Massachusetts Taxpayers Foundation

News Release

333 WASHINGTON STREET
BOSTON, MA 02108-5170
617-720-1000
FAX 617-720-0799

For immediate release January 7, 2014

MTF Report: Huge Obligations Create a Long-Term Budget Squeeze for Municipalities

Despite a modest rebound in revenues, municipalities find themselves in a long-term budget squeeze because the costs for pensions, employee and retiree health care, and debt service are rising faster than revenues, according to the Massachusetts Taxpayers Foundation's 43rd annual Municipal Finance Data report released today.

Total municipal revenues and expenditures grew by 3.7 percent to $23.4 billion statewide in fiscal 2013, an improvement over the anemic growth during the recent recession but still well less than the average annual growth of 5.2 percent between 1982 and 2009.

The fiscal pressure has led to the elimination of more than 15,500 full-time positions, or six percent of the statewide municipal workforce, since 2007 (Table 1). The global recession and state fiscal crisis are partly responsible for these layoffs, but the larger and more permanent cause is the escalating spending on pensions, health care, and debt service. Spending on these three categories grew 23 percent between fiscal 2007 and fiscal 2012, while all other spending grew just 10 percent.

"Spending on employee and retiree benefits will consume an ever larger share of municipal budgets for the foreseeable future as municipalities face nearly $45 billion in unfunded liabilities," said MTF President Michael J. Widmer. "With modest revenue growth at best, funding for schools, public safety, and other services will be sacrificed in order to pay for the unaffordable obligations taken on by cities and towns over the past decades."

Table 1: Municipal Spending and Full-Time Employment

	FY 2007 ($ billions)	FY 2012 ($ billions)	Growth
Total Spending	19.9	22.6	13%
Debt Service[1]	1.8	2.3	23%
Pensions	1.0	1.3	30%
Health Care	1.9	2.2	19%
All Other	15.2	16.8	10%
Total Full-Time Positions	265,042	249,472	-6%

[1] Debt exclusions, which are included in the total for debt service, account for only a small share of debt service costs.

- Pension costs grew nearly three times as fast as other municipal spending between fiscal 2007 and fiscal 2012 and more than twice as fast as revenue growth. In fiscal 2012, pension contributions totaled more than $1.3 billion, a 30 percent increase from the $1 billion in 2007.

- Like pensions, spending on health care for employees and retirees grew much faster than revenues between 2007 and 2011. The widespread adoption of municipal health reform in 2012 reduced costs by $30 million, but health care still accounts for nearly 10 percent of municipal budgets. Spending will continue to climb because, in addition to the generous health care benefits for active employees, municipalities face an overwhelming $30 billion in unfunded liabilities for retiree health care. Even if cities and towns continue to ignore the liability, they cannot avoid the escalating costs: spending on retiree health care is projected to jump from $800 million in 2012 to more than $1 billion within five years and $1.5 billion in 10 years.[2]

- Debt service costs, the amount municipalities must pay annually in interest and principal for money they have borrowed, grew by 23 percent between fiscal 2007 and 2012, reaching a total of $2.26 billion in 2012, 10 percent of municipal spending.[3]

On the revenue side, growth was driven largely by an increase in state aid which, combined with a small improvement in local receipts, offset the weakest growth in property taxes in nearly three decades.

- After three consecutive years of cuts, state aid to municipalities rose to $4.8 billion in fiscal 2013, a 3.0 percent increase over the $4.7 billion in fiscal 2012. Virtually all of the increase in state aid was dedicated to Chapter 70 funding, which climbed by 4.8 percent or $160 million to $3.52 billion in 2013 from $3.36 billion in 2012. For the third consecutive year, unrestricted aid was funded at $899 million.

- Local receipts, such as motor vehicle excise taxes, meals and hotel taxes, building permits, and charges for services, grew by 3.3 percent in fiscal 2013 to $4.2 billion.

- Despite upticks in state aid and local receipts, overall revenue growth was constrained because property taxes, which account for half of all municipal revenues, grew at their slowest since 1985, increasing by 3.6 percent, from $13 billion in 2012 to $13.4 billion in 2013. By contrast, between 1985 and 2012, property taxes rose an average of 5.4 percent annually.

The 43rd edition of Municipal Financial Data is 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 average residential tax bills; percent of low income students; and per capita expenditures, income, and equalized values.

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.

****

[2] The health care figure in Table 1 is from data that is self-reported by municipalities. Some municipalities do not include the costs of their contributions to supplemental Medicare plans in that total. As a result, annual health care costs for municipal employees and retirees is likely higher than the reported figure.

[3] The state limits its borrowing so that annual debt service is no more than eight percent of that year's total revenues.