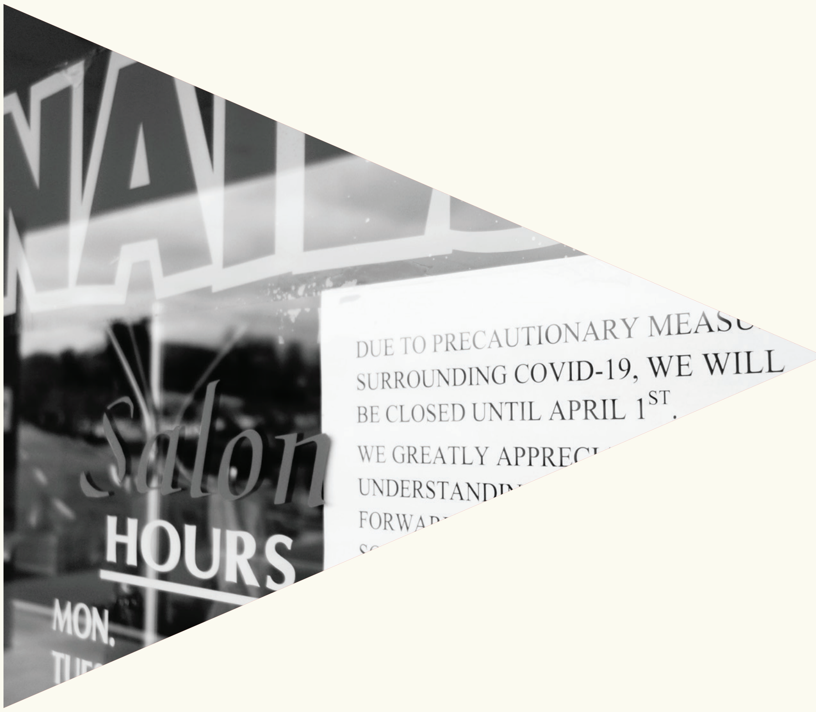
MetroCommon × 2050

Policy Recommendations

Dynamic and Representative Government

Expand and improve the way we finance local and regional government



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Recommendation: Expand and improve the way we finance local and regional government

Strategy 1: Ensure Sufficiency & Resiliency of Revenue for Meeting Local and Regional Needs

We have a once-in-a-generation opportunity afforded by the federal recovery funds to make the investments that can help repair and rebuild our economy and support those most impacted by the COVID-19 pandemic. Despite this short-term influx of funds, over time the state and our municipalities will face significant funding gaps in order to reach our region's long-term goals. Therefore, new sources of revenue will be required that are not subject to the whims of national politics. The reliability and resiliency of revenue vary depending on their source. Property and income taxes tend to be fairly stable, although climate change and sea-level rise could threaten property taxes over the longer term. The economic fallout from the pandemic dramatically reduced receipts from hotel, meals, and rental car taxes, although these may begin to recover as the pandemic recedes. Moving to more stable and predictable revenue sources over the long term is necessary to provide stable and effective municipal government.

- **Action 1.1:** Contain rapidly growing fixed costs while maintaining high quality services. Municipalities face unsustainable fiscal pressures in many areas that are largely out of their control, including high-growth fixed costs like health insurance and pensions, as well as public safety contracts. These costs are consuming an increasing share of local budgets, decreasing the amount available for meeting other priorities. Reining in rising healthcare costs, primarily through reforms at the state level, while maintaining high-quality health insurance for all municipal employees, would provide municipal and state budget relief. Research is also needed to suggest meaningful reforms to some of the provisions governing public safety contracts, including line of duty rules and the process governing disability retirements – along with the political will to implement these reforms.

  Rules governing binding arbitration through the Joint Labor Management Committee also require change. The ability-to-pay standard is unreasonable as it does not take into account other municipal spending priorities. A municipal legislative body has the ability to reject an arbitrator's award, yet this is politically unlikely in most cities. Current law forbids a municipal chief elected official from even recommending against a settlement, a limitation that should be revised.

- **Action 1.2:** Provide more flexibility to help municipalities weather economic downturns. One-time federal relief payments have helped provide some local budgetary stability. However, over the long-term, we know there will be future recessions and growing unmet needs in our cities and towns. Three actions would provide greater flexibility and resiliency for municipal budgets in future downturns: greater Proposition 2½ flexibility, establishing a state aid stabilization fund for Chapter 70 and Unrestricted General Government Aid (UGGA), and providing more flexibility for short-term financing.

Proposition 2½ significantly restricts growth in a municipality's ability to raise tax assessments year over year, preventing cities and towns from providing needed services. As discussed above, some costs rise much faster than 2.5% annually, such as health insurance. Moving some costs outside the limit of Proposition 2½ would provide much greater flexibility to meet local needs.

Some municipalities rely heavily on state aid as major portions of their budgets. While this is not a problem in a strong economy, this has a disproportionate impact on those communities with greater reliance on state aid during downturns. This generally includes some of the poorest communities in the state, where residents have a high dependence on local services. The state should create a stabilization fund that steers, say, ten percent of any increase in state aid into the fund, to be used for rainy days.

During economic downturns, such as the 2008 recession and the 2020 COVID-19 lockdowns, municipalities were exposed to fiscal losses they could not plan for and that forced cutbacks in needed services. While the Legislature has granted cities and towns limited powers to borrow additional short-term funds to help manage cash flow challenges, and has also allowed certain mandated payments (e.g., pension payments) to be delayed or spread over longer cycles during the downturn, waiting to legislate such changes until after a crisis has occurred is inefficient and damaging to local finances. The Commonwealth should therefore consider making such powers permanent and should make a range of short-term financing options available to cities and towns if certain economic triggers, such as unemployment increases, are met. The Commonwealth should build upon the relief made available through the American Rescue Plan and create tools that give cities and towns assistance immediately after a crisis emerges.

Action 1.3: Diversify local revenue sources, including moving away from such a high dependence on the property tax (perhaps completely away from Proposition 2½ over the long-term). Many of Greater Boston's communities have an overwhelming reliance on local property taxes to fund municipal operations. Some are as high as 95% reliant on this source. While generally a fairly stable source of revenue, the property tax is vulnerable to long-term threats posed by the impacts of climate change and is a highly regressive source of revenue. Property taxes can be a significant burden to low-income homeowners and renters, while also contributing to wide disparities in public school funding. Increased school costs and other municipal service demands are often cited as a reason to oppose new multifamily and affordable housing development proposals, further segregating the region and leading to a dramatic surge in regional housing costs.

Alternative revenue sources like increasing the income, capital gains, and corporate income taxes are discussed in the Enable Wealth Creation and Intergenerational Wealth Transfer recommendation chapters of this plan. Other options that should be considered are allowing a local option parking tax, district-based taxation, and the ability to use regional ballot initiatives to fund a variety of local or regional initiatives. Across the country, many transportation projects are paid for by local and regional ballot initiatives that typically use small increases in the sales or property tax to fund specific projects. Massachusetts does not currently have this option. S.1899 (Sen. Lesser) and H. 3086 (Reps. Madaro and Vargas) would allow through local option for communities to come together to jointly raise revenue for regional transportation investments.

Strategy 2: Provide new revenue and investment for climate, housing, and transportation capital infrastructure.

To meet our 2030 and 2050 climate goals, significant investments will be needed to modernize, electrify, and protect our public transportation system, as well as to build sufficient and climate-resilient affordable housing.

- **Action 2.1:** Create a regional Climate Infrastructure Bank. Building the electric infrastructure needed to reduce greenhouse gas (GHG) emissions and ensuring that our transportation, utilities, and neighborhoods are prepared for the impacts of climate change will require huge investments. A regional Climate Infrastructure Bank that can raise funds and prioritize investments across our region could be an important entity to lead this effort. Governance of such an agency should include state and municipal representatives, along with membership from communities that are most affected by climate change, including Environmental Justice communities. There are various ways such an entity could raise revenue, and perhaps the most promising is through a carbon tax. Gasoline taxes or the Transportation and Climate Initiative are two examples. Other sources could include one or more of the following: per-capita municipal assessments, impervious surface fees, or greenfield development fees.

- **Action 2.2:** Adopt the HERO (Housing and Environmental Revenue Opportunity) tax. Increasing the real estate excise tax to 9.12 percent could generate $300M per year that would be split between affordable housing and climate investments. A coalition of housing and environmental advocates are supporting this legislation in the 2021-22 session. H.2890 (Rep. Elugardo) and S.1853 (Sen. Eldridge) have been filed in the current session.

- **Action 2.3:** Create an affordable residential development circuit breaker. One of the reasons frequently cited by those opposed to residential and mixed-use development is that the new local revenues retained by the host municipality do not cover the increased costs of providing municipal services to the development. The Public Policy Center at UMass Dartmouth conducted a study of six mixed-income residential projects. The study showed that three out the six projects generated enough municipal tax revenue to cover the costs of their municipal services.

  Further, when the new state receipts – such as from the sales and income taxes generated by the developments – were included, the new developments generated positive revenues overall. In aggregate, municipal shortfalls could be covered by only a third of the new state receipts.[1] Building in a "circuit breaker" that would allow some portion of new state revenues generated from a new affordable or mixed-income development to be retained by the host municipality would ensure that development impacts are fully covered. It would also remove the objection that new development doesn't pay for itself. Another alternative could be to use one half of the circuit breaker funds to mitigate local impacts and to allocate the other half to a body such as the Climate Infrastructure Bank to meet needs on a regional basis.

1 The Costs and Hidden Benefits of New Housing Development in Massachusetts." Goodman, Korejwa, Wright. March 2016.

Strategy 3: Shift revenue generation and investment to provide greater fairness in funding and more equitable outcomes.

Many of our state-level revenue sources, formulas for allocating funding, and grant program criteria do not incorporate equity as a fundamental objective or guiding principle. The mechanisms we rely on to raise revenue places greater burdens on lower-income households and individuals, causing them to pay a greater share of their incomes as taxes. Some state and federal resource allocations prioritize population size or other factors over demonstrated need. We should rebalance how we raise and invest resources for a more progressive impact and to steer greater resources to communities and populations that could benefit the most from enhanced investments. Additional ideas for creating a more progressive tax code and providing more opportunities for intergenerational wealth transfer are contained in the Enable Wealth Creation and Intergenerational Wealth Transfer recommendations of this plan.

- **Action 3.1:** Make the sales tax more progressive. The sales tax is inherently regressive, as lower income individuals use a greater share of their income to pay the flat 6.25 percent applied to the goods subject to the sales tax. To reduce the burden on lower-income residents, the sales tax could be broadened to apply to services. The exemptions on certain goods could be expanded and the tax rate applied to other goods reduced. This could be a revenue-neutral change.

- **Action 3.2:** Fully fund the Student Opportunity Act (Chapter 132 of the Acts of 2019). This law directs additional resources to close the education outcomes found by race, in economically disadvantaged communities compared to higher income communities, for English Language Learners, and for children with disabilities. This landmark legislation has the potential to improve outcomes for K-12 students dramatically, but funding must be identified and allocated each year, and the first year of funding was rolled back due to the COVID pandemic. The Legislature is recommending an additional $220 million in the FY22 budget, fully funding the first year of the law. Advocates, however, believe because they are using lower enrollment numbers, an additional $90M is needed for full funding. The use of American Rescue Plan Act (ARPA) funds could help meet short-term needs, and new funding that might be provided by the Fair Share Amendment, should it pass, could provide the long-term dedicated revenue required to reach the promise of the Student Opportunity Act. Other ideas for promoting more equitable educational funding include having the state pick up costs for English Language Learners and for Special Education.

- **Action 3.3:** Review federal and state funding formulas and grants for ways to improve equity. Many state and federal funding formulas were established generations ago without a fundamental emphasis on directing resources to where they are most needed or to advance equity. One recent example was the federal allocation of the American Rescue Plan Act (ARPA) funds to municipalities following the Community Development Block Grant (CDBG) formula. This resulted in inadequate allocations to several communities greatly impacted by COVID-19 that are home to high percentages of people of color, low-income residents, and immigrants. In many cases, they received much lower funding amounts than relatively higher-income communities. The Baker Administration was able to make these communities “whole” through additional allocation of state-controlled resources. However, reviewing federal formulas like CDBG and state formulas like Unrestricted General Government Aid (UGGA) and grant programs, such as MassWorks, will likely uncover opportunities to prioritize resource allocation in underserved and overburdened communities.

- **Action 3.4:** Research disparities by race and ethnicity in the impact and administration of the property tax. The property tax has historically been a fairly stable and consistent source of revenue for municipal operations, but there have been long-standing concerns about the disparities in the impact on lower income neighborhoods and on racial and ethnic minorities. Recent research indicates that accessing practices including valuation and the granting of tax abatements may have disparate impacts based on race and ethnicity. [2, 3] Further research is needed to explore potential disparities in assessing practices and to recommend reforms.

2 The Assessment Gap: Racial Inequalities in Property Taxation. Avenancio-Leon and Howard. Opportunity and Inclusive Growth Institute, Federal Reserve Bank of Minneapolis. July 2020.

3 Property Tax Limitations and Racial Inequality in Effective Tax Rates. Martin and Beck. Critical Sociology. 2017 Vol. 43(2)).