Reforming Municipal Aid in Massachusetts

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New England Public Policy Center
at the Federal Reserve Bank of Boston

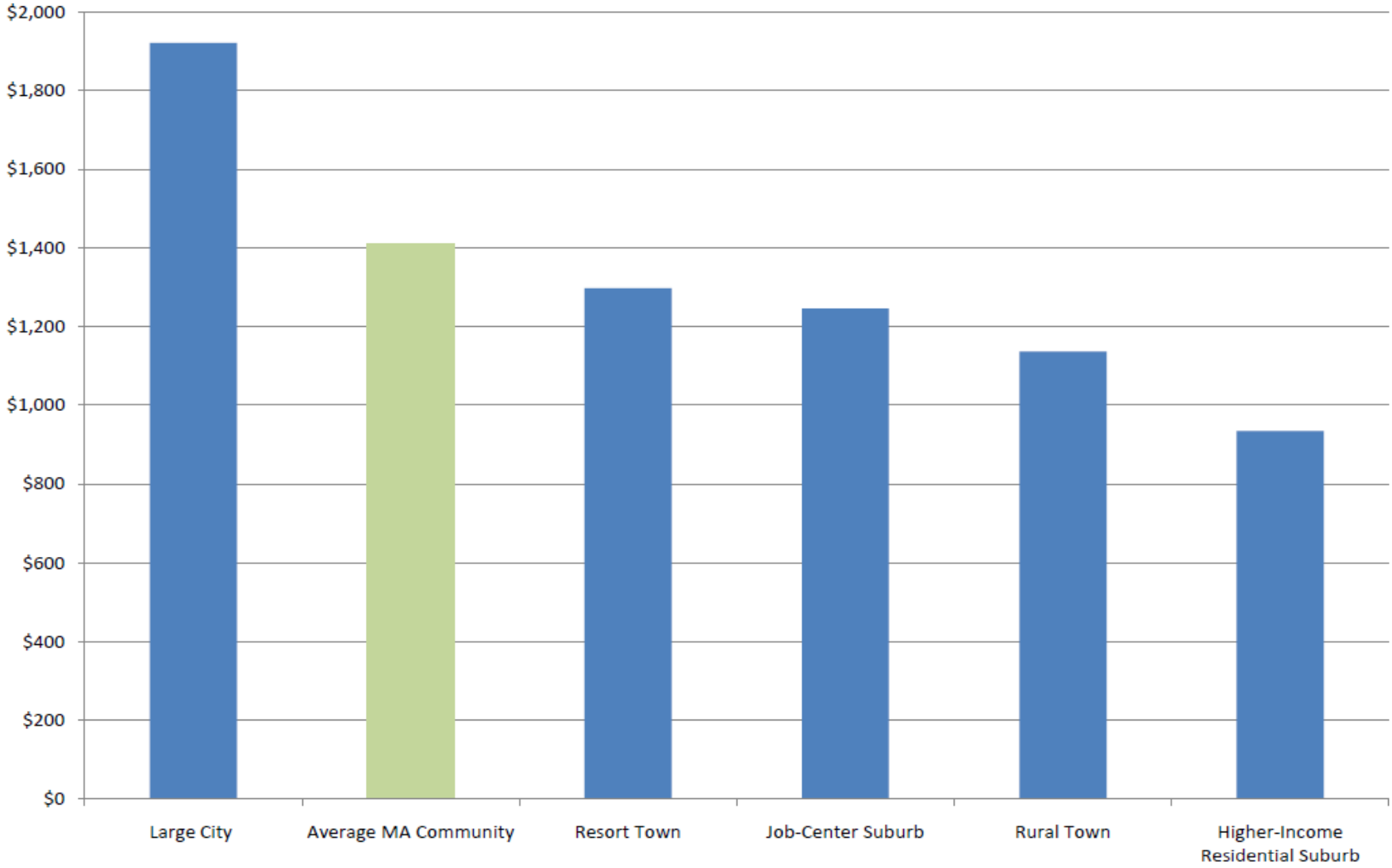
Overview

- Local governments provide public services that are essential to the local economy for individuals and businesses alike.
- However, there are statewide concerns that municipal aid is not effectively targeted to those communities that need it most in Massachusetts.
- Our analysis shows that the FY 2011 municipal aid distribution does not closely relate to the need-for-aid.
- We develop an approach to distribute municipal aid in closer relation to the need-for-aid without redistributing current aid.

Measuring a community's need for aid

- Municipal gap = costs – capacity
  - Does not reflect wasteful spending.
- "Costs" refer to spending that local governments must incur to provide common municipal services.
  - Not actual spending!
  - Depend on factors outside the control of local officials – population density, poverty rate, unemployment rate, jobs per capita
- "Capacity" is the ability to raise revenue locally for non-school purposes.
  - Not actual revenue!
  - Biggest drivers are total taxable property value and income of residents

Municipal Costs of Prototype Massachusetts Communities (per capita, FY 2007)



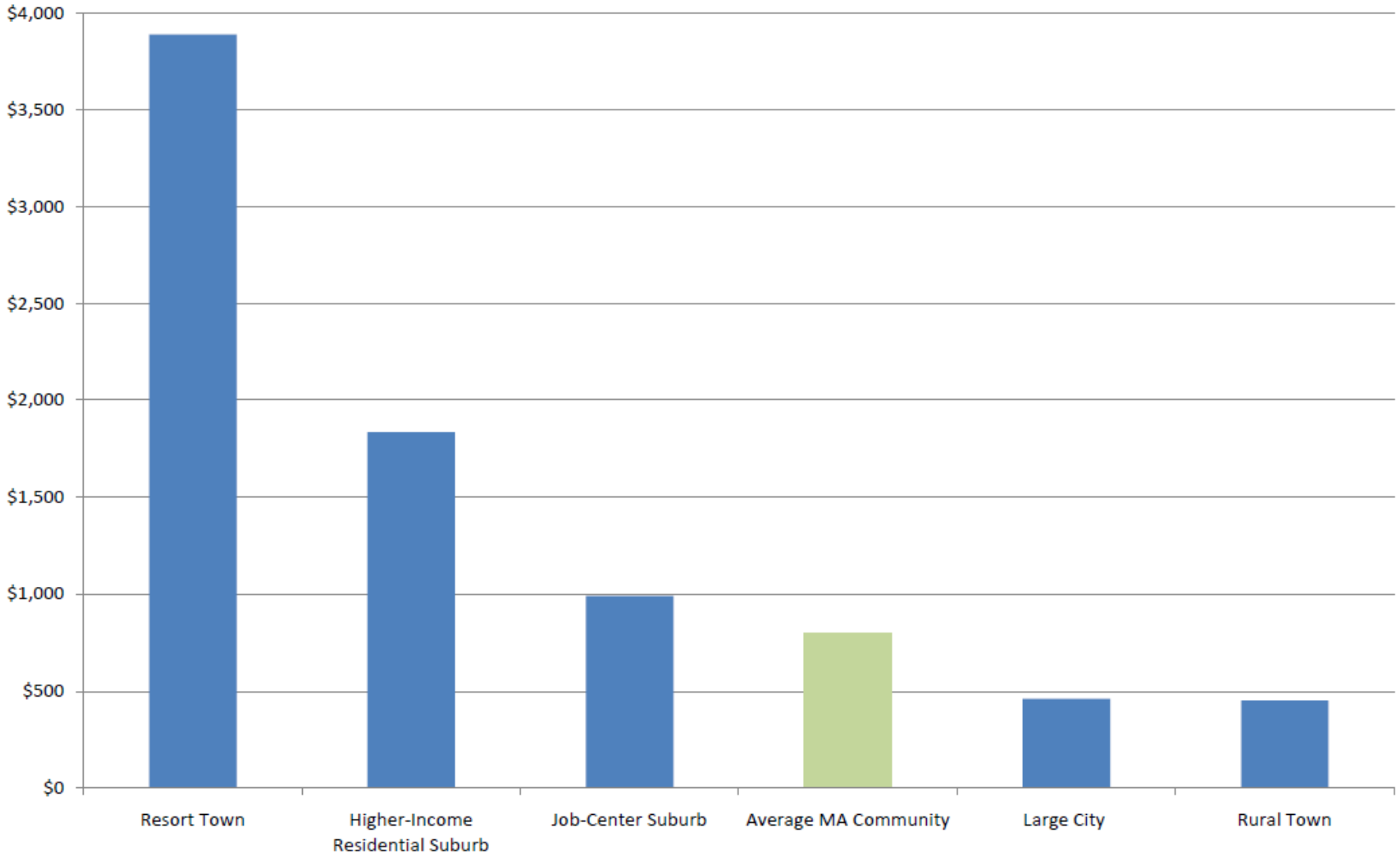
Note: The average MA community is defined as a hypothetical community experiencing the weighted average among 351 Massachusetts cities and towns (weighted by population size) for municipal cost and revenue capacity factors.

Municipal Cost Factors of Prototype Massachusetts Communities (FY 2007)

	Cost Factors				Municipal Costs ($ per Capita)
	Population Density (thousands per square mile)	Poverty Rate (%)	Unemployment Rate (%)	Jobs per Capita	
Large City	8.84	22.82	6.87	0.35	1,921.39
Rural Town	0.08	5.39	4.68	0.29	1,135.96
Job-Center Suburb	1.55	3.84	3.54	0.99	1,245.32
Higher-Income Residential Suburb	1.42	2.84	2.60	0.21	933.67
Resort Town	0.25	7.16	5.32	0.54	1,296.72
Average MA Community	4.02	9.93	4.90	0.49	1,410.86

Note: The average MA community is defined as a hypothetical community experiencing the weighted average among 351 Massachusetts cities and towns (weighted by population size) for municipal cost and revenue capacity factors. Based on the approach developed by Bradbury and Zhao (2009), per capita municipal costs = 28.0 * population density + 19.8 * poverty rate + 81.0 * unemployment rate + 272 * jobs per capita + 570.2. The Large City prototype is based on the communities of Lawrence, Lowell, Lynn, New Bedford, Springfield, and Somerville. The Resort Town prototype is based on the communities of Eastham, Edgartown, Nantucket, Orleans, Stockbridge, and Williamstown. The Job-Center Suburb prototype is based on the communities of Andover, Braintree, Canton, Natick, and Westborough. The Rural Town prototype is based on the communities of Ashby, Ashfield, Blandford, Clarksburg, Huntington, Lanesborough, Oakham, and Whately. The Higher-Income Residential Suburb prototype is based on the communities of Belmont, Carlisle, Dover, Lincoln, and Wayland.

Municipal Revenue Capacity of Prototype Massachusetts Communities (per capita, FY 2007)



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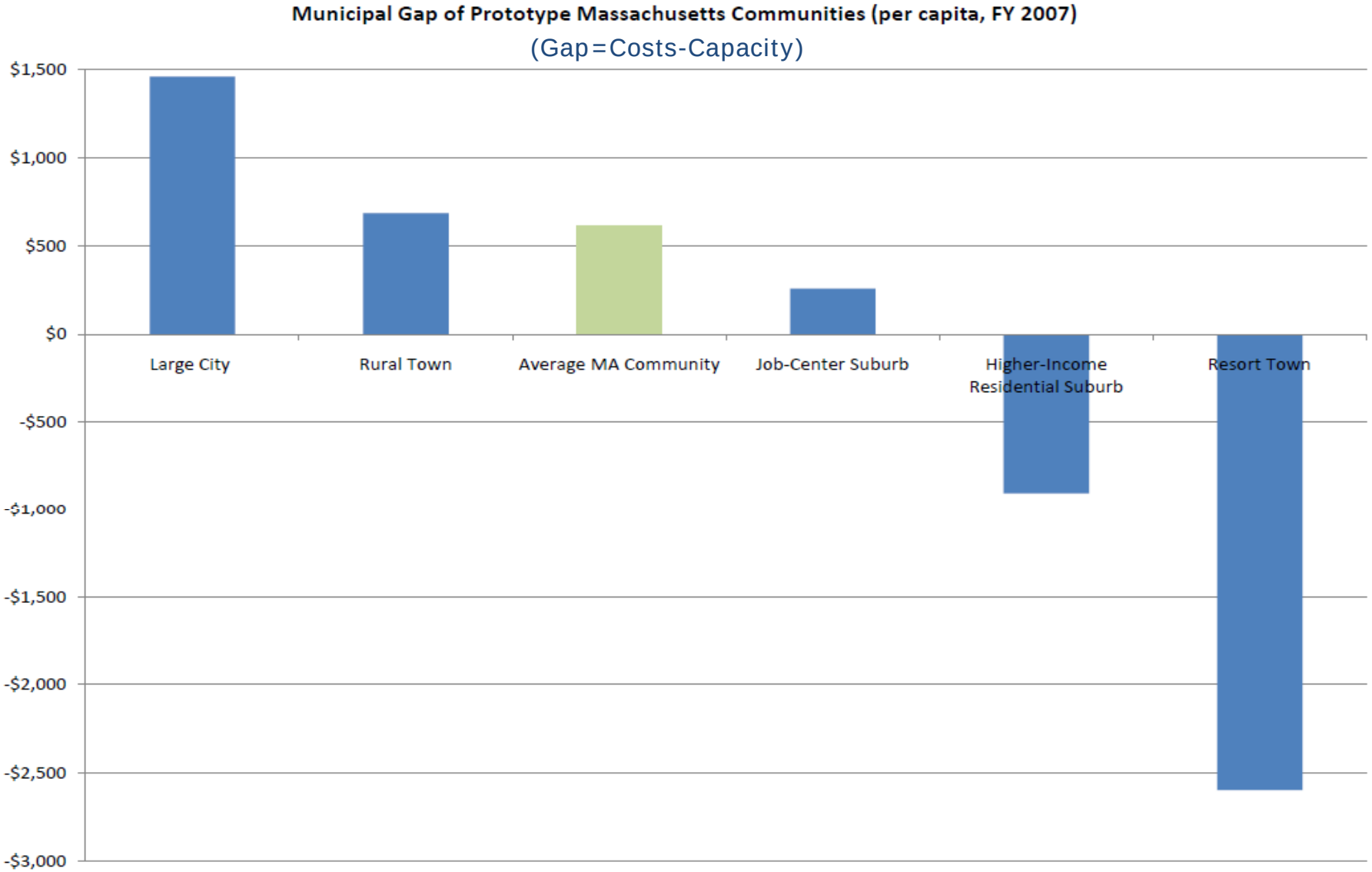
Municipal Capacity Factors of Prototype Massachusetts Communities (dollars per capita, FY 2007)

	Property Tax Capacity Factors			Property Tax Capacity	Other Local Revenue Capacity	Required Reductions in Capacity	Municipal Revenue Capacity
	Taxable Residential Property Value	Taxable Nonresidential Property Value	Income				
Large City	62,526.93	10,841.84	16,372.30	704.05	69.07	311.69	461.43
Rural Town	99,425.94	11,874.37	23,656.71	1,022.68	126.94	696.32	453.29
Job-Center Suburb	147,735.92	47,778.98	45,762.15	2,019.94	162.01	1,192.55	989.41
Higher-Income Residential Suburb	283,207.24	8,715.80	123,235.25	3,144.90	166.95	1,476.37	1,835.47
Resort Town	805,425.12	61,880.11	35,629.81	4,657.66	296.16	1,063.26	3,890.56
Average MA Community	128,549.00	23,314.87	33,240.16	1,457.51	124.64	784.32	797.84

Note: The average MA community is defined as a hypothetical community experiencing the weighted average among 351 Massachusetts cities and towns (weighted by population size) for municipal cost and revenue capacity factors. Based on the approach developed by Bradbury and Zhao (2009), property tax capacity = 0.0142 * (taxable residential property value)$^{2/3}$ * (income)$^{1/3}$ + 0.0126 * taxable nonresidential property value (all in per capita terms). The sources for other local revenue capacity include motor vehicle excise, hotel/motel excise, urban redevelopment excise, local share of racing taxes, and state government payments in lieu of taxes for state-owned land. Required reductions in capacity include net minimum required local contribution for schools; county taxes; charges for MBTA, regional transit, Boston metro transit, and regional planning authorities; and state assessments for air pollution control and mosquito control. Municipal revenue capacity = property tax capacity + other local revenue capacity - required reductions in capacity.

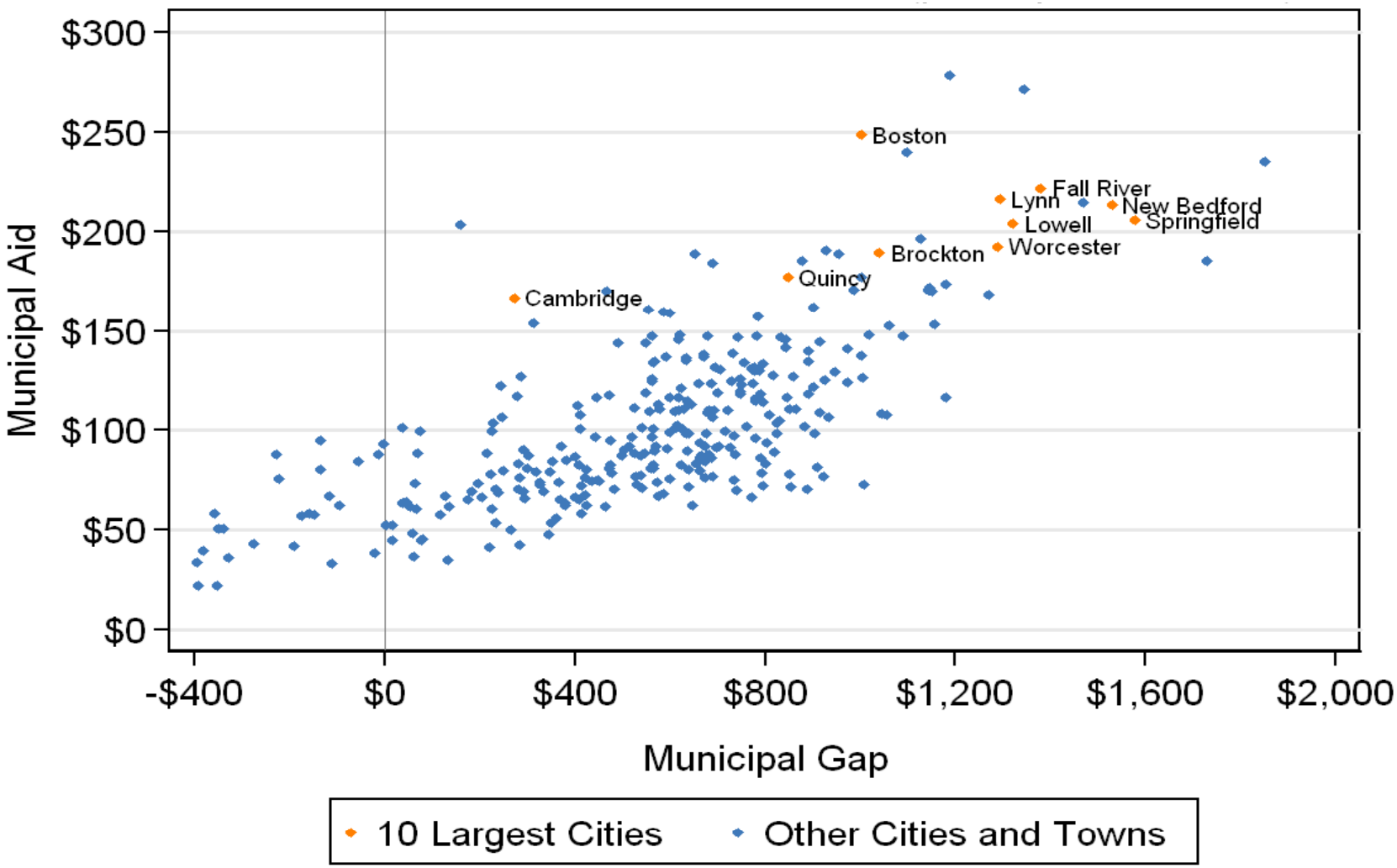
Massachusetts cities and towns show a wide variation in their municipal gaps.



Note: The average MA community is defined as a hypothetical community experiencing the weighted average among 351 Massachusetts cities and towns (weighted by population size) for municipal cost and revenue capacity factors. The municipal gap is defined as the difference between municipal costs and revenue capacity.

Aid does not closely relate to municipal gaps

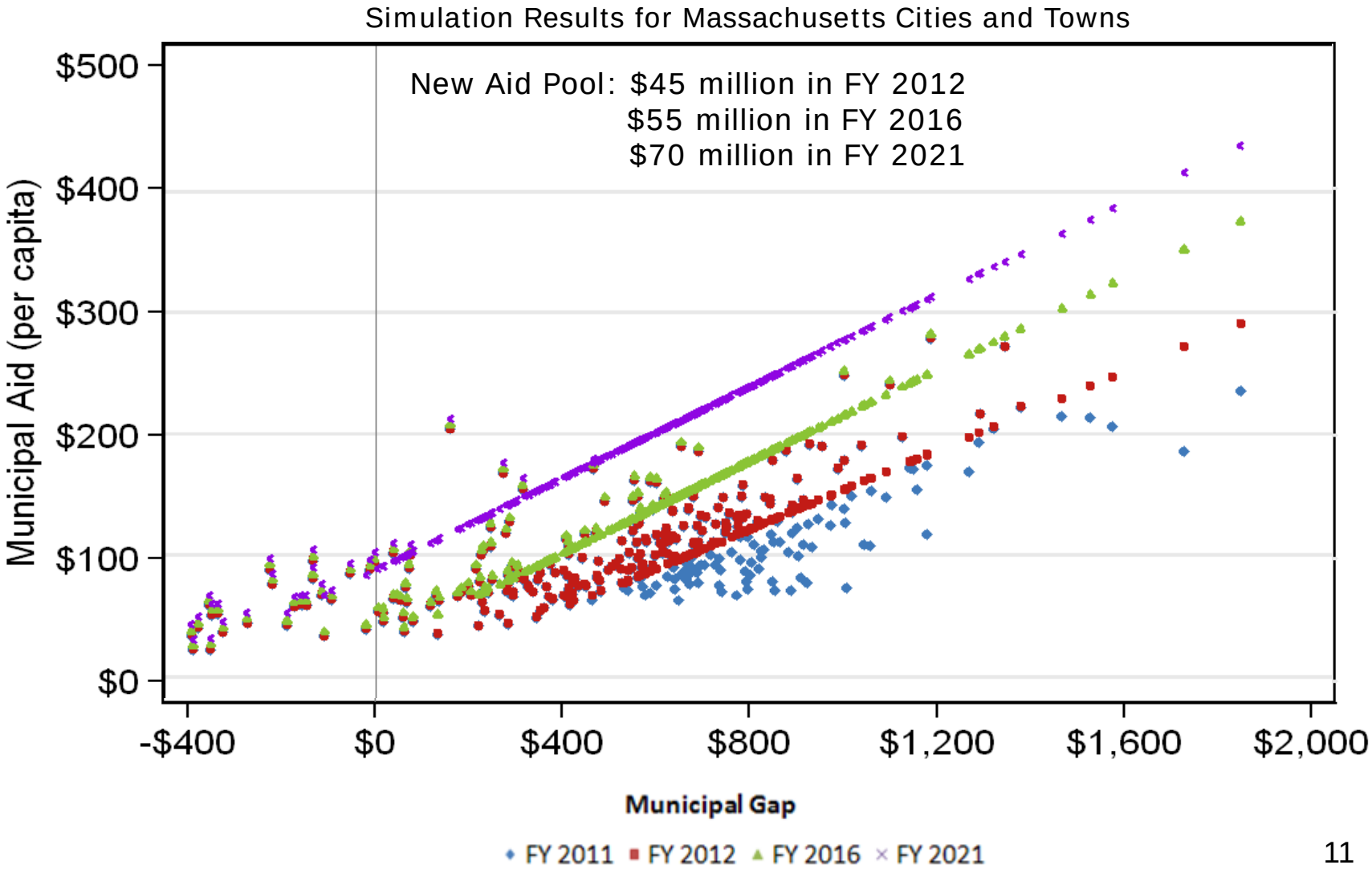
(per capita, FY 2011)



Proposed Approach to Distributing Aid

- Hold existing aid harmless to avoid disrupting local budgets (i.e., no municipality experiences reduction in local aid).
- All communities receive a per capita share of minimum new aid, regardless of the size of the municipal gap.
- Distribute equalizing aid to communities based on the municipal gap.
- Specific outcomes depend on policy choices, such as minimum new aid and the size of the new aid pool.

A gap-based approach can help the aid distribution become more closely related to the municipal gap in just a few years.



Conclusion

- Now is a good time for reform
  - Recent aid cuts mean that it will take less new aid to have a big impact
  - Agree on aid formula before recovery
- A gap-based approach offers a more workable, transparent, and equalizing municipal aid system.
- Policymakers may consider this approach as part of a larger reform package to address the fiscal difficulties faced by its communities.