

# News Release

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## **MTF Report: Municipalities Weather One of Worst Years of Proposition 2 ½ Era in 2010; Addressing Soaring Health Costs a Priority**

Municipalities weathered one of their most difficult years in the Proposition 2 ½ era in fiscal 2010, highlighting the urgency of controlling municipal health insurance costs, according to the Massachusetts Taxpayers Foundation's 40<sup>th</sup> annual analysis of local revenues and spending (*Municipal Financial Data*) released today.

Driven by cuts in local aid and declines in local receipts and new construction, total municipal spending and revenues grew by a miniscule 0.1 percent in fiscal 2010. Since fiscal 1982, that is second only to the 0.2 percent decline in 1992.

- Local aid dropped by \$325 million in fiscal 2010, the result of a \$95 million increase in Chapter 70 education aid and a \$420 million reduction in general government aid and non-Chapter 70 education aid. The increase in Chapter 70 assistance was supported by \$172 million in federal stimulus dollars.
- Local receipts fell by 2.9 percent in fiscal 2010, the largest drop since 1982. Comprised largely of economically sensitive revenues, including the motor vehicle tax, building permits, and investment income, local receipts are the third largest revenue source for municipalities.
- New construction plummeted by 19 percent to \$178 million in fiscal 2010. This is comparable to the drop in 1991 and exceeded in the Proposition 2 ½ era only by the 27 percent decrease in 1992.

Excess capacity, the amount of additional property tax revenue a city or town may raise without an override, is virtually nonexistent in 270 of the state's 351 communities. That, combined with the decline in new construction and only \$17 million in approved overrides, slowed total growth in annual property tax revenue to 4.1 percent in 2010, compared with 5.5 percent average growth over the last decade. Nevertheless, the reduction in state aid and local receipts is forcing communities to rely more heavily on property taxes. In 2010, property taxes accounted for 55 percent of all revenues, the highest percentage since voters approved Proposition 2 ½ 30 years ago.

"The number one problem facing municipalities is the escalating cost of health insurance for employees and retirees," the report states. "Total municipal health expenditures have almost doubled since fiscal 2002, from \$1.09 billion to \$2.05 billion, growing more than three times as

fast as inflation.” Furthermore, these expenditures do not begin to account for the large and growing unfunded municipal liabilities for retiree health benefits—estimated at tens of billions of dollars statewide.

To help address these costs, the report recommends giving local officials the power to design their health insurance plans outside of collective bargaining, just as the state does in managing its health insurance costs. This would provide large and immediate savings for most communities.

“The pressures on municipal finances will get worse before they get better,” the report concludes. With local aid almost certain to be cut further in 2012, a slowly recovering economy, and the end of federal stimulus money, local governments will feel “a fiscal squeeze for years to come.”

The 40th 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 report also 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, the Foundation has won a series of prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, government reform, and health care.

*The full version of the report, including community-by-community statistical tables, is available online at [www.masstaxpayers.org](http://www.masstaxpayers.org).*

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