

News Release

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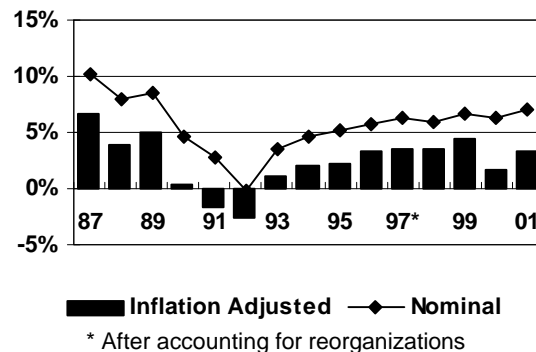
October 31, 2001

MTF Report: Municipal Finances Peak, Difficult Times Ahead

Driven by extraordinary increases in state aid and a boom in new construction, overall municipal finances reached a high water mark in fiscal 2001, according to the Massachusetts Taxpayers Foundation's 31st annual analysis of local revenues and spending released today. Looking ahead, however, cities and towns can expect declining fortunes as they grapple with limited increases in state aid and an economic recession.

The MTF study, *Municipal Financial Data*, reports that 2001 was the ninth consecutive year of improvement in local finances with revenue and property tax growth and municipal surpluses all hitting new highs. Local revenues jumped 7.1 percent to \$15.4 billion, and property taxes grew 5.9 percent to \$7.5 billion, the highest rates of growth since 1989 and 1991, respectively. Excess capacity¹ increased 7.3 percent to \$205 million, rising to 2.7 percent of the statewide levy limit, approaching the previous peak in 1987. Free cash² rose 8.7 percent to a record total of \$527 million.

Local Revenues
Annual Percent Change
Fiscal 1987-2001



However, the report concluded, "municipal finances have reached a major turning point," as growth in state aid and new construction slow. With the state confronting huge deficits in 2002 and beyond, municipalities will have to live with drastically reduced, yearly increases in state aid. The economic slowdown also will limit the pace of new construction and the resulting growth in property tax revenues.

¹ Excess capacity is the difference between the amount of taxes a community raises and the amount allowed under Proposition 2 1/2.

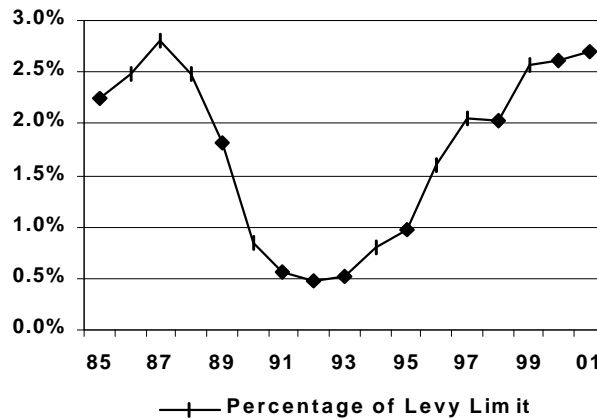
² Free cash is net operating surpluses from the previous year.

"The days of annual double-digit increases in education and lottery aid are over," said MTF President Michael J. Widmer. "Like the state, cities and towns will have to tighten their spending while weathering the recession."

For a sizeable minority of communities that have been struggling during the economic boom of the 1990s, the new fiscal environment will be especially onerous. Localities that in the past decade have received limited new aid under education reform's financing provisions or that have experienced rapid enrollment growth will be particularly hard hit, as will those communities that had little new construction -- and additions to the tax rolls -- because of a shortage of buildable land.

Excess Capacity

Fiscal 1985-2001



The Foundation's study highlights several key factors showing the strength of municipal finances:

- Local revenues grew by an inflation-adjusted 3.4 percent in 2001, one of the largest increases of the past decade.
- Mirroring revenues, total local expenditures increased by 7.2 percent, or 3.5 percent after inflation, to a total of \$15 billion.
- State aid to cities and towns, the most rapidly growing individual component of local revenue, increased by \$347 million, or 8.6 percent, to a total of \$4.4 billion. State education aid accounted for almost two-thirds of this increase.
- Lottery aid grew 15 percent in 2001 to a total of \$869 million. Most of the increase was due to one-time, unanticipated 2000 receipts as lottery profits only rose 1.4 percent in 2001.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization which conducts research on state and local taxes, government spending, and the economy. Founded in 1932, MTF ranks among the largest and most effective organizations of its kind in the country. The Foundation has won six prestigious national awards in as many years for its work on capital spending, business costs, management of state budget surpluses, reform of the MBTA, and, most recently, the cost impact of Question 5, the universal health care proposal rejected by voters last year.

The 31st edition of *Municipal Financial Data* was presented as a public service with the help of a grant from First Southwest Company.