Executive Branch,” said Chairman Hamill. “We have a system of municipal finance and local aid that has been cobbled together piecemeal, year to year and with the best of intentions, but that is now broken and needs immediate attention.”

The Task Force report underscores that Massachusetts cities and towns are facing a long-term financial crunch caused by increasingly restricted and unpredictable local aid levels, constraints on ways to raise local revenue, and specific costs that are growing at rates far higher than the growth in municipal revenues. The situation has created a serious strain on municipal budgets universally – in dense urban cities, suburban towns in eastern Massachusetts, Cape Cod resort communities, and rural towns in western Massachusetts – that has already caused a decline in municipal services and that will evolve to crisis proportions without changes to state and local policies.

A few key findings:

- Massachusetts has returned to a reliance on the property tax, and residential property tax payers have borne the brunt of that tax shift. In 1990, property taxes represented 48% of total municipal revenues, a proportion that had increased to 53% by 2004. Residential property taxes now represent 72% of that property tax, up from 68% in 2000. According to the Massachusetts Department of Revenue, the average family property tax bill increased by \$910 between 2000 and 2005, excluding municipalities that provide residential tax exemptions.

- Although state government leaders have done an exemplary job in increasing state resources for public school systems, core government services – police and fire protection, public works, libraries, community development, etc. – have been particularly impacted by the structural problems with municipal finances. Since state assistance for core government services has stagnated since the early 1990s, annual municipal expenditures for core municipal services (excluding health care and some fixed costs like pension obligations) have been stagnant in real terms, with a -.3% average growth in per capita expenditures. As one example, Commonwealth municipalities have gone from spending 15% of their budgets on public works in 1987 to 9% today.
- Despite stereotypes to the contrary, municipal budgets have seen only modest real increases over the past 24 years. Since 1981, per capita annual growth for municipal budgets has averaged only 1.1% after adjusting for inflation. In addition, Massachusetts municipalities have cut their number of employees more steeply than communities in any other state, and local per capita wages for municipal employees have only increased at a rate of .7% annually in real terms, less than half the growth rate in private sector wages.
- Municipalities are experiencing tremendous pressure from health insurance costs, which are growing many times faster than general inflation. A recent Massachusetts Taxpayers Foundation report indicated that municipal health insurance premiums have increased more than 60% since 2001, an unsustainable trend that is crowding out expenditures for direct government services.

“We have a serious, long-term structural issue related to the financing of local government in Massachusetts,” said Michael Widmer, President of the Massachusetts Taxpayers Foundation and a member of the Task Force. “This report provides a framework for understanding municipal finances in the Commonwealth and a blueprint for helping cities and towns achieve sustainable fiscal stability.”

“Like many municipalities nationwide, cities and towns in Massachusetts have made a variety of adjustments in recent years to make ends meet. But these piecemeal local adjustments cannot solve cross-cutting longer term structural problems related to the division of responsibilities between state and local government, most notably changing state aid and communities’ limited access to local revenue sources,” said Katharine Bradbury, Senior Economist and Policy Advisor at the Federal Reserve Bank of Boston and a member of the Task Force. “The Task Force report provides a context for understanding these structural problems and some specific proposals to address them.”

The report makes a series of recommendations related to state assistance, increased local control over non-property tax revenues, and increased local flexibility to control costs. Among the key recommendations:

- Adopt a revenue sharing policy that allocates a fixed percentage of state tax receipts to local aid.
- Return to a formula for distributing general government local aid, which would hold current Additional Assistance communities harmless, but that would address the clear need to broaden non-school aid.
- Fulfill the state’s commitment to use Lottery proceeds to benefit local government by lifting the current cap.

- Review and revise the Chapter 70 aid formula, including a re-examination of the municipal growth factor and minimum local contribution, and consider adding an income element.
- Grant additional flexibility in developing local option revenue sources, such as local option meals taxes, parking excise taxes, or rental car surcharges.
- Consider changes to update the motor vehicle excise tax – particularly updating the valuation schedule and addressing widespread fraud in vehicle registrations.
- Review telecommunications taxation and Internet hotel/motel tax issues. The recommendations lay out the pros and cons related to the current debate on telecommunications taxes.
- Address the critical nature of the municipal health care crisis and consider various proposed strategies to deal with these out-of-control costs.
- Encourage regional service delivery and cost-sharing.
- Seek to clarify roles of municipal and state governments, and develop a plan to let the state take responsibility for what are properly state functions, such as regional transit authorities and counties.

“We are grateful to John Hamill and others members of the Task Force who volunteered their time and expertise to look at these complex but critical issues,” said Mayor Thomas Ambrosino, Mayor of Revere and a member of the Task Force. “We want to use this comprehensive analysis and these creative recommendations as a way to prompt a public dialogue about how we fund fire and police protection, schools, libraries, public works, and other public services.”

“This is an important document that lays out the real issues facing mayors, selectmen, and taxpayers in the Commonwealth,” said Mayor Mary Clare Higgins, Mayor of Northampton and Vice President of the Massachusetts Municipal Association. “We need to understand these trends and make the necessary policy adjustments that will let our cities and towns thrive in the future.”

The Metro Mayors Coalition, convener of the Task Force, is an organization of the ten chief executive officers for urban core communities in metropolitan Boston, who are committed to working together across geographic and political lines to solve the region’s problems. The Metro Mayors Coalition is facilitated by staff members of the Metropolitan Area Planning Council.