TAX LIMITATION INITIATIVES — THE MASSACHUSETTS EXPERIENCE

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The last four years have been history-making, even for a state like Massachusetts that is accustomed to making history.

Four years ago, Proposition 2½, our version of a property tax limitation, was adopted as an initiative by the citizens of the commonwealth. The November 1980 referendum passed with an overwhelming 59 percent of the vote.

Essentially, Proposition 2½ sets a ceiling on the amount that can be levied by the property tax to 2.5 percent of the total property valuation of a community. For those who are below 2.5 percent, the increase in levy is limited to 2.5 percent each year. There are ways that the voters in a municipal election may override the limit, either by voting to raise a larger levy or by voting to exempt debt from the levy limit.

The law also cut the motor vehicle excise tax from $66 per thousand to $25, ended fiscal autonomy for school committees, rescinded "last and best offer" arbitration for police and fire personnel, and prohibited the state from passing any law which imposed new costs on the communities without reimbursement for the expenses entailed in carrying out the mandate.

The campaign was a vigorous one, abounding with predictions from local officials and unions of the direst of consequences for local government.

History

Given that preamble, let me set the stage just a little more.

I'm sure you're aware that in Massachusetts — in all of New England, in fact — the reliance on the property tax for local revenues is strong. The property tax supports not only general municipal administration, but also education and other services often borne by counties and districts in other states.

In the 1970's, local spending and the property tax were climbing steadily. As the decade neared its end, taxpayers were beginning to stir. Recognizing these concerns, the state legislature set a *4 percent cap* on local spending for Fiscal 1980 and 1981. For the first time since World War II, The FY80 levy decreased statewide — albeit by just 1 percent — to a total of $3 billion. Two-thirds of the communities maintained or lowered their rates in the first year of that cap.

The *next year*, however, the second year of the 4 percent cap, the levy rebounded. The jump was perhaps the single largest in recent history, going from $3 billion to $3.4 billion — nearly a 12 percent increase.

What had happened was that a great many communities took advantage of a provision which allowed them to override the cap with a two-thirds vote of the local town meeting or city council.

As fate would have it, these increased taxes were reflected on bills which were mailed to taxpayers shortly before the election of November, 1980, the ballot on which Proposition 2½ appeared. The rest is history.

The Incentive to Revalue

One major chapter in the implementation of this tax limitation is the tale of revaluation — the effort to assess property at 100 percent of fair cash value.

The limitation imposed by 2½ is measured against "full and fair cash value" of taxable property in a city or town. This standard is well-established in the law of the commonwealth and grounded in the constitutional requirement that direct taxes on persons and property be proportionately and reasonably imposed. Nevertheless, locally-assessed property values prior to the mid-1970's rarely reflected current market values.

Then a 1974 State Supreme Judicial Court order which stimulated statewide enforcement by the Massachusetts Department of Revenue did stimulate significant movement toward the goal of full and uniform assessments. For many, a revaluation and the resulting higher values lessened the reductions necessitated by the law. In communities which were required to reduce their spending over a number of years to get "down" to 2½ percent of fair cash value, a revaluation eased much of the pain.

Once at that 100 percent, the municipality may legally choose to do what a number had been doing all along — although not so legally. Because of a constitutional amendment adopted by the voters in 1978, cities and towns can choose to set, within certain limits, different tax rates for different classes of properties. This so-called "classification amendment" prevented the homeowner from extreme jumps in his tax bill which would have come as cities and towns which had been assessing businesses disproportionately moved toward 100 percent assessed values.

As a result of Proposition 2½ and the consequent incentive to reach 100 percent, Massachusetts is in the rare — if not the unique — position of having virtually every one of its cities and towns now assessed at full and fair cash value.

And we intend to keep it that way.

Increased State Aid

The second important chapter in the implementation of Proposition 2½ is the substantial commitment the commonwealth made to "share the burden" of meeting the tax limits with the cities and towns. To put it simply, doomsday did not arrive because the Governor and the legislature have put a lot of their attention into increasing local aid to communities.

Local aid is the real story of what has happened in Massachusetts.

In the year before that 4 percent tax cap went into effect, the state had increased its assistance to cities and towns by 22 percent. *Another* 18 percent was returned in the first year of the 4 percent cap. During the same period the commonwealth assumed the costs of the court system, thus reducing other municipal costs. Local aid stayed at that new high level for FY81 and then increased again in the first year of 2½ (FY82).

There was another increase in FY83 and in FY84, the present Governor, Michael Dukakis, kept his promise to allocate 40 percent of the increase in state growth taxes as additional local aid. The local aid thus increased by $175 million two years in a row — Fiscal 83 and 84, both in the 9 percent range.

And now, for Fiscal 85, the number has gone up once again by 9 percent and the grand total of local aid is some $2.5 billion out of a total state budget of $8 billion.

Effects on Spending and Levies

There's still more to the story when you see the total numbers for spending. That's where the impact of local aid is inescapable.

In the first year of 2½, FY82, *spending* by the state's 351 cities and towns dropped by some 2 percent (that's about $100 million worth). The levy, however, dropped over 9 percent (some $300 million).

In that first year, 301 of the cities and towns decreased their tax rates. Another 22 maintained their rates and only 27 increased.

In FY83, the second year of 2½, spending was on the increase again — up by 4 percent, but the total levy continued to drop. It was down statewide by 3 percent to a level of $2.9 billion.

In that year, tax rates went down in 233 of the cities and towns and increased in almost 100. Twenty-one rates stayed the same.

All the figures for FY84 are not in yet — we still lack 12 tax rates — but so far spending is up another 2 percent while the levy shows a 2 percent decrease. Something over half of the cities and towns show an increase in their tax rates at this point.

FY84 spending was at the $5.8 billion level, not so very far ahead of the $5.67 billion it was in the pre-2½ year of FY81.

Public Service Priorities

The increase in state assistance to cities and towns over the past four years is a major reason why I do not come here today with a thick report on how municipalities have gone about setting public service priorities in the wake of a tax limitation.

Cutbacks have not been as severe as predicted, with a few exceptions. Where cuts were made, schools were the most immediate target. School officials will tell you they've borne more than their share; other municipal officials will tell you the schools had the most room to cut, particularly in times of declining enrollments.

Library and park and recreation services were hurt in the initial period of cuts. There is recent evidence that these services deserve a higher priority.

Public safety has fared well. Apparently elected officials have followed public sentiment when they chose not to make cuts in police and fire services.

In the future, older urban centers with a poorer tax base will have to weigh the demand for police and fire services with special and bilingual education demands of recent immigrants. A mini-baby boom which the commonwealth is presently experiencing will also alter future municipal service demands.

Many cities and towns sought to insure the delivery of quality services by increasing fees for permits and licenses. In addition, they also sought to establish self-sustaining operations, particularly in water and sewer systems.

Effect on Intergovernmental Relations

The increased reliance of cities and towns on state aid has already been noted.

One aspect of Proposition 2½ which has a long-range effect on intergovernmental relations is the provision that state-mandated programs must be fully funded. Cities and towns must be reimbursed for any direct cost of implementing statutes or administrative regulations.

Issues to Be Resolved

To date, all major efforts to amend the provisions of 2½ have been defeated. Tax limitation advocates have been successful in convincing state political leaders that a bees nest awaits those who would tamper with the limitation law.

Local aid has made it possible for communities to weather the storm. It may also be masking the urgency with which the municipalities must address the major issues presented by 2½ — the level of spending and services desired by the taxpayers. Local aid at least has postponed much of the discussion about priorities that had been expected to take place.

There are two areas that do worry me; two areas that have come out the losers when choices have had to be made.

One is the deferral syndrome — the tendency to postpone infrastructure expenditures and maintenance to meet budget constraints. As you well know, this deferral can only mean higher costs in the future. I can be somewhat encouraged, though, by the fact that when the voters do accept an override or do agree to exclude debt from their levy limit, most often the money is earmarked for capital purposes. The deferral concern is recognized by political leaders who advocate the creation of an infrastructure bank.

My second concern is the loss in management capability which many cities and towns have experienced. My own public service priority would provide for increased professionalism and innovation in municipal management. Yet some communities which had developed strong financial staffing eliminated some mid-level management positions to trim the budget. Other mid-level managers have "flown" to the private sector, given the limited rewards and increasing demands in the public sector.

Yet this is the very time when we need people trained to set priorities, develop alternatives, identify operational and system weaknesses, and do long-range planning. My own division is moving positively into developing the technical assistance capacity to assist cities and towns to fill this gap in expertise.

Finally, I do have a public service priority that is, perhaps, one that is rarely considered by those in the public sector. I put high on the list of priorities the idea of *marketing* our services. We too often take it for granted that the citizens know and appreciate what we do and that there is little we can do to enhance that knowledge and appreciation. I suggest otherwise.

I suggest that more and more we need to take direct initiatives in informing the citizenry, in explaining the basis for our municipal service delivery costs, in sharing with them the daily choices we face.

Perhaps Proposition 2½, the other tax limits across the land, and some of the events in recent history have brought us to the time when we can realize that one of our major tasks is to be in touch with the people and to enlist them in the responsibilities of democratic government.

I ask that you make that message — the need to market public services — one of those that you take back to the officials and citizens that you work with every day. And I thank you now for allowing me to bring the message from Massachusetts to you today.

WATER POLICY