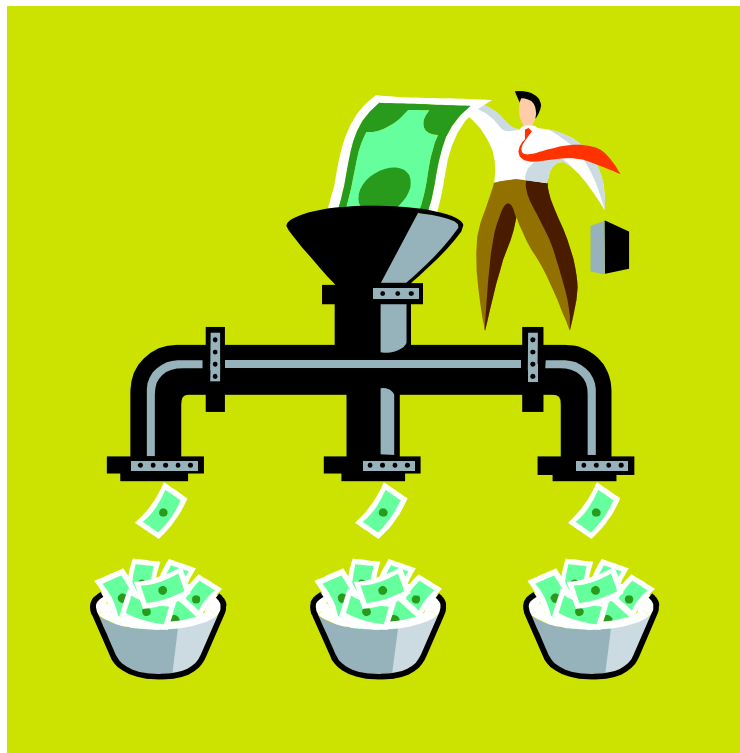


MUNICIPAL FINANCE:

Where does the money come from
and where does it go? **SUMMARY**



*Forum presented by
the Fiscal Policy
Update Committee
of the
League of Women
Voters of
Massachusetts
Kathy Leonardson
Zaxaro Bennett
Co-Chairs*

January 20 and 27, 2007

League of Women Voters of Massachusetts
Fiscal Policy Update Committee



Purpose of Municipal Finance Forums

MISSION POSSIBLE:

Understanding the Basics
of Municipal Finance

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Municipal Finance: Where does the money come from and where does it go?

State Policies/Laws that affect:

- **How municipalities spend money**
- **How municipalities raise money**
- **Money coming from State to municipalities**
- **Money charged to municipalities by the state**



I. Fiscal issues

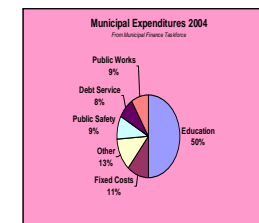
“Virtually all of Massachusetts’ cities and towns face long- term financial problems...Local governments in Massachusetts are inadvertently trapped by the convergence of four major forces: Proposition 2 ½, the State’s landmark Education Reform Act of 1993, rising health insurance and recent cuts in local aid.”

in “Local services, local aid, common challenges” by Phineas Blaxandall, Rappaport Institute, November 2005

State Policies/Laws that affect

I. How municipalities spend money

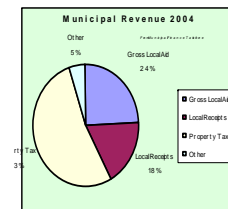
- **Education**
 - **Ed Reform**
 - **Chapter 70**
 - **Charter Schools**
 - **Special Education**
- **Health Insurance**
- **Pensions**



State Policies/Laws that affect

II. How municipalities raise money

- 1. Property Tax**
 - Proposition 2 ½
 - Tax-Exempt property
- 2. Local option taxes**
- 3. Motor Vehicle Excise tax**
- 4. Fees**
- 5. Other**

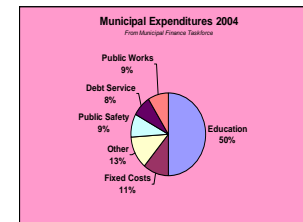


State Policies/Laws that affect:

III. Money that municipalities owe to the state

Assessments

1. County Assessments
2. State Assessments and Charges
3. Transportation Charges
4. Annual Charges against Receipts
5. Tuition Assessments

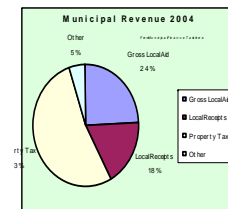


State Policies/Laws that affect:

IV. Money coming from State to municipalities

Local Aid (State Aid)

- 1. Chapter 70***
- 2. Lottery Aid***
- 3. Additional Assistance***

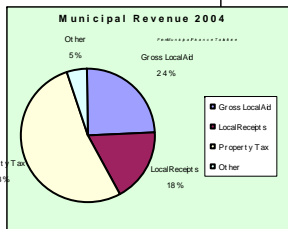
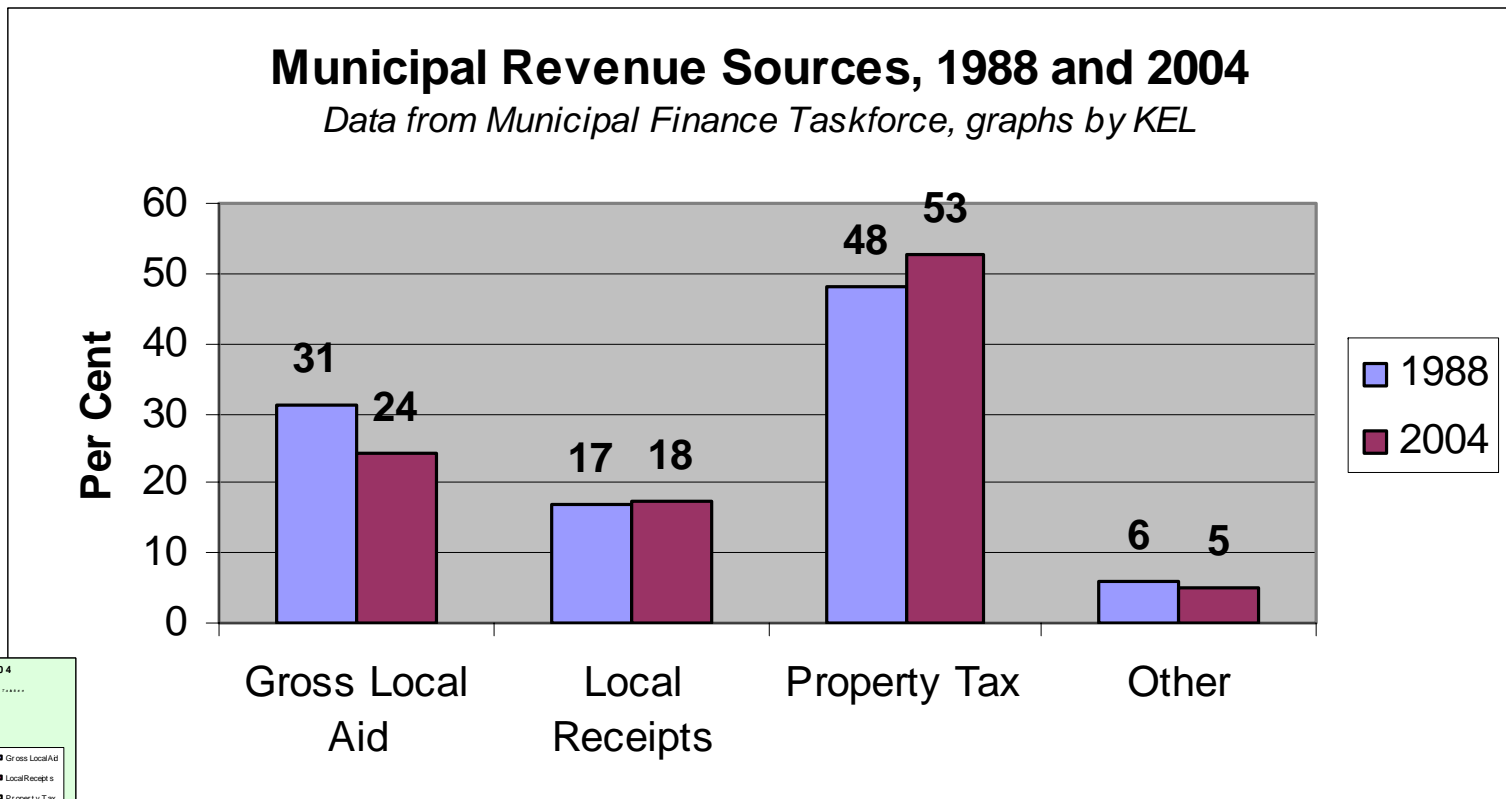


Relationship: State government and municipalities



- Massachusetts municipalities limited in ability to raise own revenues
- Despite home rule, do not have fiscal autonomy, unlike many other states

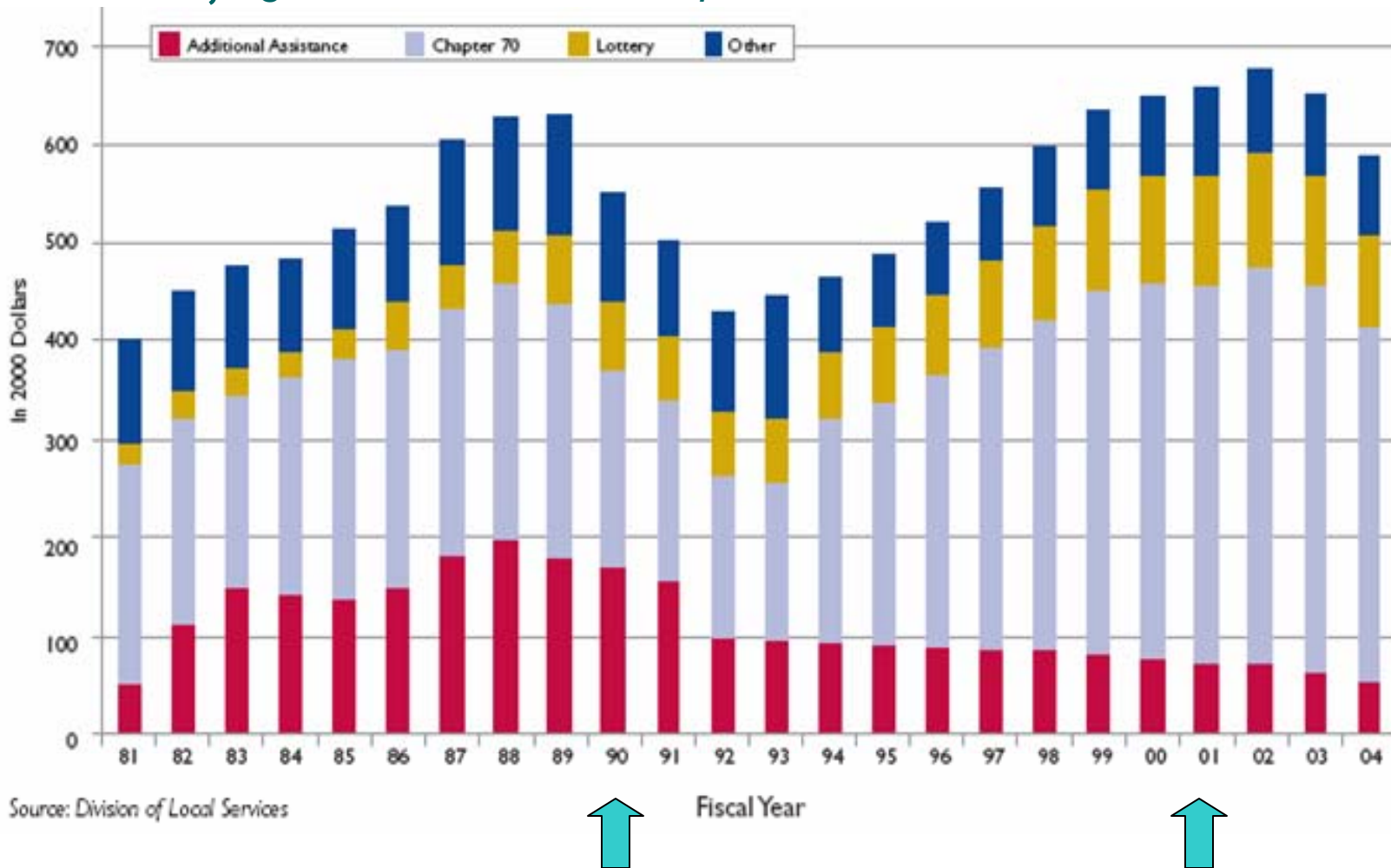
Revenue Sources for Massachusetts Cities and Towns: 1988 VS 2004



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Long term fluctuation in state aid, *Figure from Bluestone Report*



Source: Division of Local Services

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Fiscal Situation: 2001 to present

- 2001- economic recession
- State aid to cities and towns in 2006 is about \$700 million below 2002 after adjusting for inflation

-Mass Taxpayers Foundation,

Municipal Financial Data 35th Edition, Nov 2005



In response, communities raised property taxes

- Average annual increase in property taxes **between 2002 to 2005: 3.5%**
- **Vs. 2.4% increase in previous 8 years**

From Mass Taxpayers Foundation, "Municipal Financial Data", 35th edition Nov 2005



Increased pressure on municipal budget...

- Leads to **increased reliance on Property tax**
- Increased use of **overrides**
- Taxpayer **paying more, getting less service**

Mass Taxpayers Foundation Municipal Financial Data 35th Edition



Purpose of Forum

- Understanding municipal finance
 - State and local relationship
 - State Law/policy
- Preparation for local (self) study
(Feb-June 2007)
- Prelude to FPU consensus meeting
(Nov 2007-Feb 2008)



Local League(Self) Study

- Purpose: to take the **fiscal pulse of your community**
- **Utilize community leaders** as resources
- **Generate your own data** and compare to statewide data

Method



- Interviews
- Research
 - Department of Education www.doe.mass.edu/
 - Department of Revenue, Division of Local Services www.mass.gov/dls



Research

- On the graph, plot
your community's
- general overrides (X),
 - debt exclusions(o),
 - capital exclusion(■)



Research

- Plot your community's distance from levy ceiling



Interview Example

Finance Director

1. How many municipal employees does the city/town employ?
2. What percentage of the town budget goes to salaries?
3. Since the early 1980s, how have the town's revenues changed? *
4. Since the early 1980s, how have the town's spending habits changed?*
5. Since the early 1980s How have the town services changed?*
6. Since the early 1980s How have the number of town employees changed?*



Interview Example

School Superintendent

BACKGROUND INFORMATION

- A. How many students are in the school system? Over the past 10 years, has the # been increasing?
- B. How many school employees are there? How has that changed in the last 10 years?
- C. What % of the town budget is the school budget?
- D. What % of the school budget is devoted to salaries?
- E. How did the school department deal with the increasing costs of energy this past year?
- F. Are school buildings in good condition?
- G. What is the status of school fees?



Sources for graphs and data

- **Municipal Financial Data 35th Edition**
Mass Taxpayers Foundation Report, Nov 2005
- **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

"Local services, local aid, common challenges"
by Phineas Blaxandall, Rappaport Institute, November 2005

"Local Communities at Risk: Revisiting the fiscal partnership between the Commonwealth and cities and towns",
From Municipal Finance Taskforce, MAPC, Sept 2005 Hamill Report



Questions

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Municipal Finance



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Signs and Omens



- Fees
- Services
- Police
- Highway
- Recreation

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