

BUILDING A SUSTAINABLE FISCAL FUTURE. BEST PRACTICES FOR STABILIZING REVENUE AND EXPENSE TRENDS

MILTON MASSACHUSETTS AS A MODEL TOWN



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Policy Analysis and Recommendations

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EXECUTIVE SUMMARY

The Town of Milton relies on the property tax to fund local services. Local aid from the Commonwealth of Massachusetts shrank dramatically as a result of the Great Recession of 2008/2009. But the property tax may have its limits as a source of revenue, and best practices advise that Milton consider other alternatives. This analysis assesses current trends and risks in a very difficult economic environment, considers some policy alternatives and delivers recommendations.

DEFINING THE PROBLEM

The Town of Milton relies on the property tax to fund local services. Local aid from the Commonwealth of Massachusetts shrank dramatically as a result of the Great Recession of 2008/2009, and has not yet returned to pre-2009 levels (see Table1)¹. Milton has relied on the property tax to replace State Local Aid and the property tax now stands at close to 80% of total revenues (See Figure1, Figure2).²

The Town of Milton Massachusetts has provided a high-level of services to its citizens over a long period of time. Milton Town officials have tried to limit increases in costs by carefully negotiating municipal employee contracts, and encouraging new business growth and business tax receipts. But costs continue to rise and the expenses for this town are growing at a faster-rate than revenues. Milton has relied on increases in the property tax to fund services. With the passing of Proposition 2½ in 1980, political conflict over tax increases has grown increasingly sharp. As a reminder, Proposition 2½ limits property taxes to increases of 2.50% over the prior year's levy – local governments may not increase taxes over this limit without approval from voters with a vote to override the limit. Cities and towns also may not tax over the full and fair value of all real and personal taxable property without an override approval from voters³. The conflict has so divided the citizen population that it is natural to wonder when the property tax as the backbone of Milton's source revenues will reach its limit.

TABLE 1
Source, MA DOR

FY2015 Local Aid Estimates Milton								
<u>LOCAL AID:</u>	FY2009 Cherry Sheet	FY2010 Cherry Sheet	FY2011 Cherry Sheet	FY2012 Cherry Sheet	FY2013 Cherry Sheet	FY2014 Cherry Sheet Estimate	FY2015 Governor's Budget Proposal	Increase (decrease) to 2015
Education:								
Chapter 70	4,786,872	4,691,135	5,474,895	5,504,287	5,765,928	5,869,609	5,964,022	1,17
School Transportation	0	0	0	0	0	0	0	
Charter Tuition Reimbursement	35,390	11,850	33,875	60,791	6,435	12,038	17,169	(1E)
Smart Growth School Reimbursement	0	0	0	0	0	0	0	
Offset Receipts:								
School Lunch	21,022	23,498	20,703	25,200	25,743	25,674	26,166	
School Choice Receiving Tuition	0	0	0	0	0	0	0	
Sub-total, All Education Items:	4,843,284	4,726,483	5,529,473	5,690,278	5,798,106	5,907,321	6,007,357	1,16
General Government:								
Unrestricted Gen Gov't Aid	3,833,391	2,831,002	2,717,762	2,521,257	2,717,762	2,782,004	2,782,004	(851)
Local Sh of Racing Taxes	365,665	0	0	0	0	0	0	(36E)
Regional Public Libraries	0	0	0	0	0	0	0	
Police Career Incentive	266,423	47,966	26,307	0	0	0	0	(26E)
Urban Revitalization	0	0	0	0	0	0	0	
Veterans Benefits	0	19,954	23,408	29,012	107,086	92,910	75,466	7
State Owned Land	608,701	548,358	544,835	564,321	564,503	575,666	701,272	9
Exemp: VBS and Elderly	132,066	129,153	122,285	115,888	113,561	108,589	105,280	(2E)
Offset Receipts:								
Public Libraries	31,130	19,609	21,049	21,071	22,076	22,657	25,088	(E)
Sub-total, All General Government	5,037,376	3,596,042	3,455,646	3,251,549	3,524,988	3,581,826	3,689,110	(1,34E)
Total Estimated Receipts	9,880,660	8,322,525	8,985,119	8,841,827	9,323,094	9,489,147	9,696,467	(184)
\$ Increase(decrease) from prior year		(1,558,135)	862,594	(143,292)	481,267	166,053	207,320	
% Increase(decrease) from prior year		-15.77%	7.96%	-1.59%	5.44%	1.78%	2.18%	-1
Net local Aid:								
Local Aid Estimated Receipts	9,880,660	8,322,525	8,985,119	8,841,827	9,323,094	9,489,147	9,696,467	(184)
Local Aid Assessments	3,471,439	3,632,782	3,353,710	3,324,446	3,269,605	3,330,252	3,474,977	
Net local Aid	6,409,221	4,689,743	5,631,409	5,517,381	6,053,489	6,158,895	6,221,490	(187)
\$ Increase(decrease) from prior year		(1,719,478)	941,666	(114,028)	536,108	105,406	62,595	
% Increase(decrease) from prior year		-26.83%	20.06%	-2.02%	9.72%	1.74%	1.02%	-2

Figure1, Property Tax as Percent
Source, Town of Milton Historical Budgets

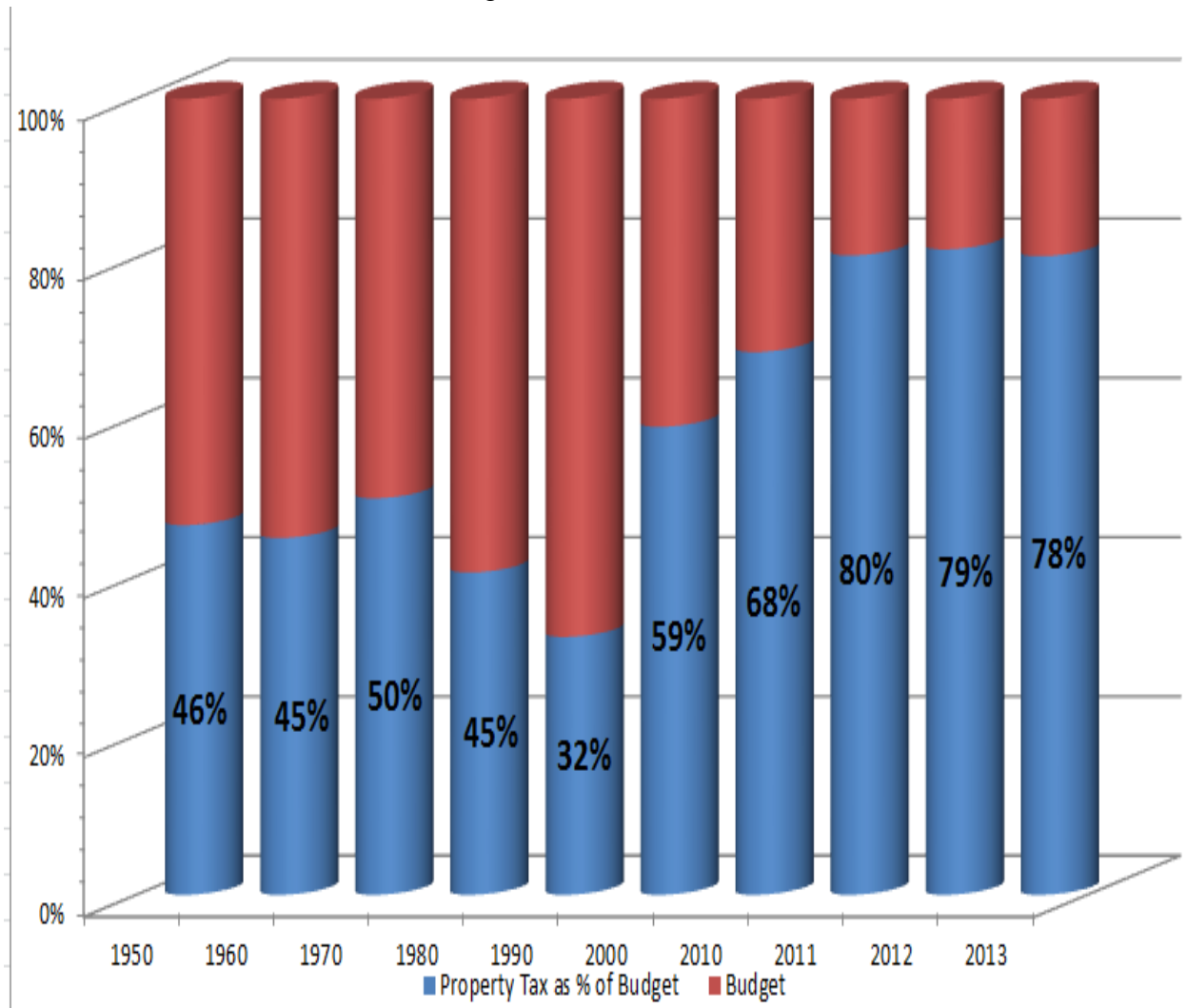
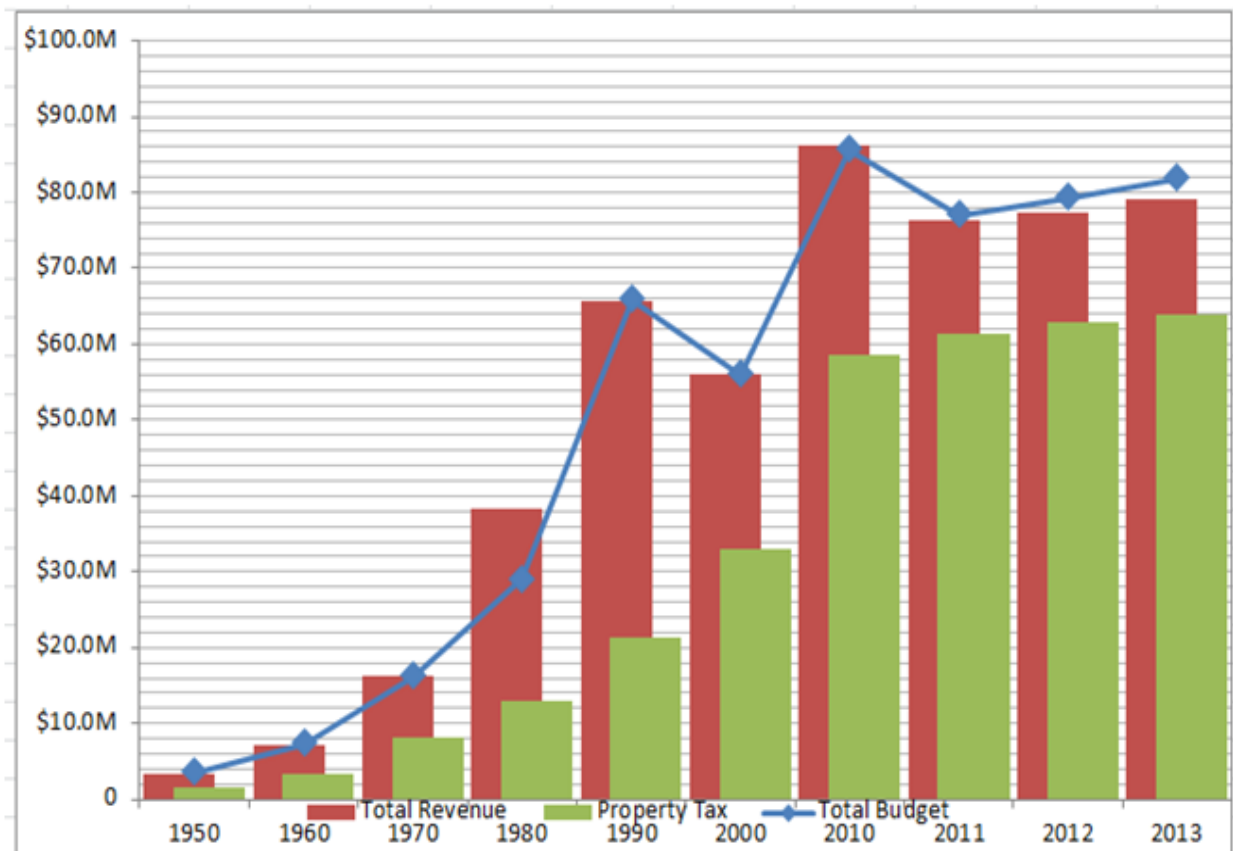


Figure2, Property Tax Growth in \$ Millions
 Source, Town of Milton Historical Budgets



Milton has tried and succeeded in making its commercial tax base larger with several new restaurants and a few new businesses. The net additional revenues from broadening Milton’s tax base have been incremental though (hundreds of thousands of dollars), rather than of a size to change the structure of revenues and expenses (millions of dollars). The history for Milton in recent years is that revenues grow at a rate of about 1.50% per year, while expenses grow at about 3% or more per year. The growth in revenues is tied strongly to the property tax, and expenses are driven largely by labor costs and union contract negotiations. Careful negotiations of municipal employee contracts has slowed the growth-rate of labor costs, but not enough to right the present “imbalance” in the growth-rate of labor costs vs. the slower growth-rate of revenues. Cost of Living Adjustments (COLAs) may be slowed with careful negotiations, but balance of compensation costs (pension benefits, step-increases, merit-increases, education-increases) mean that the real growth-rate in the costs of municipal labor exceed the COLAS negotiated of 1-3.5%, by significant margins.

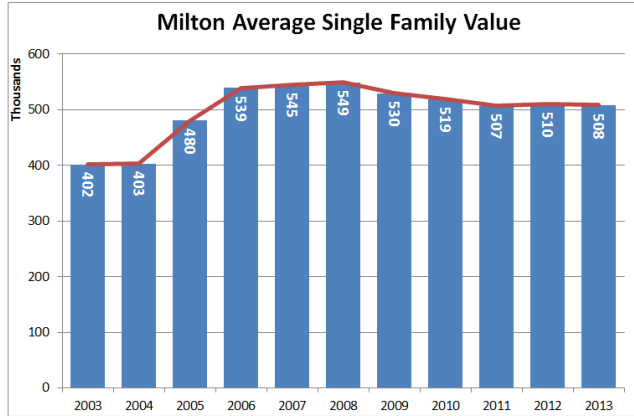


Figure3, Milton Average Property Values
Source, MA DOR

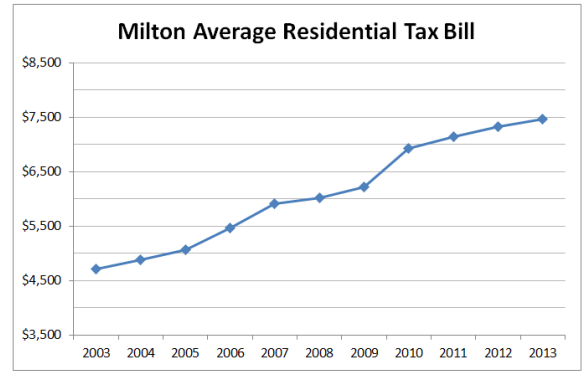


Figure4, Milton Average Tax Bills
Source, MA DOR

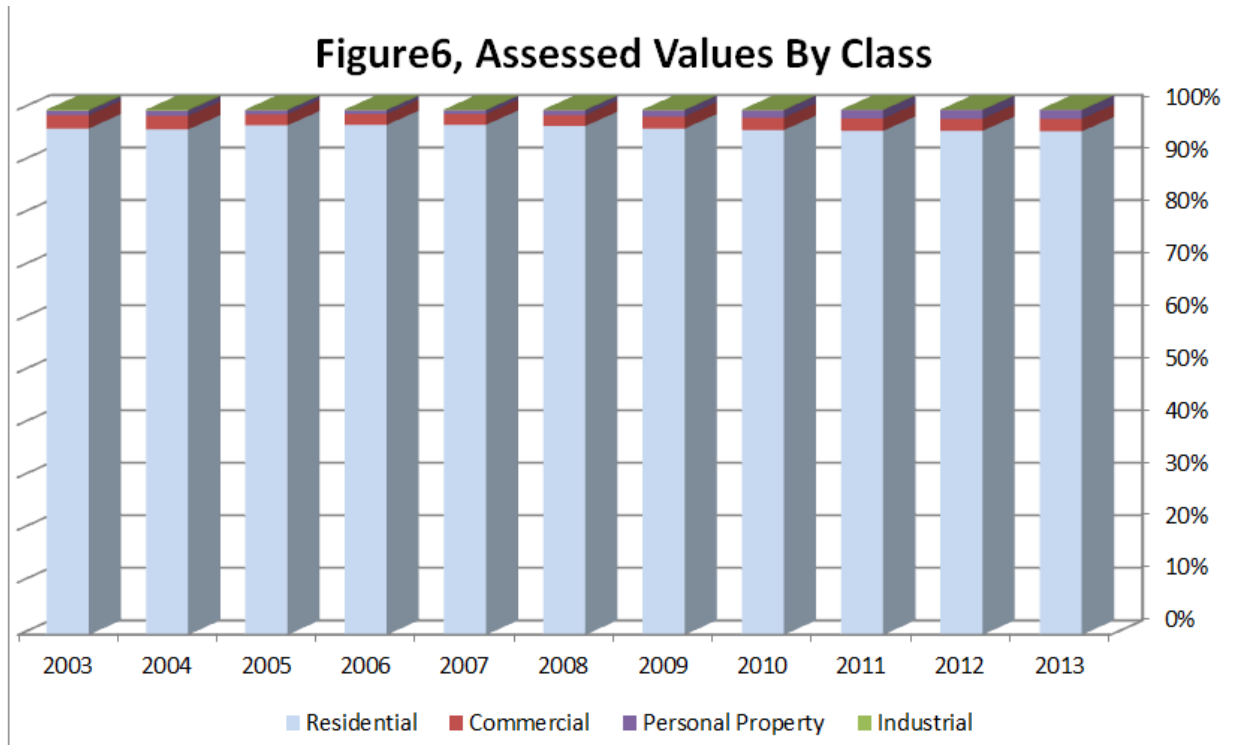
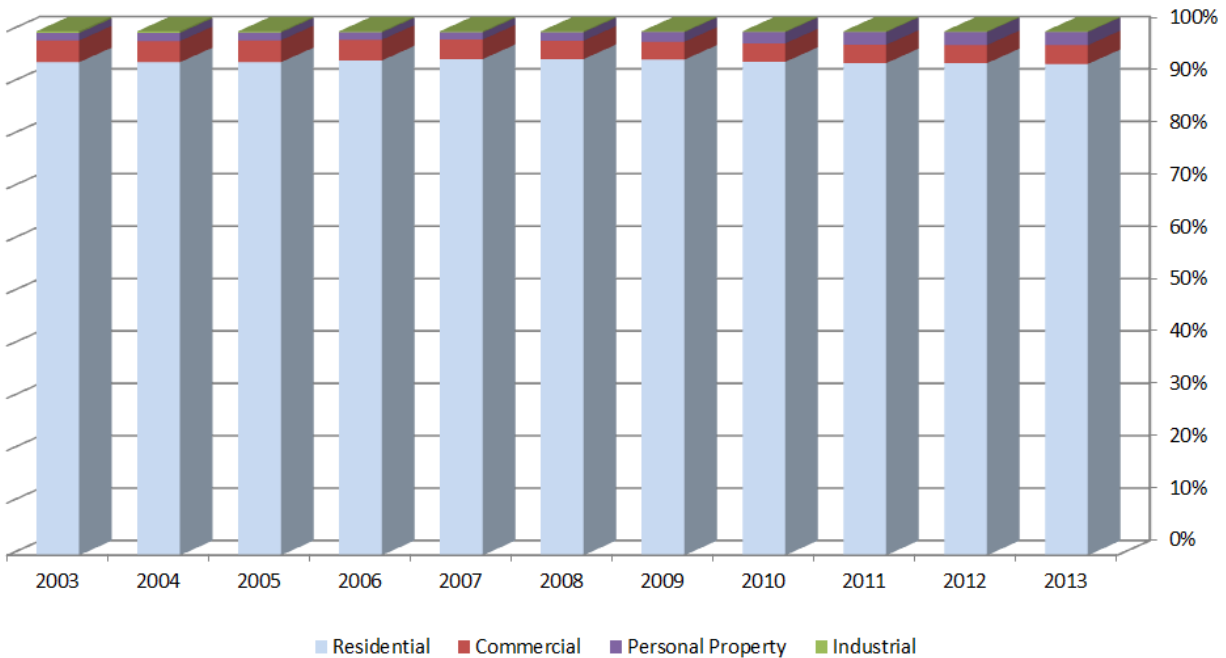


Figure5, Tax Levy Values By Class



Education and The School Department are the largest expenses for the Town of Milton, as it is for many other communities. The teachers union is large and strong in Massachusetts, as it is in many other states. If the Milton Warrant Committee (Budget Group) recommends level-funding and the Town Meeting Members vote and approve the recommendation, teacher contracts are not affected. The only real effect to level-funding on the School Department is layoffs, which also accrue to the Police and Fire Departments. The cost-of-living contracts for teachers and fire and police may be 2% per year at the low-end, and 3-3.5% at the high-end. But the real cost-increases include built-in step raises for merit, completion of certifications and further education so department increases in total may be more in the range of 4-5% in some years. Obviously, this is an unsustainable fiscal path.

The property tax is a regressive tax, and it can be particularly onerous to elderly voters who are on fixed-incomes. Other voters can be more sanguine and are disposed to see property tax increases as an unfair burden, or even perhaps government spending run amok. Voters who are “in favor” of property tax increases are often tied to the issue because they have children in the public schools. Besides the issue of equal treatment for citizens, the property tax is one of the most stable sources of revenue there is, and that is why it is hard to replace.

Deborah Stone (1989) provides some analysis for this construct of policy⁴. At its heart the property tax as used for local funding is a purposeful act with intended outcomes, to what to fund local services. The intended outcomes are realized, local services are funded. However, unintended consequences also occur, when the burden of supporting local services falls only on

those who own property in the town. Further, lower-income property owners face a higher relative burden along with elderly property owners on fixed incomes. Causal coalitions abound when Proposition 2½ votes to raise the property tax above the 2.50% baseline occur. Heated debate often happens, and causal stories for both sides flourish: “Teachers are over-paid”, “Teachers, Police, Fire are under-paid”, “the schools are mismanaging their budgets”, “the Town is mismanaging its budget” just to name a few. This debate contributes to the resolution of the immediate perceived problem of resolving funding (or not) for at least one more year. But the unintended consequence is that no one really focuses on the broader issue – that local and state governments both face costs for services that continue to outstrip the growth of revenues.

GOALS AND OBJECTIVES

The research outlined above strongly indicates that Milton and other communities face an increasingly defining moment in the management of local revenues and funding services. It is getting harder to provide quality services, and even adequate services, on a national scale. The explicit goal of policy implementation is to find incremental means of reducing budgetary pressures, while recognizing that larger or global issues are linked for ultimate solutions.

POLICY ALTERNATIVES

1. Maintain the Status Quo

Implementing this policy is easy. - Just make no changes to budget management in Milton at this time. Continue to grow a limited business tax-base and carefully negotiate municipal labor contracts to slow the growth-rate of labor costs.

2. Community Preservation Act (CPA)

The Community Preservation Act allows a portion of property taxes to be channeled into a revolving fund for specific uses, buying and preserving open spaces, and also maintaining historic buildings. The CPA can be an incremental change to maintain and improve community buildings and open spaces.

3. Payments in Lieu of Taxes (PILOT)

This measure calls for agreements with non-profits and other tax-exempt institutions with significant land holdings in town to make voluntary payments (e.g., Milton Academy, Curry College, Milton Hospital). The theory is that tax exempt institutions use Town services (e.g., Police, Fire, Emergency Services) and they should help to fund those services. The PILOT can be an incremental change to provide some relief on the budget.

4. Revolving Funds

This measure would allow the Fire Department and perhaps the Town DPW to start and maintain revolving accounts to fund repairs/retrofits for department buildings, and to use fund-raising activities to grow the revolving accounts. This is another incremental change or nudge towards making positive steps to relieve budgetary pressures.

5. Global Solutions

Global solutions go beyond incremental approaches that are practical in Milton. Global Solutions include the considerations of examining Wisconsin's Budget Repair Bill (BRB)/Act 10 passed in 2011 which limited collective bargaining rights for state and municipal workers, and also restructured the state and municipal pension system by reducing defined benefits, changing the plan to a defined contributions plan and requiring increased contributions by employee members. Could Wisconsin's BRB/Act 10 serve as a model bill for changes in Massachusetts? Rhode Island also restructured its state pension plan by passing the Rhode Island Retirement System Security Act (RIRSA) in 2011, following Wisconsin's legislative lead and RIRSA could be another model bill for Massachusetts to consider. Pension-costs can lead to fiscal stress and even insolvency for state budgets, as Underfunded Pension Plans or Unfunded Actuarial Accrued Liabilities (UAALS) can and do become payable from general revenues when the plans have exhausted accrued assets to pay the pension liabilities due.

Global solutions call for education and actions by Town public officials, administrators, labor leaders and political actors to embrace and educate citizens to realize that Milton does not operate in a vacuum. - Broader measures are necessary to generate other funding. The property tax is fast approaching real and hard limits. Milton must find ways to contribute to state and national economy solutions. Stronger state and national economies should mean higher contributions of local aid from state and federal sources. Conversely, weakening state and national economies means less reliable local aid, and a continuing reliance on the property tax to fund services.

POLICY EVALUATION

1. Effectiveness. Effectiveness is a measure of how well the policy is projected to improve funding for Milton town services and lessen reliance on the property tax.
2. Efficiency. Efficiency is a measure of cost-effectiveness. For a given investment of resources, what is the rate of return?
3. Feasibility. Feasibility is the measure that indicates whether a given policy is likely to be implemented. Low indicates a policy will be harder to implement in practice, while high indicates a policy will be relatively easier than other policies to implement.
4. Equity. Equity is a measure of how evenly a policy affects citizens in Milton, and improves funding for all services. Low indicates a policy has less benefit to all citizens, while high indicates relatively more benefit to all citizens of Milton.

PROJECTED OUTCOMES

	EFFECTIVENESS	EFFICIENCY	FEASIBILITY	EQUITY
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STATUS QUO	LOW	LOW	HIGH	LOW
CPA	LOW	MEDIUM	LOW	LOW
PILOT	MEDIUM	MEDIUM	MEDIUM	LOW
REVOLVING FUNDS	MEDIUM	HIGH	MEDIUM	LOW
GLOBAL SOLUTIONS	HIGH	HIGH	LOW	MEDIUM/HIGH

1. Status Quo.

Maintaining the status quo is not effective. Current budget policies rely on the property tax as the main source of revenue to fund services. Current trends indicate that this revenue source will soon peak and become less robust in the future for the Town of Milton. This policy choice is not efficient either – it cannot continue to fund Town services. Indirect costs can be very high – if Town services cannot be funded, quality of life issues will be negatively affected (Public Safety, Public Education, Property Values can decline). This option is highly feasible as it requires no further actions or investments. Equity is low because education services will likely degrade along with other services, adversely affecting some citizens and children more than others (those with less wealth).

2. Community Preservation Act (CPA)

The Community Preservation Act allows a portion of property taxes to be channeled into a revolving fund for specific uses, buying and preserving open spaces, and also maintaining historic buildings. The CPA can be an incremental change to maintain and improve community buildings and open spaces. The current Milton Fire Department HQ was built in the late 1800s and is outdated and has health and safety issues present. Other Fire Department stations also are in need of upkeep and retrofit. Efficiency is rated medium as the CPA has the potential to fund restoration/retrofit of some Town facilities by encapsulating some revenues in a fund that can only be used for narrow purposes. – General revenues are quickly divided between the departments of the operating budget, with no funds left to make repairs to town facilities. Feasibility is low, as this measure was voted down at a recent annual Town Meeting - to reintroduce this measure is likely to have a similar result. Equity is also rated low as the CPA will benefit some particular areas of the budget while not helping in other areas.

3. Payments in Lieu of Taxes (PILOT)

This measure calls for agreements with non-profits and other tax-exempt institutions with significant land holdings in town to make voluntary payments (e.g., Milton Academy, Curry College, Milton Hospital). The theory is that tax exempt institutions use Town services (e.g., Police, Fire, Emergency Services) and they should help to fund those services. This measure is rated medium for effectiveness as it has potential to raise significant revenues to fund services. Feasibility is rated as medium because any new proposal for tax increases in Milton receives very high scrutiny, but targeting those institutions presently exempt from property taxes might be seen as an “equalizing measure”. Equity is rated as low because it targets a particular segment of the community for higher taxes.

4. Revolving Funds

This measure would allow the Fire Department and perhaps the Town DPW to start and maintain revolving accounts to fund repairs/retrofits for department buildings, and to use fund-raising activities to grow the revolving accounts. This measure is rated as medium for effectiveness as it may provide funding for critical areas within the town budget that have been underfunded for decades. Efficiency is rated as high because this measure has the potential of dramatically affecting particular areas of the budget. Feasibility is rated as medium because the Town has a history of other fund-raising ventures, notably a multi-million dollar rebuild/retrofit of the Milton Library (Friends of the Milton Library), and also The Milton Foundation for Education which raises money to contribute to areas of the K-12 public schools in Milton (e.g., computer labs, science labs, other resources). Equity is rated as low because the revolving funds target particular areas of the budget, and funding will come from those who choose to donate.

5. Global Solutions

Global solutions go beyond incremental approaches that are practical in Milton. Global solutions call for education and actions by Town public officials, administrators, labor leaders and political actors to embrace and educate citizens to realize that Milton does not operate in a vacuum. - Broader measures are necessary to generate other funding. The property tax is fast approaching real and hard limits. Milton must find ways to contribute to state and national economy solutions. Stronger state and national economies should mean higher contributions of local aid from state and federal sources. Conversely, weakening state and national economies means less reliable local aid, and a continuing reliance on the property tax to fund services. Global solutions are rated high for effectiveness – a rising tide lifts all boats. Global solutions are rated high for efficiency – if we can trigger positive developments, it can be a powerful force. Feasibility is rated as low – it seems highly unlikely that Town administrators or political actors will formulate or take any actions to address any issue not immediately within the scope of the Town budget. Equity is rated as medium/high as most or all will benefit from broad and general improvements to the state and national economy.

POLICY RECOMMENDATIONS

In the complex and evolving economic environment we are in, it makes sense to take both small and large steps to achieve objectives. In that vein, the recommendation is NOT to maintain the Status Quo. Instead, embrace all practical alternatives available, and continue to press voters and political actors in Milton to try to see the larger picture. The property tax cannot carry Milton through this century and into the next. Indeed, the property tax will likely have strong limits to its ability to fund local services in a much shorter timeframe.

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Endnotes

¹ Table1, Source Commonwealth of Massachusetts, MA DOR, retrieved from <http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/cherry-sheets/2015-cherry-sheets/>

² Figure1, Figure2 are compiled from Town of Milton Historical Budget records. Town of Milton, MA Budget documents for 1950 to 2010 by decade. Milton Public Library, Reference Room. Not available online. And, Town of Milton, MA Basic Financial Statements for 2013, 2012, 2011, retrieved online from http://www.townofmilton.org/Public_Documents/MiltonMA_Accounting/accounting

Figures 3-6 are compiled from data from The Commonwealth of Massachusetts, MA DOR. Retrieved from <http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/property-tax-information.html>

³ MA DOR, “Levy Limits: A Primer on Proposition 2½”, retrieved from <http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf>

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