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News Release

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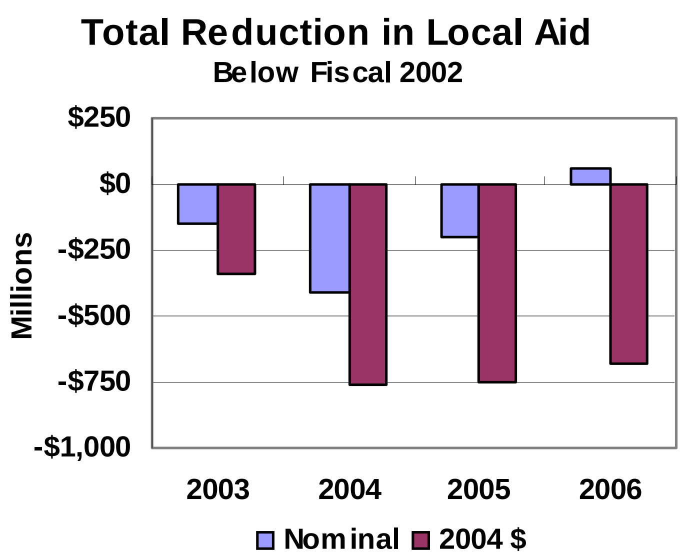
MTF

MTF Calls on State to Dedicate 40 Percent of Tax Revenues to Local Aid, Benchmark Municipal Costs



In order to help address the relentless squeeze on municipal finances, the state should dedicate 40 percent of annual revenues from income, corporate, and sales taxes to local aid, according to the Massachusetts Taxpayers Foundation's 35th annual analysis of local revenues and spending. The Foundation also recommends that the Commonwealth develop a new system for benchmarking municipal costs in order to ensure that the state's 351 cities and towns are using taxpayers' dollars effectively.

The MTF study, *Municipal Financial Data*, paints a picture of continuing stress on local finances in fiscal 2005 even with modest increases in state aid: Municipal stabilization reserves declined for the first time in a decade; excess taxing capacity under Proposition 2½ fell for the fourth year in a row; and local operating surpluses decreased as well, contributing to an almost $150 million, or 25 percent, drop since 2002.

While the recent sharp rise in health care costs has added to the pressure on municipal budgets, state aid policy has been the primary contributor to local fiscal stress, according to the MTF study. Despite additional aid dollars in 2005, assistance to cities and towns remained $750 million, or 14 percent, below 2002 after adjusting for inflation, with aid levels well below 2002 in almost every community in the Commonwealth. Even with increases in aid in 2006 as well, most of that progress will be wiped out by inflation.

"Although municipal leaders have raised property taxes, hiked fees, tapped reserves, and cut services in order to maintain fiscal balance over the last four years, local finances are still deteriorating in many, if not most, communities," said MTF President Michael J. Widmer.

To address the chronic squeeze on local finances – and to bring constancy to the state's efforts to support municipal budgets – the Foundation recommends that the Commonwealth dedicate an amount equal to 40 percent of annual revenues from the state's three major tax sources to formula aid for cities and towns.

- The 40 percent commitment would restore overall funding for the three major local aid accounts – Chapter 70, additional assistance, and Lottery – to its 2002 level (after adjusting for inflation) and provide a modest increase of about five percent. Had this policy been in place in 2005, it would have resulted in additional aid to cities and towns of over $1 billion. This proposal builds on a key recommendation of the Municipal Finance Task Force, a statewide group of elected officials, business leaders, and local fiscal experts led by John Hamill, chairman of Sovereign Bank New England.

- Given the magnitude of the dollars involved, the new revenue-sharing policy would need to be phased in over several years; the policy would also need to be coupled with a serious re-examination of the formulas used to distribute state aid, in order to avoid perpetuating the existing inequities in the distribution of dollars among communities.

- As with the recent financial reforms of the MBTA and the School Building Authority, the Foundation recommends that the 40 percent commitment be implemented by dedicating portions of specific taxes, an approach that would establish for cities and towns a reliable stream of revenues that would be determined outside the state budget process.

- The new funding approach would also need to include additional provisions to buffer annual aid levels from future declines in the state economy.

In light of this major investment of tax resources, the Foundation also recommends that the state develop a comprehensive new system for benchmarking municipal costs. Although the recent thoughtful study by the Municipal Finance Task Force found no evidence of a municipal spending spree, it was unable to conduct any detailed analysis of how effectively localities are using taxpayers' dollars due to a lack of the basic data needed to make apples-to-apples comparisons of spending among communities. Such a system would make it possible to compare local costs across the Commonwealth and could also prove invaluable in realizing another of the Task Force's recommendations: to distribute non-school aid to municipalities using a formula that takes into account both local fiscal capacity and local service needs, an approach that was at one time used to allocate so-called additional assistance.

The 35th 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. For the first time, the report includes town-by-town 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 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 a series of prestigious national awards 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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