

Municipal Finance Forum:

Where does the money come from and where does it go? IV. STATE AID



Forum

*presented by
the Fiscal*

*Policy Update
Committee of
the*

*League of
Women Voters
of
Massachusetts*

Presenter

Judy Robbins

January 20 and 27, 2007

League of Women Voters of Massachusetts
Fiscal Policy Update Committee



State Policies/Laws that effect:

IV. Money coming from State to Cities & Towns

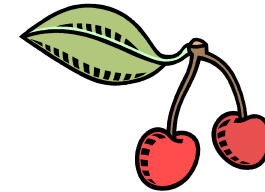
State Aid = Local Aid
(If you're local) (If you're state)



Massachusetts Local Revenue

- Massachusetts' cities and towns are constitutionally restricted in their ability to raise money through taxes and fees.
- Massachusetts funding model involves having the state collect revenue statewide which it then distributes to municipalities as shown on the "Cherry Sheet."

Cherry Sheet Revenue



C.S. 1-ER FY 2007

NOTICE TO ASSESSORS OF ESTIMATED RECEIPTS

General Laws, Chapter 58, Section 25A

NORFOLK

A. EDUCATION:

Distributions and Reimbursements:

1. Chapter 70	3,342,421
2. School Transportation Chs. 71, 71A, 71B and 74	0
3. Retired Teachers' Pensions Ch. 32, s. 20 (2) (c)	0
4. Charter Tuition Reimbursements Ch. 71, s. 89	22,322

Offset Items – Reserve for Direct Expenditure:

5. School Lunch 1970, Ch. 871	4,827
6. School Choice Receiving Tuition Ch. 76, s. 12B, 1993, Ch. 71	0

Sub-Total, All Education Items 3,369,570

B. GENERAL GOVERNMENT:

Distributions and Reimbursements:

1. Lottery, Beano & Charity Games	1,173,639
2. Additional Assistance	0
3. Local Share of Racing Taxes 1981, Ch. 558	0
4. Regional Public Libraries Ch. 78, s. 19C	0
5. Police Career Incentive Ch. 41, s. 108L	59,419
6. Urban Renewal Projects Ch. 121, ss. 53-57	0
7. Veterans' Benefits Ch. 115, s. 6	0
8. Exemptions: Vets, Blind & Surviving Spouse Ch. 58, s. 8A; Ch. 59 s. 5	17,848
9. Exemptions: Elderly Ch. 59, s. 5, Cl. 41, 41B, 41C	4,016
10. State Owned Land Ch. 58, ss. 13-17	199,112

Offset Item - Reserve for Direct Expenditure:

11. Public Libraries Ch. 78, s. 19A	12,459
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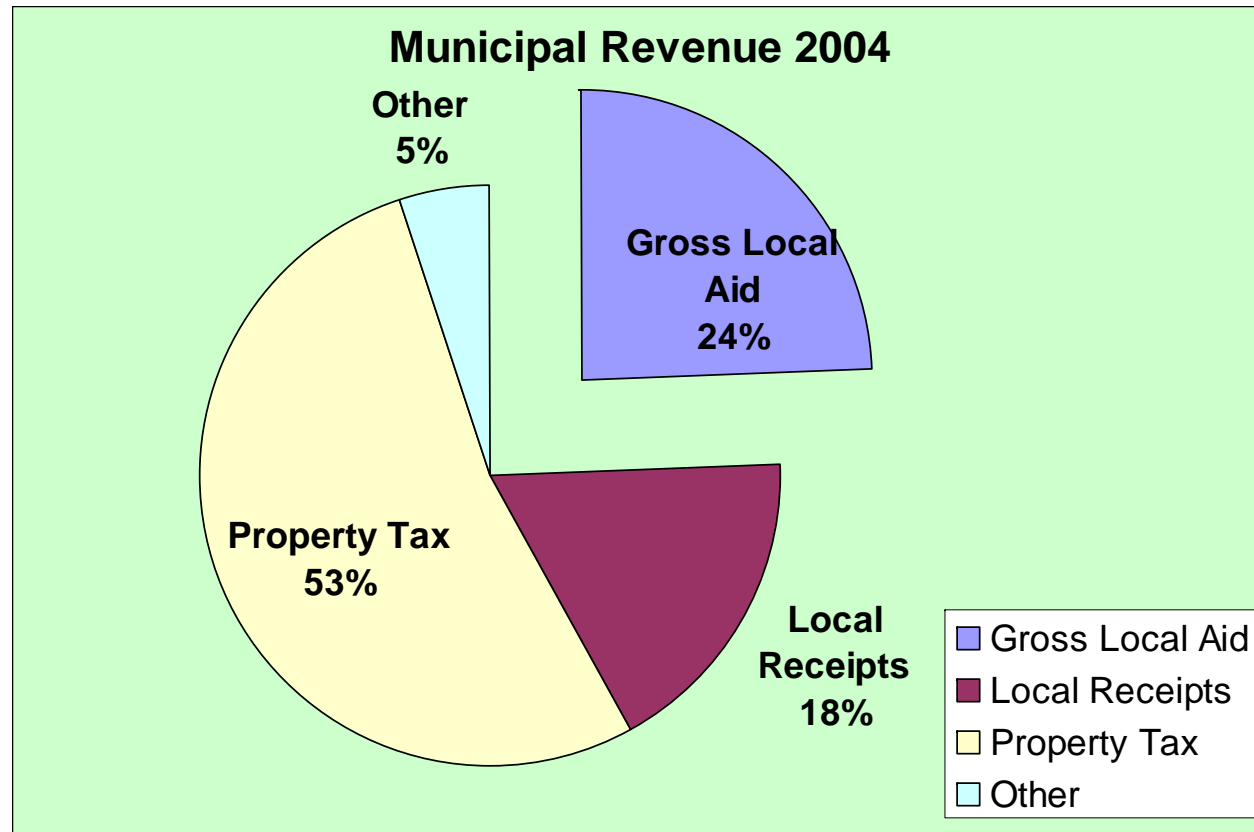
Sub-Total, All General Government 1,466,493

C. TOTAL ESTIMATED RECEIPTS, FISCAL 2007 **4,836,063**

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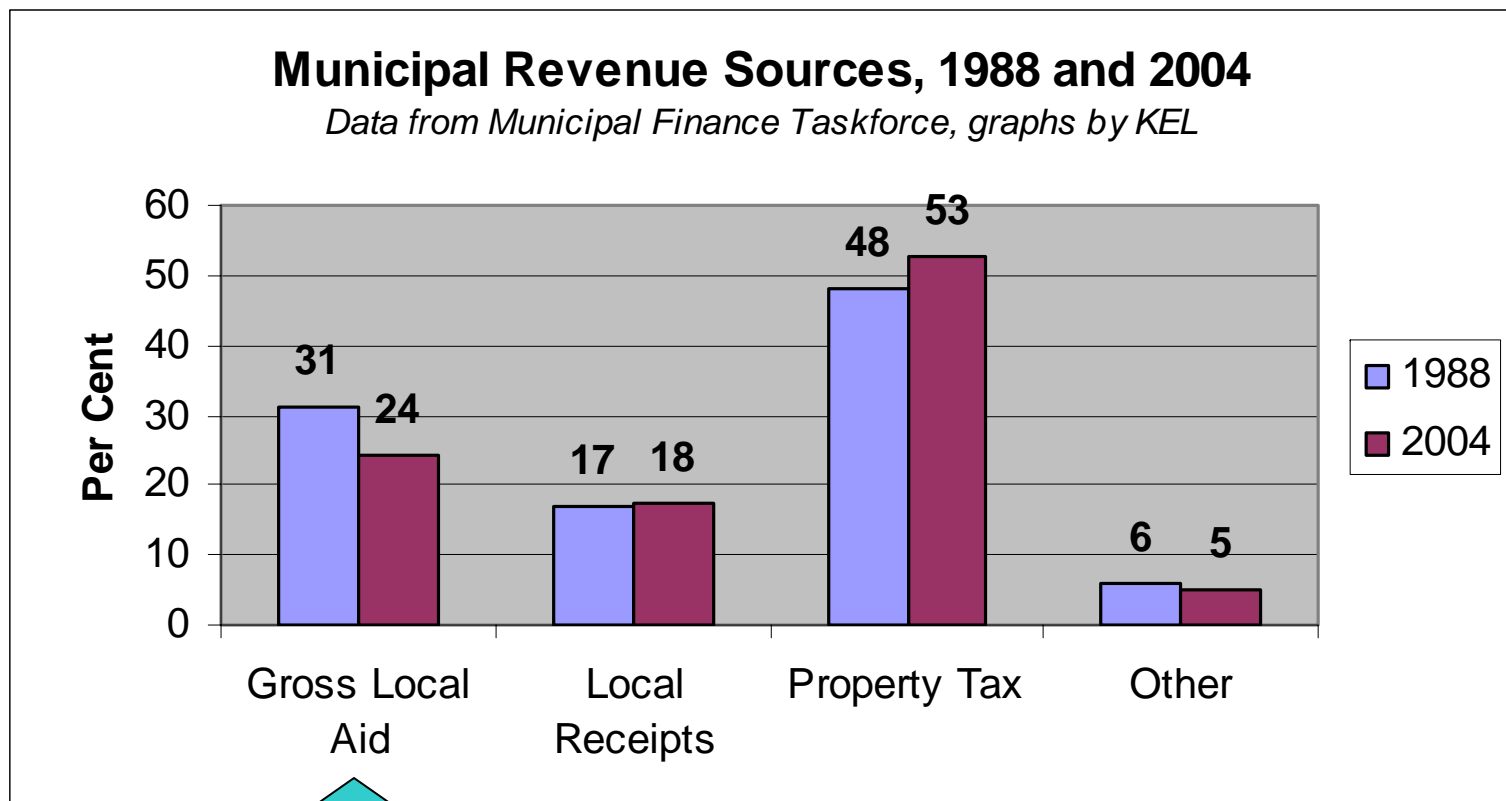
Revenue Sources for Massachusetts Cities and Towns



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Revenue Sources for Massachusetts Cities and Towns: 1988 vs. 2004



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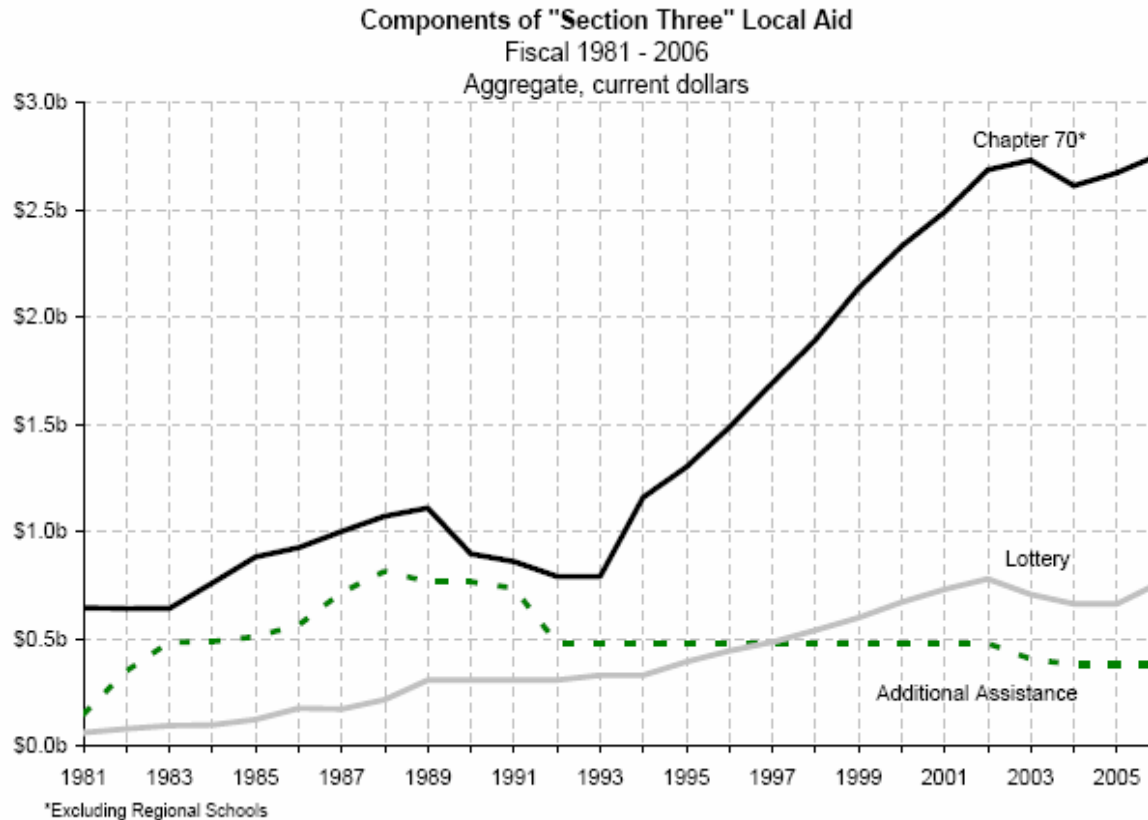
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State Aid Components

1. Chapter 70 (Education Aid)
2. Lottery Aid
3. Additional Assistance

Local Aid Components Over Time



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State Events Effecting Local Aid

- State Lottery (1971)
- Proposition 2 ½ (1980)
- Brown v. Dukakis
- MMA Referenda – Question 4 (1990)
- Education Reform Act (1993)
- Charter Schools
- Economic Recessions (1989 & 2001)



State Aid: 2. Lottery Aid

- Mass voters approved in 1971.
- Net lottery proceeds to be distributed to cities and towns as unrestricted local aid.
- The Massachusetts LWV adopted a position against the lottery.
- However, the LWV's Equalizing Municipal Grant Formula for distributing state aid to municipalities according to their need is the formula that is used to distribute Lottery Funds.



Local Lottery Aid Formula

The Town's Equalized Valuation
DIVIDED BY
The Town's Population
EQUALS
The Town's Equalized Valuation per Capita

The State's Equalized Valuation Per Capita
DIVIDED BY
The Town's Equalized Valuation Per Capita
TIMES
\$10.00
TIMES
The Town's Population
EQUALS
The Town's Entitlement

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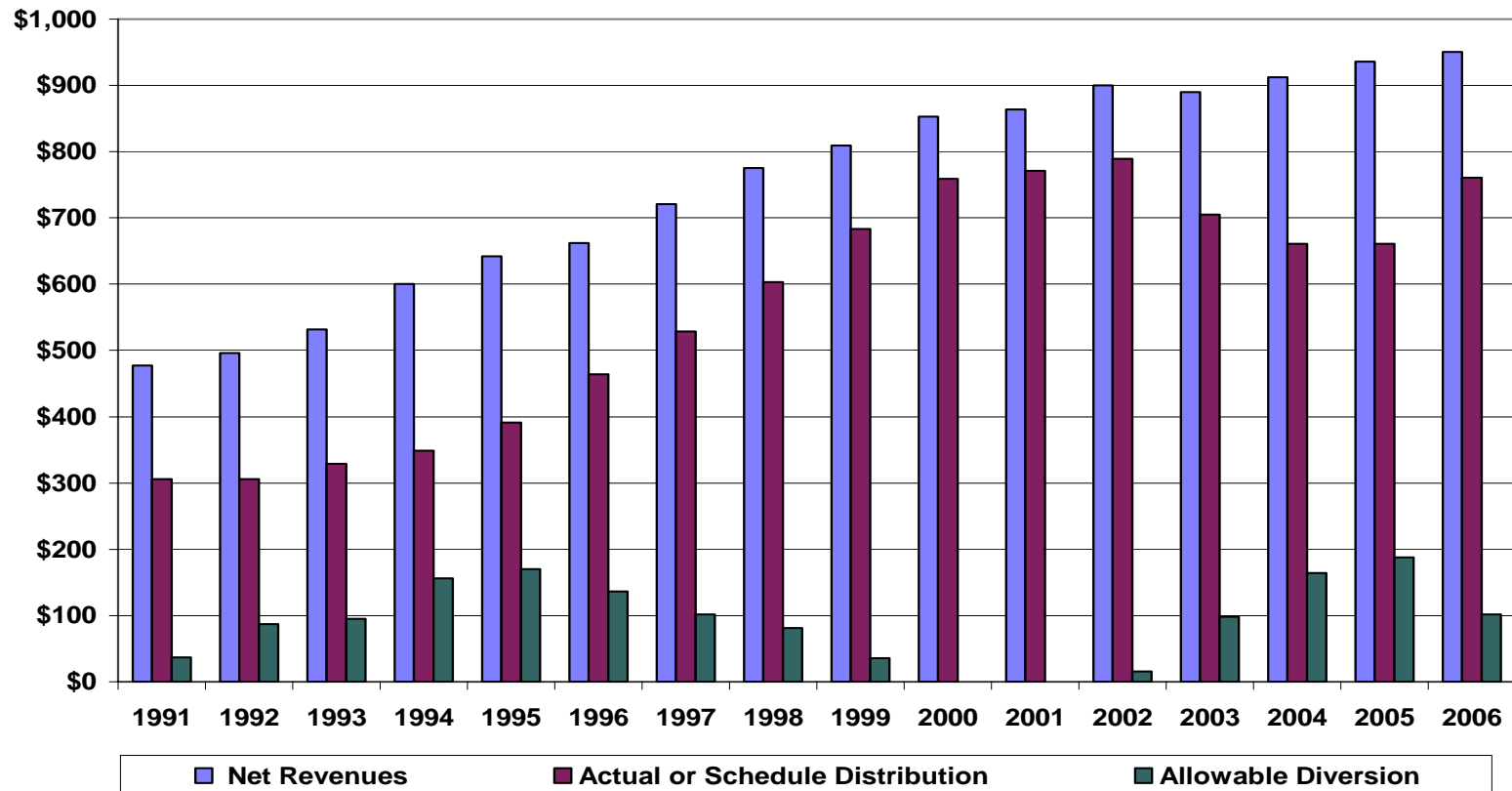


State Appropriates Lottery Funds

- Lottery distribution must be voted each year in the state budget.
- In 2002, Massachusetts faced a dramatic significant crisis.
- The Legislature again (as in the 1990's) used lottery funds as a way to bring more money into the General Fund, capping local aid at 2002 levels (\$661 million) with all additional funds going to the state.
- Until FY07, over \$150 million per year was diverted from local aid because of the cap.

History of Massachusetts Lottery Disbursements to Cities and Towns

Massachusetts Lottery Disbursements to Cities and Towns
History of Net Revenues vs. Actual Distributions 1991-2006



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State Aid: 3. Additional Assistance

- Additional Assistance is a state aid program providing unrestricted general fund revenue to specific communities through the Cherry Sheet.
- Started as “gap financing” that now should not (if you get it) or will not (if you don’t) go away.

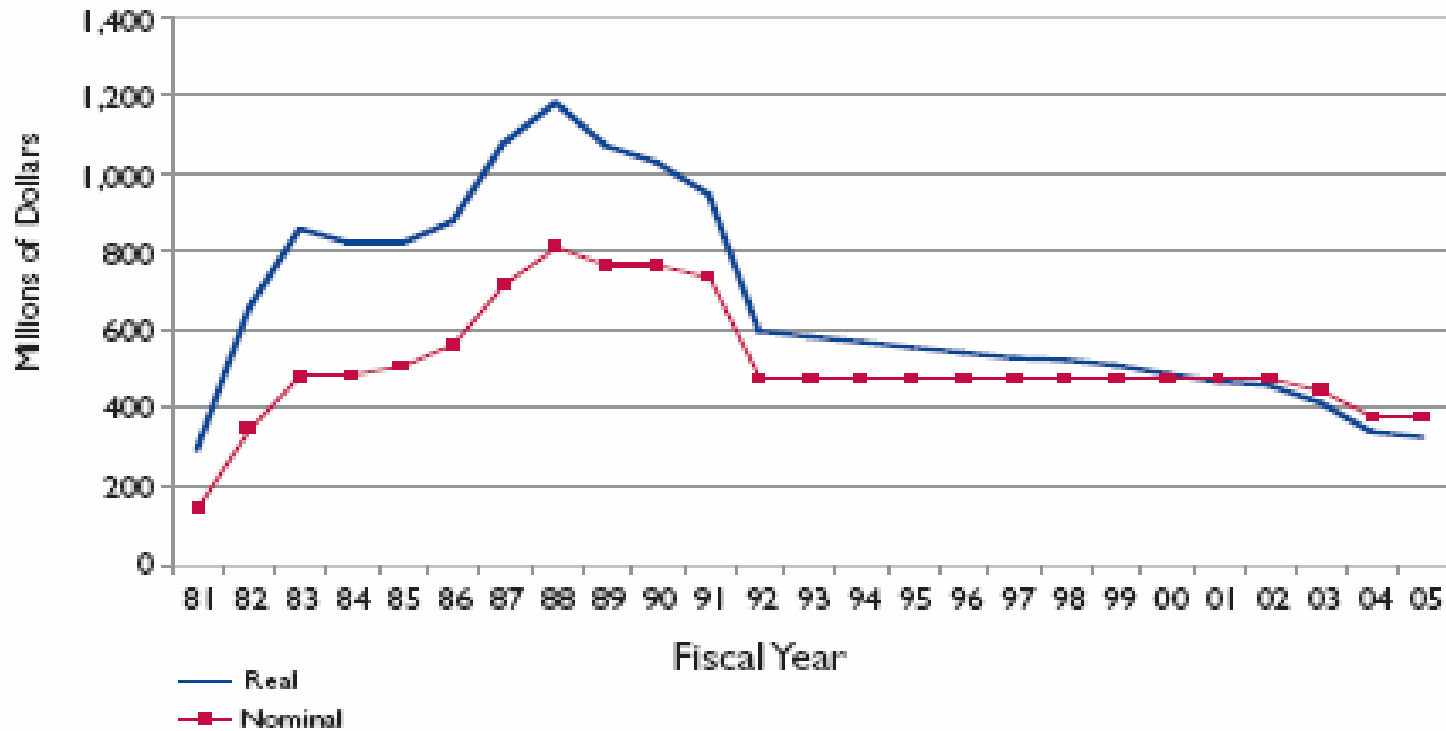


Additional Assistance

- Part of the resolution aid formula in the 1980's due to Ch. 70 funding increase.
- Reduced by 1989 to 1991 budget cuts.
- Funding by then provided to only 159 (out of 351) communities.
- Level funded between 1992 and 2002.
- Funding then reduced by 6.5% in 2003, and by an additional 6.2% in 2004.
- Again level funded in 2005.

Additional Assistance Over Time

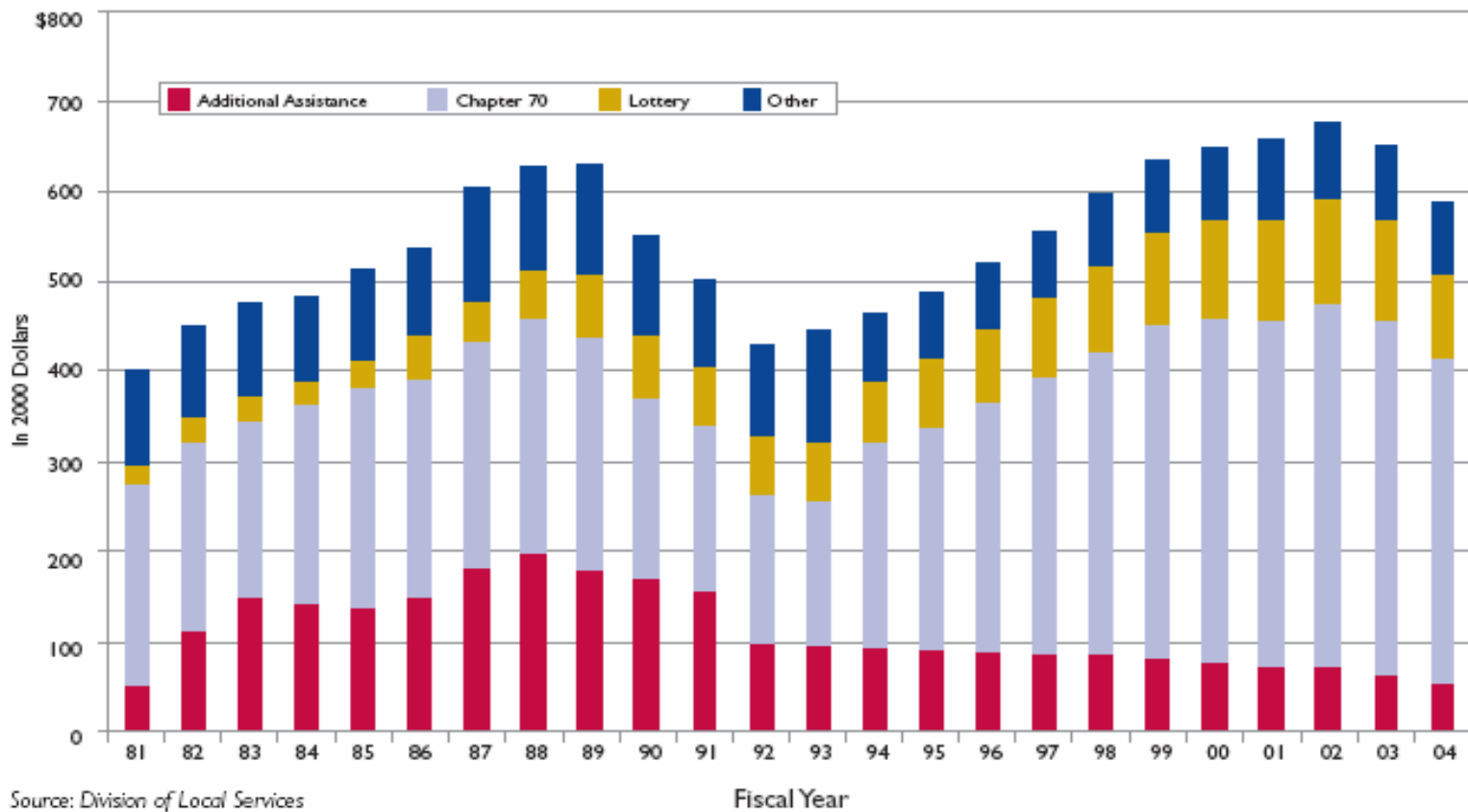
Figure IV.3: Additional Assistance Cut Deeply, in Real and Nominal 2000 Dollars



Source: Division of Local Services

Long Term Fluctuation in State Aid

Figure IV.1: Real State Aid Per Capita to Municipalities, by Type



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State Aid Summary

- Chapter 70 funding continues to increase but is dedicated to education.
- Only Lottery Aid and Additional Assistance are unrestricted (may be used for any purpose).
- There has been a loss of non-school state aid since Education Reform.
- State aid in 2006 is about \$700 million below 2002 after adjusting for inflation.
- State aid as presently established is not a reliable revenue source for cities and towns.



Sources for Graphs and Data

- ***“Revenue Sharing and the Future of the Massachusetts Economy”*** Barry Bluestone, Alan Clayton-Matthews, David Soule MMA and Center for Urban and Regional Policy, Northeastern University, Jan 2006
Available at CURP website
- ***“Municipal Financial Data 35th Edition”*** Mass Taxpayers Foundation
- ***“Local Communities at Risk: Revisiting the fiscal partnership between the Commonwealth and cities and towns”*** From Municipal Finance Taskforce, MAPC, Sept 2005 Hamill Report
- **Municipal Glossary: Additional Assistance**
http://www.dls.state.ma.us/reference/glossary/refgls_additionalassistance.htm
- **Cherry Sheet Manual**
<http://www.dls.state.ma.us/cherry/csmanual.pdf>