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News Release

For Immediate Release

October 21, 2004

MTF

MTF Report: Higher Local Property Taxes, Employee Layoffs in Wake of State Aid Cuts

Cities and towns across Massachusetts are facing a combination of higher property taxes and employee layoffs as a result of cuts in state aid, according to the Massachusetts Taxpayers Foundation's 34th annual analysis of local revenues and spending.

The MTF study, *Municipal Financial Data*, reports that per capita taxes on the existing property tax base (excluding new construction) rose almost twice as rapidly between 2001 and 2004 as in the previous eight years. This differential translates into an extra $330 million burden on property taxpayers across the state.

Despite higher property taxes and healthy additions to local tax rolls from new construction, municipalities are contending with a real decline in overall revenues because of the cuts in state aid: Adjusted for inflation, total local receipts fell in both 2003 and 2004, in sharp contrast to the strong growth for most of the preceding decade.

To cope with the resulting stress on local budgets, cities and towns have reduced their workforces—via layoffs, early retirements, and attrition—to a degree that is unique among the 50 states. Local government employment in Massachusetts dropped 3.3 percent in 2003, the largest decline in the nation. According to the Foundation's analysis of federal employment data, the state's municipal job losses have continued in 2004, declining 14,200, or 5.2 percent, from the peak in February 2002 through August 2004. The total local workforce in Massachusetts now stands below its level at the beginning of 2001.

"Cities and towns face an extended period of tight finances and difficult tradeoffs between higher property taxes or reductions in programs and services, or both," said MTF President Michael J. Widmer.

The MTF report documents broad and deep reductions in municipal aid since the beginning of the state's fiscal crisis. By the end of fiscal 2004, 311 of the state's 351 communities had sustained cuts of more than $450 million, or 10 percent overall, from their peak funding levels in 2001-2002. In more than half of those communities, 163 in all, state aid fell by 15 percent or more. While about 1 in 10 localities saw modest aid increases as a result of the funding requirements of the education reform law, even they sustained significant cuts in non-school aid.

The per capita burden of local taxes on the existing property tax base has grown 3.1 percent a year on average over the last three years, compared to average growth of 1.7 percent during the previous eight years. These apparently small differentials in annual rates of growth translate into a $330 million increase in the property tax burden since 2001. This rise reflects communities' choices—in the face of state aid cuts—to collect more taxes within the limits imposed by Proposition 2½ and to extend those limits through voter-approved overrides and debt exclusions.

Other indicators confirm the general picture of continued local financial stress. After adjusting for unusual circumstances in three localities, total "free cash"—local operating surpluses minus uncollected taxes and other deficits—in 225 communities fell by $206 million, or 47 percent, between 2002 and 2004. At the same time, one-third of the state's communities drew heavily on their local rainy day funds, reducing balances by $53 million or 29 percent. Overrides of Proposition 2½ leapt 60 percent in 2003, to a total of $49 million in 39 communities, the second highest amount approved in a single year. This was followed by a sharp drop to only $7 million in 14 communities in 2004, no doubt due to a combination of "override fatigue" among local voters and a willingness to draw down reserves as an alternative to contentious override campaigns.

Surprisingly, a minority of communities appeared to show considerable fiscal strength in the face of the substantial cuts in aid. Approximately one-third of municipalities saw an increase, although generally small, in free cash between 2002 and 2004, and others were able to add to their stabilization funds. It should be cautioned that the aggregate financial data that are available cannot show whether the apparent improvements were achieved at the cost of staffing cuts, reductions in services, or other actions.

According to the report, the 2005 state budget provides some welcome, albeit modest, relief from the previous cuts. Even so, state assistance to cities and towns in 2005 remains $312 million, or 9 percent, below pre-crisis levels in 273 communities. Because of the structural deficit in the state budget—expected to grow to almost $1 billion in 2006—the Commonwealth has limited ability to restore significant amounts of those cuts. Over the next several years, communities should count on little in the way of additional state assistance as they contend with rising health care and other costs and the likelihood of reduced revenues from new construction as interest rates rise.

The 34th 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—expenditures, revenues, tax rates and debt characteristics—for each of the state's 351 cities and towns.

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, MTF ranks among the largest and most effective organizations of its kind in the country. The quality and impact of the Foundation's work is reflected in eight prestigious national awards recently earned for research on business costs, capital spending, state finances, governmental 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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