



News Release

MTF Report: Municipalities Exercising More Fiscal Restraint

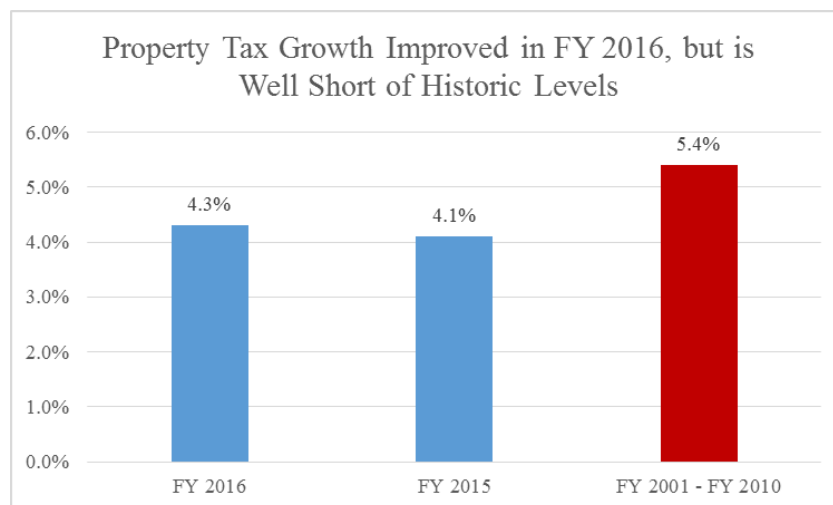
Growing state economy, strong housing market benefit municipal budgets
Uptick in property taxes and stabilization funds

BOSTON, January 12, 2017 - Massachusetts municipalities are doing more with less from the state as they continue to tighten their belts and rely more on local receipts to keep mounting debt obligations at bay, according to the Massachusetts Taxpayers Foundation's (MTF) 46th Municipal Finance Data booklet released today.

Total municipal revenues and expenditures grew 4.1 percent to \$26.3 billion statewide in fiscal 2016, the second highest rate of growth since the Great Recession, but still well below pre-recession growth levels. With municipal revenue growth falling short of historical trends, it still outpaced state tax revenue growth in FY 2016.

"Despite falling short of the 5.2% average annual revenue growth witnessed between 1982 and 2009, the steady increase in local receipts and impacts of a growing state economy and strong housing market have helped cities and towns trying to balance their budgets," said MTF President Eileen McAnneny.

"The short-term fiscal picture for municipalities is brighter than recent years, with increased local receipts and municipalities able to put money into their stabilization funds or pay more towards their unfunded pension liability. However, there are storm clouds on the horizon as unfunded pension and retiree health care liabilities loom and potentially grow larger if investment gains fall short of the assumed rate of return, or health care costs trend upward after more modest growth rates in recent years," added McAnneny.



On the revenue side, property taxes, local aid, and local receipts grew by a combined \$937 million, an increase of 3.9 percent in FY 2016, and the fourth consecutive year of growth between 3 and 4 percent. This is an improvement over the anemic revenue growth in the immediate aftermath of the Great Recession, but it is significantly less than the average annual revenue growth of 4.9 percent over the past decade. More specifically, in FY 2016:

- Property tax revenues grew to \$15.179 billion (year-over-year growth of 4.3 percent), the highest rate of

annual growth since FY 2009, however property tax revenue growth remains well below the 5.4 percent growth rate maintained between FY 2001 and FY 2010.

- Property values attributable to new construction growth totaled \$280 million, an increase of 9.1 percent over FY 2015 and the second biggest rate of year-over-year new construction growth in the past decade. While this is a strong growth rate, it was responsible for just a 1.9 percent increase in the statewide property tax levy from FY 2015, due in part to the concentration in Boston and Cambridge of almost 25 percent of all new growth.
- Statewide local receipt revenue increased 4.2 percent over the prior year. The steady growth of local receipts and the continued slow pace of local aid growth means that these local revenues may supplant state aid as the second largest local revenue source in the near future.
- Despite tight budgets, many cities and towns continue to replenish their Stabilization Fund in preparation for future economic challenges. In FY 2016, municipal Stabilization Funds increased 11 percent over FY 2015. The growth in balances by more than 10 percent in each of the last three years is an encouraging sign of fiscal discipline.

As for expenditures, labor costs remain the largest expenditure category in local government, with wages comprising more than 40 percent of all local spending. Health insurance costs continue to represent the single largest expense, but it appears multi-year efforts to manage the cost of health insurance have started to take hold. Specifically:

- The number of municipal employees grew by less than one percent in both FY2014 and FY 2015. While full FY 2016 data is not yet available, the total number of employees has grown by just 0.3% among the 118 communities that have reported data.
- Wage growth and health care costs have outpaced the growth in municipal employee headcount, but both have slowed in recent years, indicating that municipalities may be limiting growth in workforce to offset increases in wages and benefits. Additionally, while municipal employee costs have become better aligned with revenue growth, pension obligations continue to outpace it.
- Municipal pension contributions grew by 6 percent over the FY 2014 level as municipalities push to fully fund their pension obligation in the next 20 years. As pension returns have fallen short of expectations in many cases and pension obligation assumptions have grown more conservative, cities and towns have had to commit to substantial increases in annual pension contributions to stay on schedule.
- Long-term municipal obligations for retiree health insurance and other post-employment benefits continue to be a very dark cloud on the municipal finance horizon. In a 2014 report, the Foundation estimated unfunded municipal retiree health obligations at more than \$30 billion and those costs continue to grow.

“We recognize that municipalities are trying to move the needle despite the limited latitude they have,” added McAnney. “Therefore, statewide efforts to make health insurance costs more affordable are still absolutely necessary for our cities and towns to have any chance of managing these costs within their budgets in coming years.”

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Supported by a grant from FirstSouthwest, the 46th edition of Municipal Financial Data is the [Massachusetts Taxpayers Foundation's \(MTF\)](#) annual compilation of basic financial information for Massachusetts' 351 cities and towns. In addition to comparing communities' expenditures, revenues, tax rates, debt, and other characteristics, it includes statewide totals for key municipal financial statistics over the last ten years. More extensive data on local finances may be obtained from MTF or from the Division of Local Services of the Department of Revenue (<http://www.dls.state.ma.us/mdm.htm>).

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.