Massachusetts Taxpayers Foundation

News Release

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MTF Report: Despite Modest Improvement, Massachusetts Municipalities Face Long-Term Budget Squeeze

Municipal revenues and expenditures grew by just 2.7 percent to $22.6 billion in fiscal 2012, leaving Massachusetts cities and towns in the midst of a three-year slowdown that is unprecedented in the Proposition 2 ½ era, according to the Massachusetts Taxpayers Foundation's 42nd annual Municipal Financial Data report released today.

While the growth in fiscal 2012 represented an improvement over the negligible 0.1 percent growth in fiscal 2010 and 1.1 percent increase in fiscal 2011, the three-year growth of only 3.8 percent between fiscal 2009 and 2012 is less than the one-year growth in 20 of the last 30 years. By comparison, during the low points of the previous two recessions, revenues and expenditures grew by 6.3 percent (fiscal 1990 to 1993) and 10.4 percent (fiscal 2002 to 2005).

The recession and its anemic recovery have squeezed all three major municipal revenue sources—property taxes, local aid, and local receipts.

- Property taxes grew by only 3.9 percent to $12.98 billion in fiscal 2012, virtually the same as the historically slow rates of growth in 2010 and 2011, driven by limited new construction and fewer overrides. New construction—the main source of property tax growth above the annual 2.5 percent levy increase—totaled $188 million and added just 1.5 percent to the prior year's property tax levy for the third consecutive year. By comparison, over the 10 years preceding the recession new construction added an average of 2.5 percent to the prior year's property tax levy. At the same time, voters approved just $15 million in overrides fiscal 2012.

- Local aid was cut for the fourth consecutive year, dropping by $104 million or 2.2 percent from fiscal 2011 to $4.68 billion in 2012. Since the original fiscal 2009 budget, local aid has been slashed by $368 million or 7.3 percent. Only during one other period—the recession in the early 1990s before Chapter 70 was overhauled—has there been a greater reduction in local aid to municipalities. Unrestricted local aid has been hit the hardest, with the $899 million in funding for fiscal 2012 a staggering $425 million or 32 percent less than the $1.3 billion in the original fiscal 2009 budget.

- Local receipts—which include meals and hotel taxes, investment income, motor vehicle excise taxes, building permits, and charges for water, sewer, and trash services—totaled $4 billion in fiscal 2012, a mere $38 million or 0.9 percent increase over the pre-recession year of fiscal 2009. Local receipts would have fared even worse if the

> Legislature had not allowed municipalities the option of adopting a meals tax or increasing the hotel tax. A total of 151 communities have adopted the local meals tax, generating $82.6 million in fiscal 2012; 100 communities increased their hotel tax rates, producing $139.4 million in total hotel taxes in fiscal 2012 compared to $87.5 million in fiscal 2009.

Despite the slowdown in property tax revenues, they are playing an ever larger role in local budgets because of cuts in local aid and stagnant local receipts. Property taxes now account for 57.5 percent of all municipal revenues, up from 49.4 percent in fiscal 2002 and the largest share ever in the Proposition 2 ½ era.

On the expenditure side, while the municipal health reform law has provided budget relief for scores of cities and towns, the unaffordable costs of employee and retiree benefits continue to burden local governments.

Municipal health reform, which was signed into law in July 2011, allows cities and towns to curb the costs of employee health insurance by making modest changes in health plans. More than 125 municipalities and regional school districts have adopted changes that are expected to save nearly $200 million during their first year of implementation.

Despite this progress, municipalities are contending with enormous unfunded liabilities for pensions and retiree health care. Contributions to pension funds from cities and towns increased by 7.6 percent in fiscal 2012, almost three times their 2.7 percent total revenue growth. Strikingly, municipalities faced these large increases even though 41 of 99 local pension systems have extended their funding dates beyond 2030 in order to limit the growth in annual contributions in the near term—a move that also will end up costing taxpayers hundreds of millions over the long term.

Even more serious, communities have not begun to address their enormous outstanding liabilities for retiree health care which, at approximately $30 billion, dwarf the unfunded pension liabilities facing many cities and towns. Retiree health care liabilities have reached such a critical point that they require major reforms to become affordable.

The 42nd 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 a nationally recognized, independent, nonprofit research organization whose purpose is to promote the most effective use of tax dollars, improve the operations of state and local governments, and foster positive economic policies. Over the past 15 years the Foundation has won 16 national awards for its work on health care access and costs, transportation reform, business costs, capital spending, state finances, MBTA restructuring, state government reform, and municipal health reform.

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