

Rural Policy Plan: Municipal Financial Capacity Constraints Chapter

Section 1: Goal

The Commonwealth should help rural municipalities increase and diversify revenue sources. Rural municipalities face serious financial constraints when budgeting to provide important services to their citizens. State and federal laws and regulations both mandate spending and limit sources of revenue.

Section 2: Key Issues

General Description of Focus Area and Issues

Rural municipalities have limited sources of revenue to fund local budgets, and are heavily reliant on property taxes. Cost increases often outpace the ability to raise revenue, and a limited tax base reduces the amount of revenue that can be raised because tax-exempt property often comprises a large percentage of total acreage in rural towns. State funding formulas often skew toward more populated municipalities and a lack of prior fiscal analysis of state legislation can negatively impact town finances.

Examples That Highlight the Issue

1. Proposition 2½ limits the yearly property tax levy. Several towns are approaching tax levy and rate ceilings which remove their ability to raise additional revenue by override. For example, Heath has a \$21.60 tax rate and zero override capacity.¹
2. Cost increases in items like health insurance, school assessments and capital projects often outpace the ability to raise revenue, forcing reductions in other budget lines. Prevailing wage requirements add extra cost to tax-payer funded projects.
3. Adding to the financial squeeze is the limited tax base in rural towns. Residential property owners bear the vast majority of the tax burden due to:
 - a. Limited amounts of commercial property. 97.4% of Mount Washington's total tax levy is on residential property.²
 - b. Non-taxable land owned by public, non-profit, religious or charitable organizations. 58.8% of Mount Washington's land is owned by the state.³
 - c. Property classified as "chapter land" (MGL Chapters 61, 61A and 61B).

Payments in lieu of taxes (PILOT) are required for publicly-owned property, but the amount is subject to appropriation and rarely fully funded. In FY2018, rural towns were paid \$5.35M less in PILOT than if the land was privately owned.⁴

4. Funding for education and regional school transportation rarely cover actual costs, further constricting the revenue available for local services. When state funding is allocated by formulas using population figures gleaned from ZIP code data, towns served by multiple US Post Offices lose out. Unfunded state mandates require towns to pay for things without local option. Lack of prior analysis of the impact of legislative decisions on local government operations further constricts local budgets.

¹ Municipal Databank Reports, MA Department of Revenue, Division of Local Services, July 2019

² Municipal Databank Reports, MA Department of Revenue, Division of Local Services, July 2019

³ *Parks & Restitution: State-Owned Land Causing Pain in Rural Massachusetts*, Rural Commonwealth, September 2018

⁴ *Parks & Restitution: State-Owned Land Causing Pain in Rural Massachusetts*, Rural Commonwealth, September 2018

Section 3: Existing Policies and Programs

- **State local aid** – Funding is provided directly to towns and school districts through yearly allocations such as Chapter 70 school aid, Chapter 90 road aid, and State Lottery revenue distributed through Unrestricted General Government Aid.
- **Community Compact Cabinet** – Towns may petition the state for technical assistance funding to implement various best practices, including several related to municipal finance.
- **Local Option Taxes** – Such as for meals, hotel/motel rooms and short-term rentals, and adult-use cannabis can provide additional local revenue.
- **Community Preservation Act** – Through a local option property tax surcharge, augmented with state matching funds, towns can provide funding to preserve open space and historic sites, create affordable housing, and develop outdoor recreational facilities.
- **Hiring Strong Town Managers/Administrators and Financial Staff** – A good financial management team will positively impact the financial condition of a town.
- **Technical Assistance** – Some state agencies, such as the Department of Revenue (DOR) Division of Local Services (DLS), provide technical assistance to local officials to help build local management capacity.

Section 4: Best Practices

Training Local Officials -- DOR DLS is developing a program to provide municipal finance training to new town administrators and to provide workshops around the state on various municipal finance topics that will help expand the knowledge base of local officials.

Fiscal Analyses of Proposed Legislation -- Most states require a fiscal analysis of the impact of proposed legislation on local governments. For example:

Maryland General Assembly Fiscal and Policy Notes -- Generally, a fiscal and policy note prepared on a bill includes a summary of the bill and an estimate of the fiscal impact of the bill on the revenues and expenditures of local governments during the year in which the bill is to become effective and for the next four years. Notes also identify when a bill establishes a mandate on a unit of local government.

The Connecticut General Assembly requires a brief statement of the fiscal impact that a piece of legislation would have on local government, on every bill that is approved by a committee or that reaches the floor of the House or Senate.

Vermont's Legislative Joint Fiscal Office was created in 1973 with a mission to provide non-partisan financial analyses to legislative committees.

Section 5: Recommendations

Require a fiscal analysis and report of a bill's impact on local governments prior to enactment of state legislation.

Enact legislation to increase revenue and improve equity in rural areas

- **Require predictable and fair PILOT** on all types of state-owned land & buildings and include an added carbon sequestration value. Legislation should also address issues related to property tax status of non-profits and charitable organizations. State should be required to negotiate with municipalities before purchase of additional property.
- **Explore the addition of a rural factor to state funding formulas**, like chapter 70 school aid and chapter 90 road maintenance funding., equitable funding
- **OPEB reform legislation is needed** to provide local officials with tools to help them contain costs that are increasing faster than can be absorbed by local budgets.
- **Tackle Proposition 2½ reform** to assist towns that are approaching the levy ceiling and tax rate ceiling.
- **Reform Chapter 90** to broaden allowable expenses, reduce the paperwork burden and increase consistency of the program between MassDOT districts. Increase yearly funding level and provide multi-year allocations to better help towns plan projects.
- **Correct funding inequities created by quantifying population data using ZIP codes.** Require the use of physical locations, not mailing addresses, when calculating population for various state formulas.
- **Prevailing wage law reform.** Make wage rates more geographically sensitive so that rural areas are not saddled with city wage rates that do not reflect wages in the local economy. Create exemptions for small projects, perhaps tied to procurement law thresholds. Reduce the paperwork burden that causes small local contractors not to bid.
- **Enact stable state/local revenue sharing agreements for predictable local aid**, such as those outlined in various policy requests of the Massachusetts Municipal Association. Consider implementing the recommendation of the Federal Reserve Bank of Boston in its Policy Brief 10-2: *Reforming Municipal Aid in Massachusetts: The Case for a Gap-Based Formula.*
- **Provide additional local option taxes**, to be available statewide, regionally, or locally as warranted. Rural towns are often not able to make use of existing local option taxes with few, if any, restaurants, rooms for rent, or adult-use cannabis shops. Allow towns to tap into unique local opportunities, such as Charlemont's recent effort to add a fee to certain outdoor recreation uses prevalent there. Local businesses supported the effort.

Explore and encourage models for merging town government functions. The current structure of municipal government encourages 351 unique silos of operation. There are many examples of regional approaches to providing services. There are additional models to be encouraged, including merging functions across multiple towns.

Explore and encourage shared town – school functions. Opportunities exist between towns and regional school districts.

Provide state funding support for public safety, public works and other local facilities, through grants and zero-interest loans. USDA Rural Development offers funding through its Community Facilities Program, but they are a funder of last resort. Towns

could use additional options to help make necessary capital investments affordable to property taxpayers.

Allow local public health nurses to bill insurers for billable services

List of Stakeholders Invited to Participate: Many people, agencies and organizations were consulted in the drafting of this Plan. Recommendations contained in this document are not necessarily supported or endorsed by all parties listed below.

- Massachusetts Municipal Association
- Small Town Administrators of Massachusetts
- MA Dept of Revenue Division of Local Services
- Mark Abrams, private consultant on municipal financial management
- Select Board Associations - Worcester, Franklin, MSA
- Collins Center, UMASS Boston
- Collectors & Treasurers Associations – Worcester, MCTA
- MA Association of Assessing Officers
- Association of Town Finance Committees
- MA Municipal Auditors and Accountants Association
- Fire Chiefs Association of MA
- Rural Commonwealth
- USDA Rural Development