



News Release

MTF Report: Municipalities Stuck in Era of Modest Rebound

Municipal Finance Framework has Changed; Obligations Mounting

BOSTON, December 1, 2015 - Massachusetts municipalities are in an era of limited growth and saddled with \$45 billion in unfunded pension and retiree health care liabilities, according to the Massachusetts Taxpayers Foundation's (MTF) 45th Municipal Financial Data report released today.

Total municipal revenues and expenditures grew by 3.8 percent to \$25.3 billion statewide in fiscal 2015, marking the seventh consecutive year in which annual growth lagged the historical average of the Proposition 2 ½ era.

Municipalities continue to find themselves under fiscal strain with revenue growth falling short of historical trends and the costs of employee wages and benefits, which account for a large share of total spending, outpacing revenue growth.

"The pursuit of the 5.2% average annual revenue growth we witnessed between 1982 and 2009 continues to become more unattainable in the short term," said MTF President Eileen McAnneny. "Unfunded pension liabilities will continue to surge if investment gains for calendar year 2015 do not meet the 7.75 percent rate of return that most municipalities assume their funds will earn. Furthermore, the challenge of funding retiree health care liabilities will also increase the longer they are left unaddressed."

- Nearly half of all municipal spending is for employee wages and salaries. The average salary per employee grew at 3.7 percent in the first half of fiscal 2015, similar to the 3.8 percent total revenue growth. However, this is still greater than the average wage growth for private sector workers in the state, which increased by 3.3 percent during the same period. Total spending on wages grew by 4.5 percent because municipalities added approximately 2,000 employees, and this far outpaced the 3.8 percent total revenue growth.
- Pension contributions also grew faster than revenues for municipalities in 2015, totaling \$1.4 billion which is an increase of 5.5 percent compared to fiscal 2014 contributions. Despite the increased payments, the total unfunded pension liability for the state's 351 cities and towns grew by more than \$800 million and now tops \$15 billion.

- Municipalities' growing reliance on and limited control over property taxes, along with the unlikelihood of dramatic increases to state aid and local receipts, signals that municipal budgets must increasingly align with the slower growth rate of recent years. In adapting to these changes, cities and towns must look at innovative ways to deliver services for less and focus on those items over which they do have control in order to balance budgets, such as health insurance costs and headcount – which also affects pension and retiree health care liabilities – so they may continue to provide important public services.

On the revenue side, property taxes, local aid, and local receipts grew by a combined \$936 million, an increase of 3.8 percent over fiscal 2014. Over the last decade, municipal revenues grew at an average of 3.5 percent annually, far less than the average 4.7 percent annual growth during the 30-year Proposition 2 ½ era.

- Property taxes, the main source of municipal revenue, totaled \$14.6 billion in fiscal 2015, an increase of \$579 million or 4.1 percent compared to fiscal 2014 and the largest annual increase since fiscal 2010.
- Local receipts, such as motor vehicle excise taxes, hotel and meals taxes, building permits, and charges for services, grew by nearly \$220 million to approximately \$4.5 billion in fiscal 2015. This increase of 5.1 percent from last year is the greatest since fiscal 2008 and the largest of each of the three major revenue sources in fiscal 2015.

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The 45th edition of Municipal Financial Data is supported by a grant from FirstSouthwest. 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 mission is to provide accurate, unbiased research with balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term well-being of the Commonwealth. The Foundation's work has earned it a reputation for objectivity and credibility among legislators, policymakers, the media, and interest groups of all kinds. Over the past 10 years the Foundation has won seven national awards for its work on health care access and costs, transportation reform, state finances, municipal retiree health care costs, and municipal health reform.