Massachusetts Taxpayers Foundation

News Release

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MTF Report: Municipalities Weathering Worst Two-Year Stretch Since Passage of Prop 2 1/2

Massachusetts cities and towns endured the most difficult two-year period in the Proposition 2 ½ era in fiscal 2010 and 2011 with property taxes rising to their highest share of local spending in 30 years, according to the Massachusetts Taxpayers Foundation's 41st annual Municipal Financial Data report.

With pressure on all local revenue sources, municipal budgets expanded by just 0.1 percent and 1.1 percent in fiscal 2010 and 2011, respectively. At 1.2 percent, the combined two-year growth rate was less than half of the state's previous two-year low between fiscal 1990 and 1992 when towns and cities saw revenue rise by 2.6 percent.

Local property tax receipts grew by only 3.8 percent in fiscal 2011, the smallest one-year increase in the Proposition 2 ½ era. Still, because of reductions in state aid and other local receipts, property taxes rose to 56.5 percent of total revenues last year – the highest level in three decades and the result of a steady climb from the 49 percent share in 2001.

"We are entering a new period in which there will be a permanent squeeze on municipal finances," the report states. "For the foreseeable future, year-to-year revenue growth will be constrained, outpaced by the growth in personnel costs and liabilities."

Among the report's other highlights:

- State funding for municipalities in the form of cherry sheet aid was cut for the third consecutive year in fiscal 2011, falling by $39 million. Since the original fiscal 2009 budget, total cherry sheet aid has been cut by $534 million. Unrestricted local aid has suffered the brunt of the cuts, decreasing by 32 percent, or $415 million, to $899 million in fiscal 2011, compared to $1.314 billion in the original 2009 budget.

- Local receipts, the third largest revenue source behind property taxes and state aid, recorded a two-year decline for the first time in at least 30 years. Local receipts include economically sensitive revenues such as investment income, which totaled $33.4 million in fiscal 2011, a 72 percent drop from the $118.9 million collected in fiscal 2009.

- Revenues from new construction, in the form of additions to local property tax levies, increased by a negligible $8 million in fiscal 2011 on the heels of a $42 million decline the prior year. Since fiscal 2009, new construction-related revenue is off 15.4 percent, the worst stretch since the 18.3 percent contraction recorded between fiscal 1991 and fiscal 1993.

- A large majority of the state's 351 cities and towns are operating at or near their property tax levy limits. Nearly 75 percent of local municipalities have less than 1 percent "excess capacity," or the amount by which property tax levies can increase without a Proposition 2 ½ override. Fewer than 20 communities passed overrides in fiscal 2011, the lowest level in over a decade.

- Dozens of communities have taken advantage of new local option meals and hotel taxes approved by the Legislature in 2009. The 0.75 percent meals tax was adopted by 140 communities and produced $61 million in fiscal 2011. A total of 89 communities increased their hotel tax rates, producing $126 million in fiscal 2011, compared to $87.5 million in fiscal 2009.

"The constraints on municipal revenues heighten the urgency of addressing the escalating costs of employee and retiree benefits," said Michael J. Widmer, president of the Massachusetts Taxpayers Foundation. "Passage of municipal health reform was a huge accomplishment which will provide major savings for cities and towns, but much more remains to be done as benefit costs continue to consume ever larger shares of tight budgets."

The municipal health reform legislation approved in July promises to generate total first-year savings well in excess of the initial estimate of $100 million. Some two dozen communities already have taken advantage of the new law, and scores of other communities are expected to follow suit as part of the fiscal 2013 budget process.

However, the state's 100 local pension systems are just 59 percent funded in the aggregate and have an unfunded liability of nearly $13 billion. While the recently approved pension reform legislation will provide municipalities with more than $1 billion in pension savings over the next 30 years, the short-term relief will be marginal.

Dwarfing the pension liabilities are unfunded municipal liabilities for retiree health care — estimated to be between $25 billion and $30 billion statewide. Only a handful of communities have a plan to begin funding these liabilities, making it a near certainty that broad reforms and painful budget decisions will be necessary in the future.

The 41st 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 for each of the state's 351 cities and towns. The report also includes 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 more than a dozen prestigious national awards over the last two decades 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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