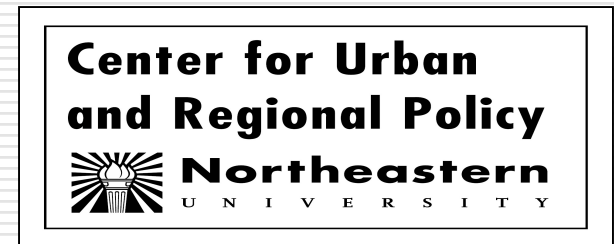


Revenue Sharing and the Future of our Massachusetts Economy

Presentation to the Massachusetts Municipal Association Statewide Economic Forum

Federal Reserve Bank of Boston
October 18, 2005

Barry Bluestone
Alan Clayton-Matthews
David Soule



Key Findings:

- ❑ A new fiscal partnership between state and local government is essential to the future of our economy
 - ❑ Firms choose to locate in cities & towns, not states
 - ❑ In order to keep people and jobs here we need to
 - Offset high private sector costs with high quality public services
 - Limit high property taxes
 - ❑ Local fiscal capacity is essential to attracting and retaining people and firms
-

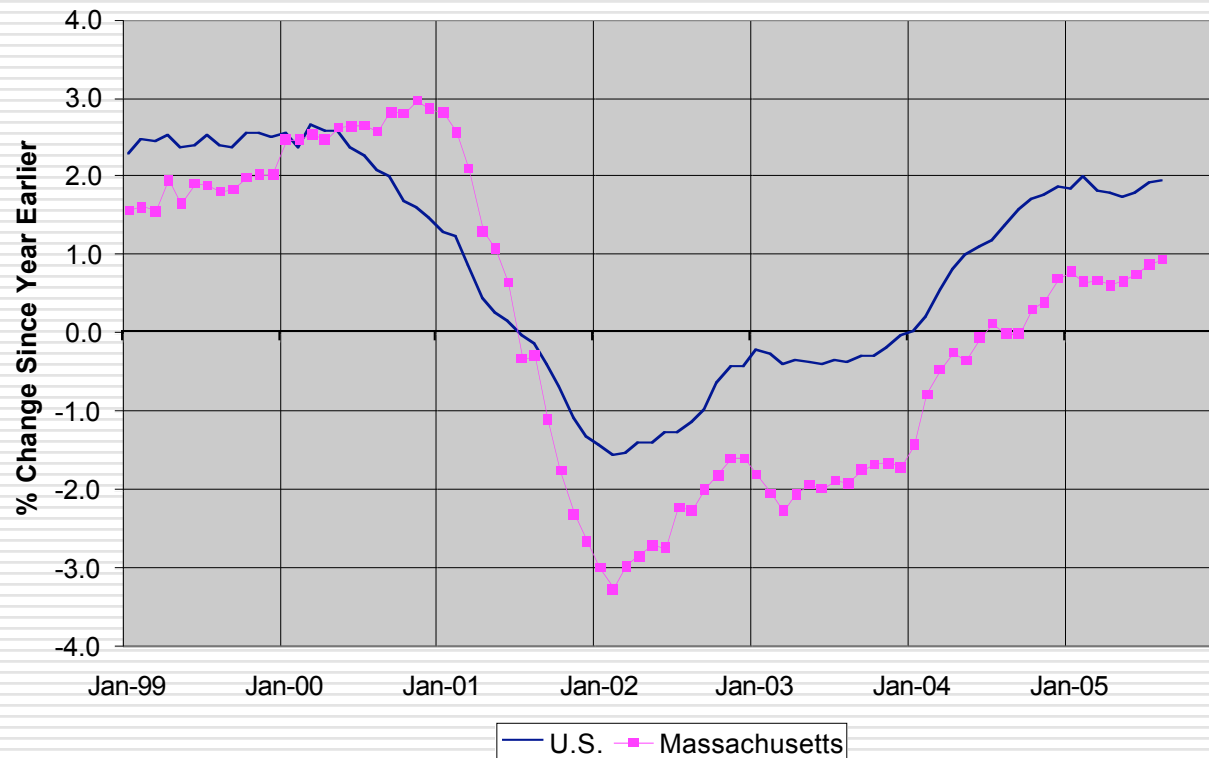
Economic Update

- August 2005 unemployment rate stood at 4.2%, down from 5.0% a year earlier ... but, due in part to 26,000 workers having left the state's labor force over the past year, and 65,500 in the past three years.
 - But by August 2005, employment in Massachusetts was still down by more than 163,000 from its pre-recession peak.
 - Personal income in the second quarter of 2005 was up 5.3% over the prior year. In the depths of the last recession, personal income declined by 0.7% in the year ending in the first quarter of 2002.
-

A Deeper and Longer Recession Here Than in the U.S.

Employment Growth

Source: Bureau of Labor Statistics, Payroll Employment

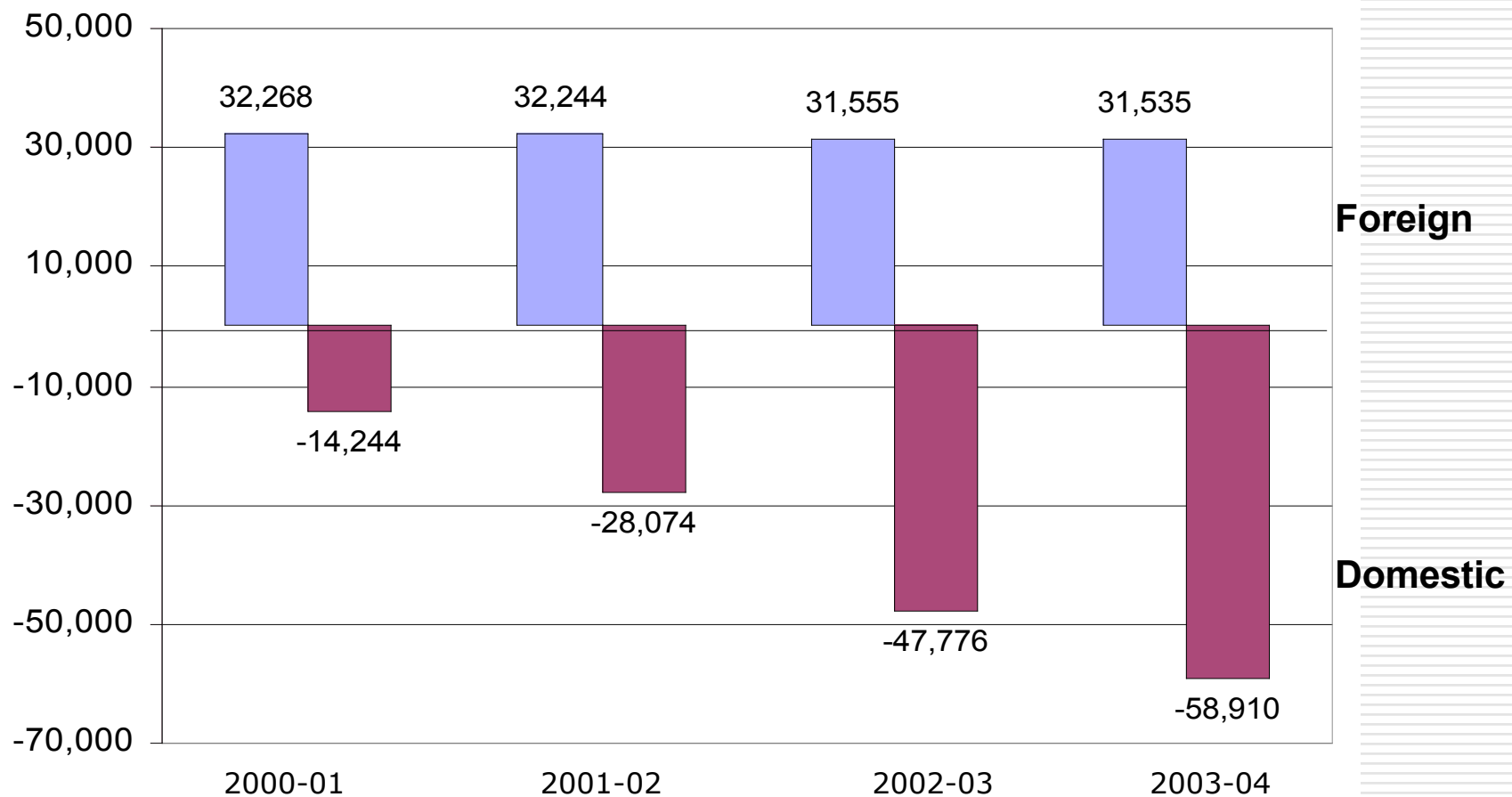


Losing Young Workers...

Demographic Update

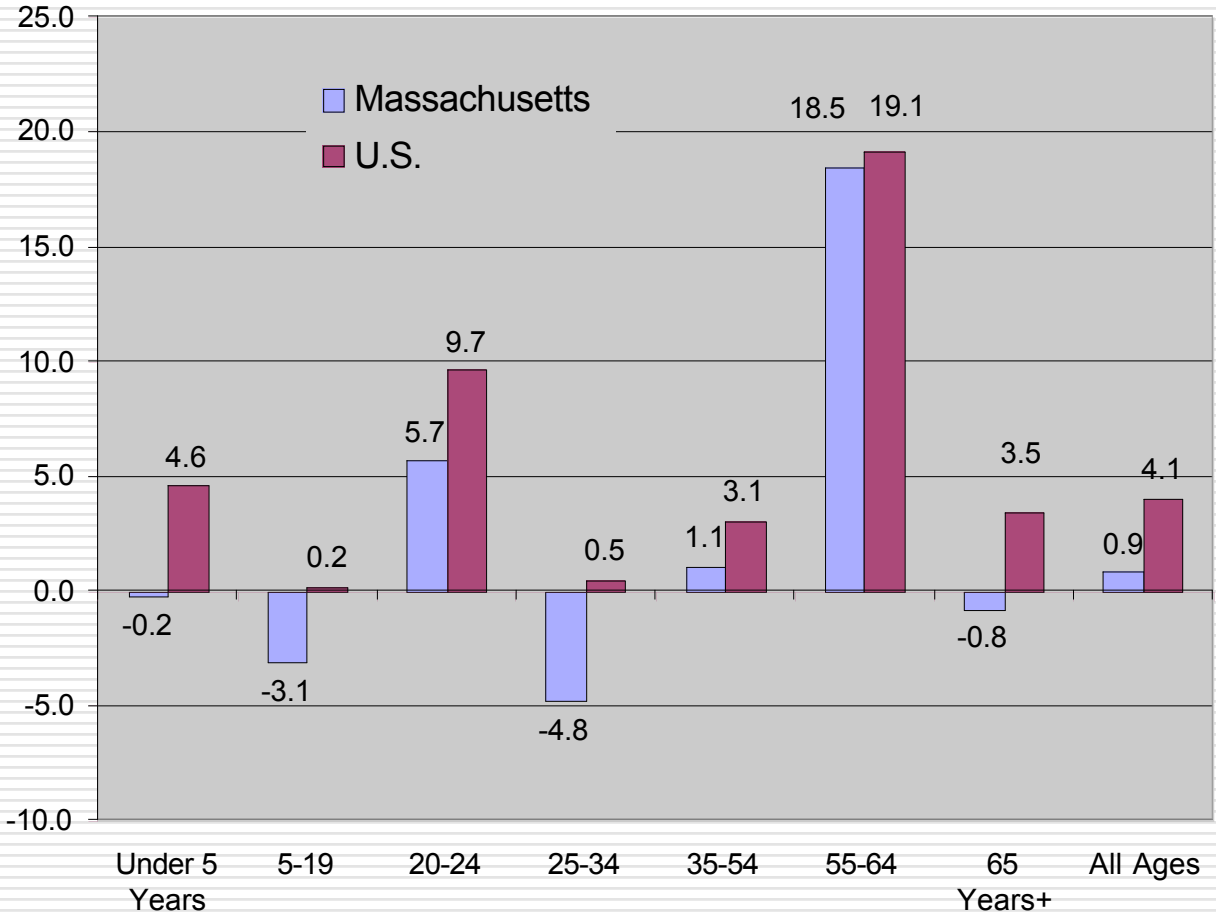
- While foreign immigration in Massachusetts remained at roughly 31,000 per year between 2000 to 2004, out-migration to other states increased from 14,000 in 2000-2001 to 59,000 in 2003-2004 ... making Massachusetts the only state to lose population in 2004.
 - The young prime working age cohorts experienced the slowest growth or largest net losses relative to the U.S. --
 - Between 2001 and 2004, the 20-24 year old cohort grew by only 5.7% while the number of 25-34 year olds fell by 4.8%.
 - Nationally, the 20-24 year old cohort grew by 9.7% while the 25-34 cohort grew by 0.5%.
-

Massachusetts Net Migration 2000-2004



Source: U.S. Census

Population Change by Age, 2001-2004



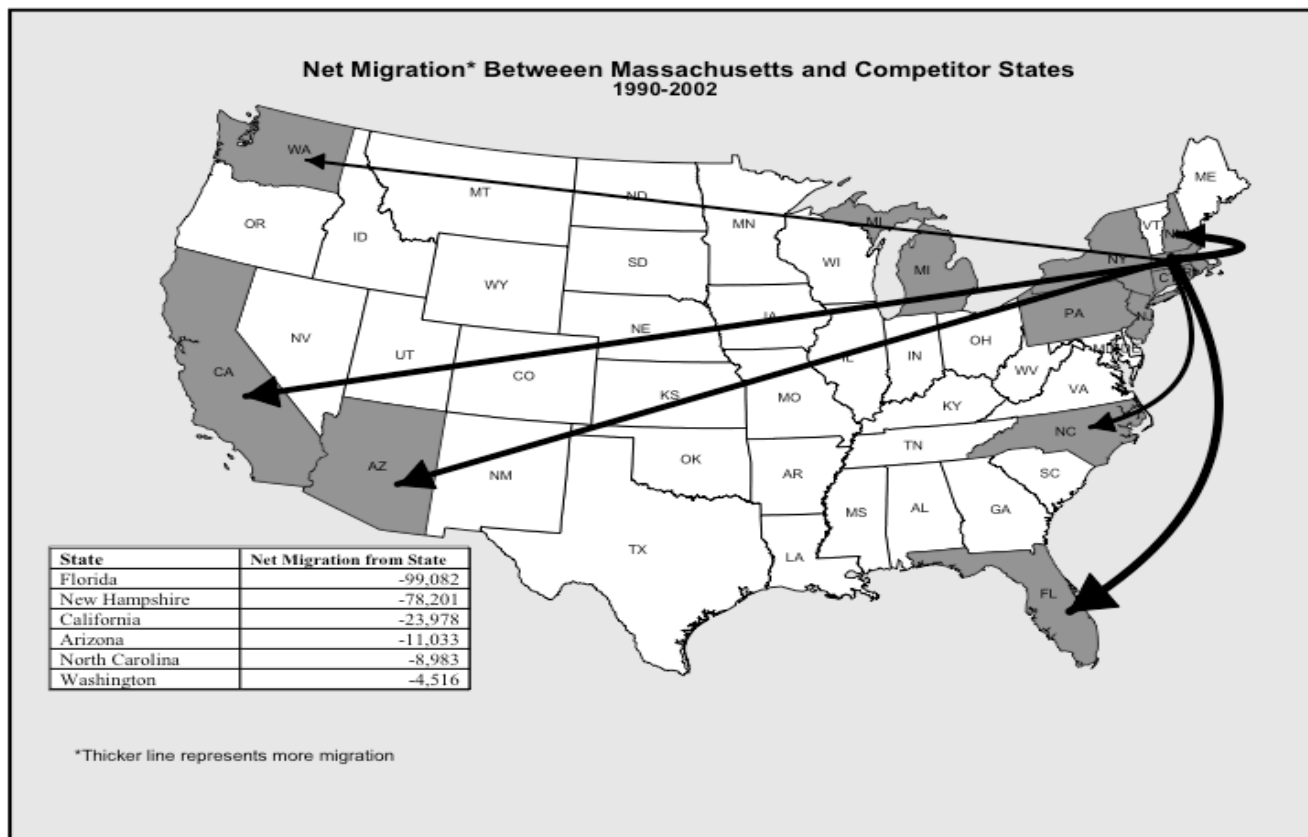
Source: U.S. Census

Net Migration Between Massachusetts and Competitor States 1990-2002

State	Net Migration From/to Massachusetts
Massachusetts	-213,000
Florida	-99,082
New Hampshire	-78,201
California	-23,978
Arizona	-11,033
North Carolina	-8,983
Washington	-4,516
Michigan	809
Pennsylvania	2,433
Rhode Island	2,895
New Jersey	9,672
Connecticut	14,997
New York	28,670

Source: Mass Inc, IRS

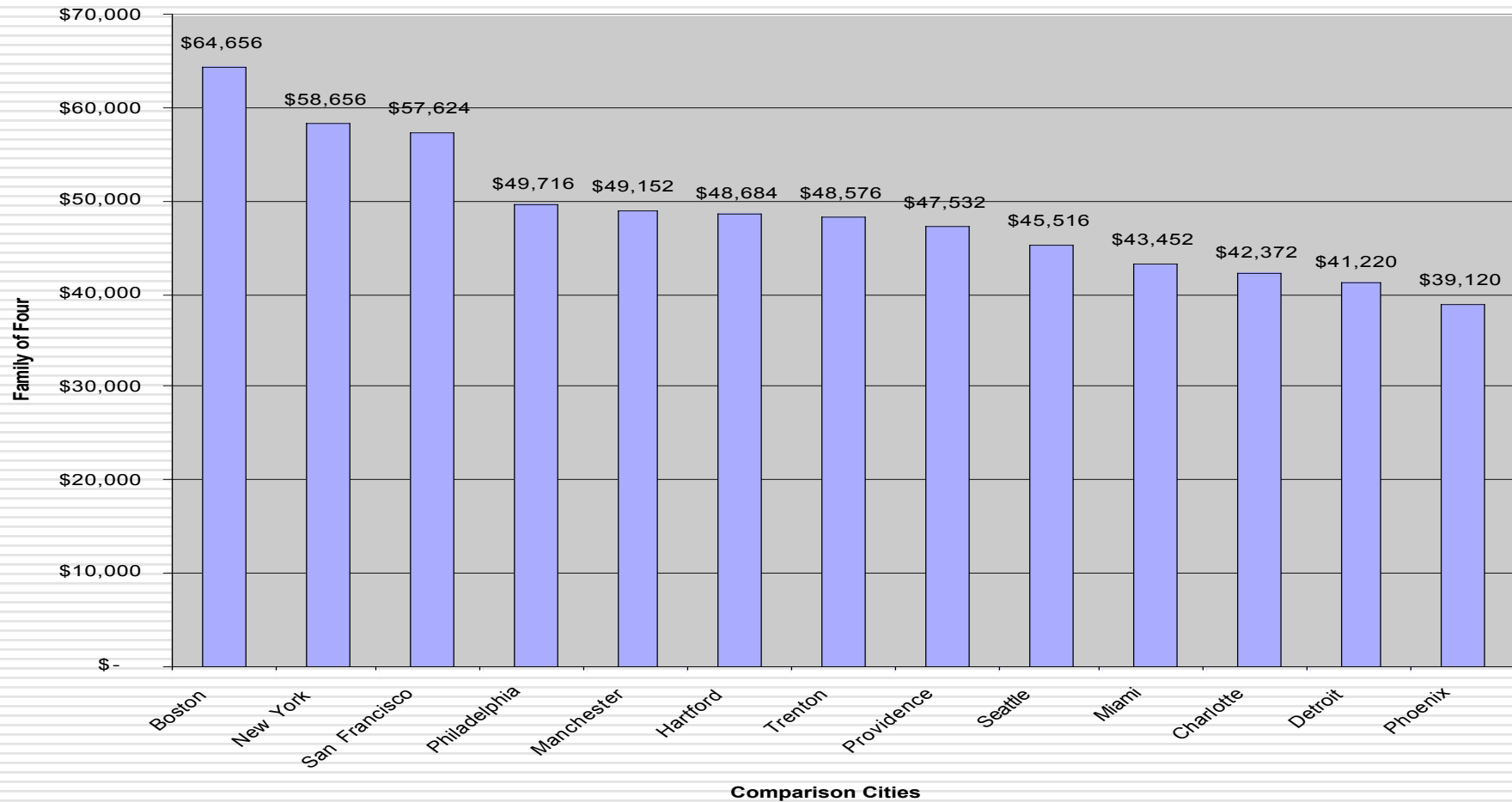
Where did they go?



Cost of Living Update

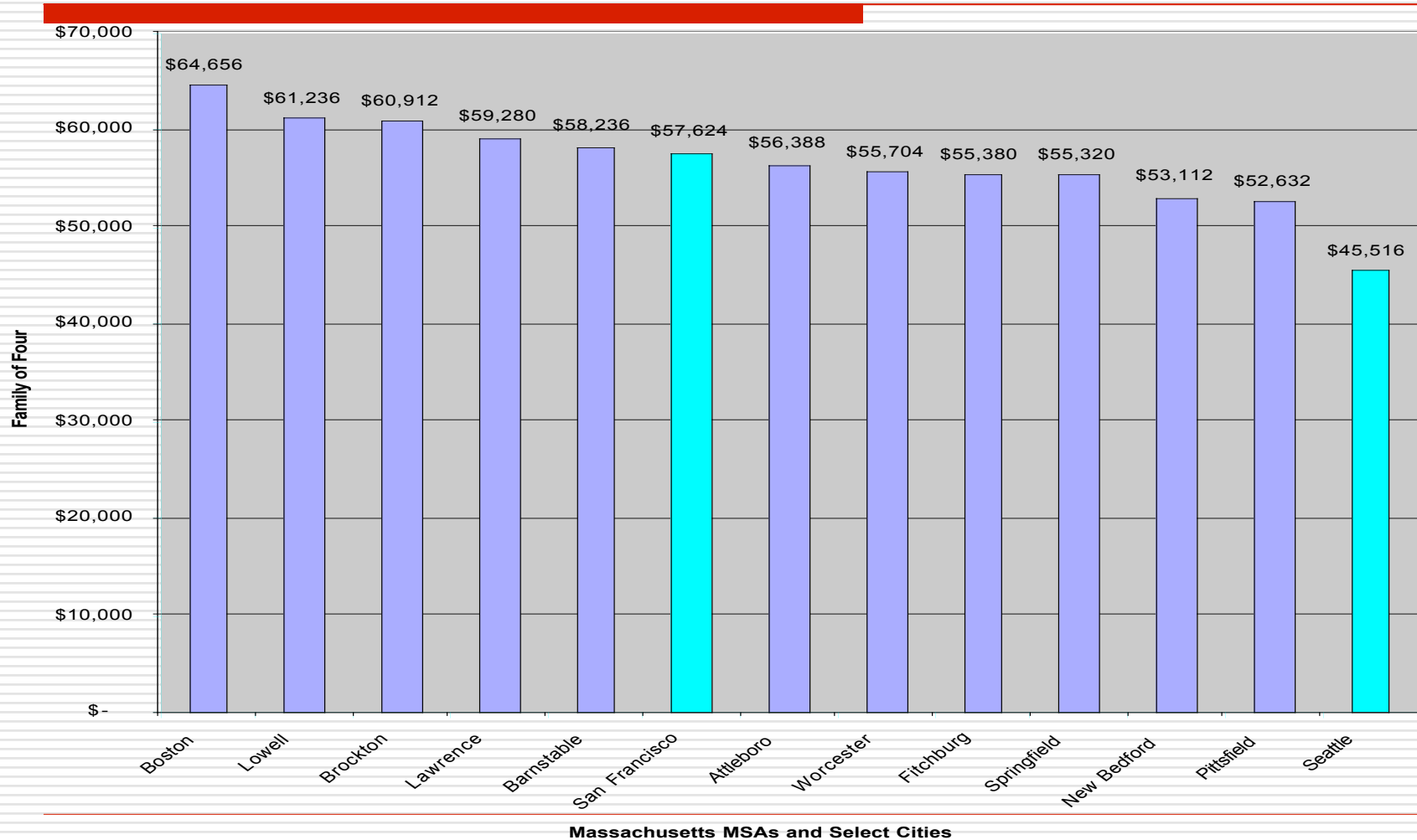
- According to a new measure of living costs, Greater Boston has the highest cost of living of any Metro Area in the United States
 - A family of four needs \$64,656 to pay for the costs of housing, transportation, day care, health care, and other basic necessities
 - This is more than \$3,000 higher than in Washington, D.C; \$6,000 higher than in New York City; and \$7,000 more than in San Francisco
 - Monthly housing costs are 40% higher than in Austin, Chicago, and Miami and 63% higher than in Raleigh-Durham-Chapel Hill
 - Massachusetts' other Metro Areas are among the highest cost in the country as well ... Lowell, Lawrence, Brockton
-

Total Annual Budget for Family of Four



Source: Economic Policy Institute

If you thought it was just Boston, you're wrong!



Source: Economic Policy Institute

Gross State Product

□ Key findings

- Massachusetts is slightly above the national average in growth in Gross State Product (U.S. 5.34% vs MA 5.57%), but only average among the states in the study.
 - If Massachusetts had average population growth, it would have ranked near the top, because its workers are highly productive.
-

Average Annual Percent Change in Gross State Product 1994-2004

State	Percentage
US	5.43
Arizona	7.68
North Carolina	6.45
Florida	6.32
California	5.99
Washington	5.88
New Hampshire	5.87
Rhode Island	5.57
<i>Massachusetts</i>	5.54
Connecticut	5.34
New Jersey	5.03
New York	4.68
Pennsylvania	4.62
Michigan	4.24

Source: Bureau of Economic Analysis

Personal Income Growth

□ Key findings – Some Good News

- Currently, on a **per capita** basis, we lead all of the other states in personal income growth and are significantly above the national average.
 - Our personal income is high and it has grown quickly. Now is the time to invest in our future.
-

Average Annual Percent Change in Per Capita Personal Income 1994-2004

State	Percentage
US	4.04
<i>Massachusetts</i>	4.74
New Hampshire	4.61
Washington	4.40
Connecticut	4.34
Rhode Island	4.32
California	4.20
New Jersey	4.14
Pennsylvania	4.05
New York	4.02
Arizona	4.00
Florida	3.80
North Carolina	3.67
Michigan	3.48

Source: Bureau of Economic Analysis

Employment Growth

- Key findings – Some Bad News
 - Unfortunately, our employment growth for the last decade (1994-2004) is a dismal 65% of the national average and is lower than 8 of our competitor states, in some cases (AZ) less than a third of their growth.
-

Average Annual Percent Change in Employment 1994-2004

State	Percentage
US	1.41
Arizona	3.45
Florida	2.61
New Hampshire	1.83
California	1.80
Washington	1.59
North Carolina	1.32
New Jersey	1.20
Rhode Island	1.18
<i>Massachusetts</i>	0.92
Pennsylvania	0.83
New York	0.76
Connecticut	0.68
Michigan	0.58

Source: Bureau of Labor Statistics

What we know

- Firms choose to locate in cities and towns, not states
 - Investment and job creation occur at the local level
 - Local municipalities in Massachusetts attract businesses
 - Recent research with leading industrial and office developers and real estate specialists (NAIOP and CoreNet) confirms the importance of the local community environment to economic development
-

What we know

- Key factors for businesses in making location decisions are:
 - Availability of appropriate local labor pool
 - Local crime rate
 - Quality and capacity of local infrastructure
 - Quality of local schools
 - Physical attractiveness of the local area
 - Timeliness of approvals at the municipal level
 - Reputation of the community as a good place to live, work and invest
-

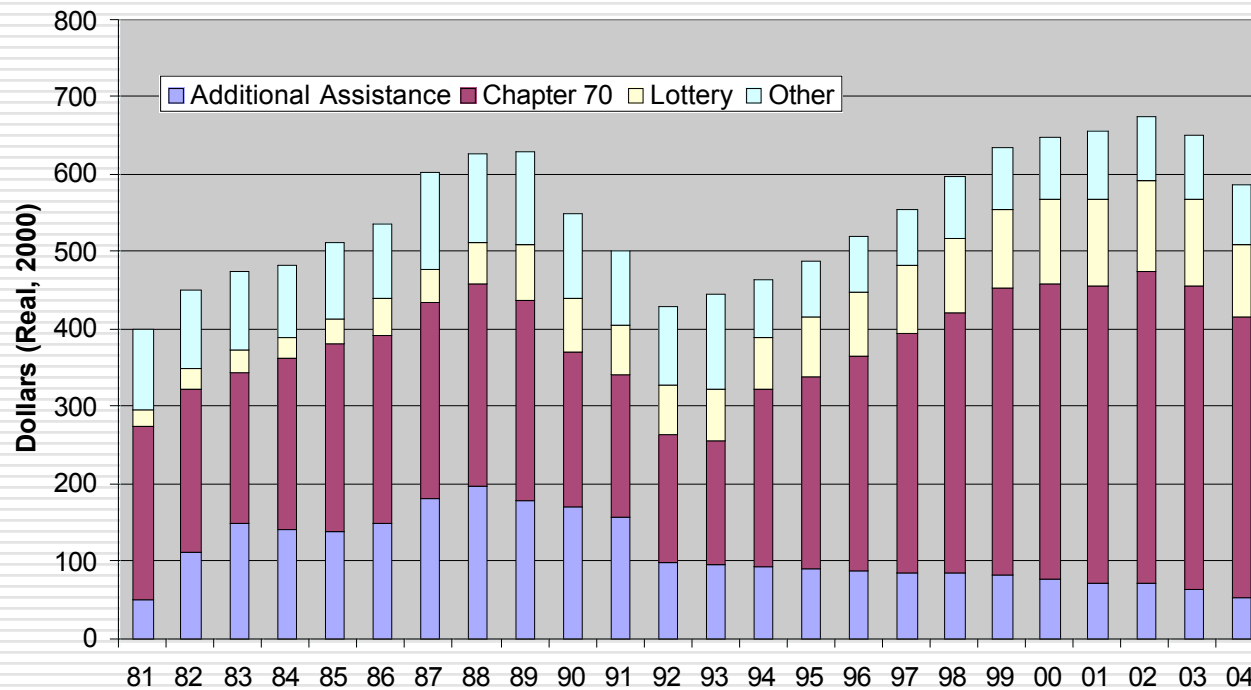
In summary...

□ Key challenges:

- High cost of living
 - Loss of jobs and people
 - To stay competitive in attracting and retaining jobs and people, we need high quality public services in municipalities
 - Per capita personal income is growing ... making it possible to invest now in these services
-

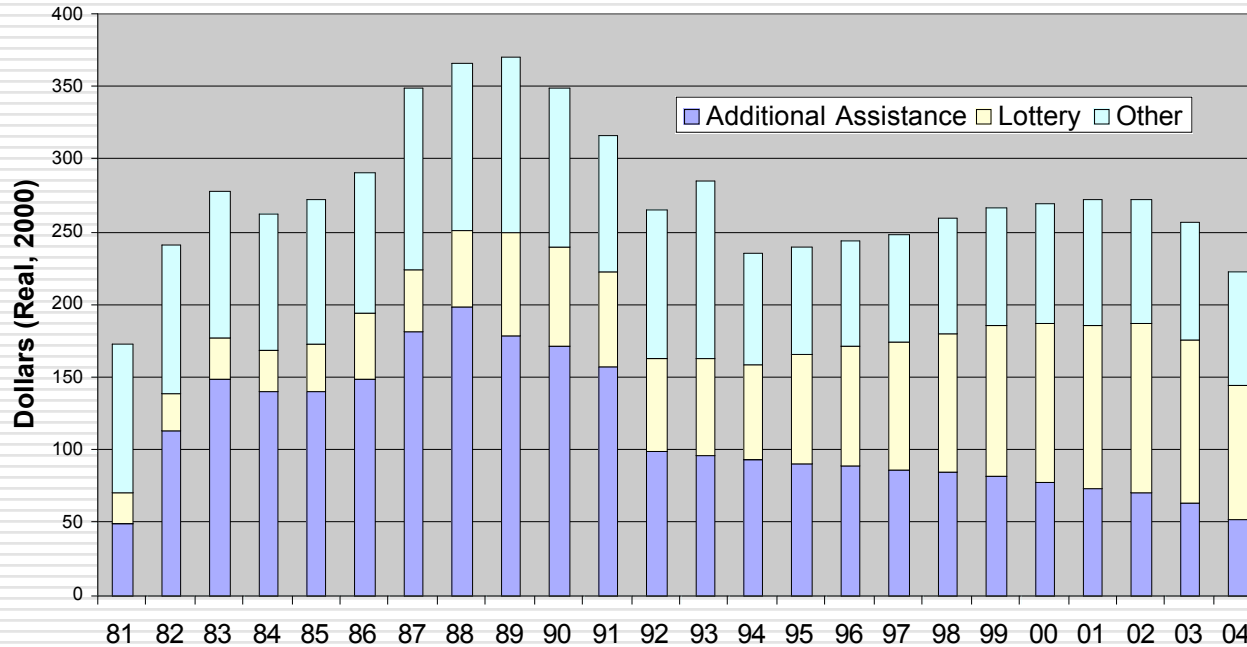
The State-Aid Recession Rollercoaster

Real State Aid Per Capita to Municipalities, by Type



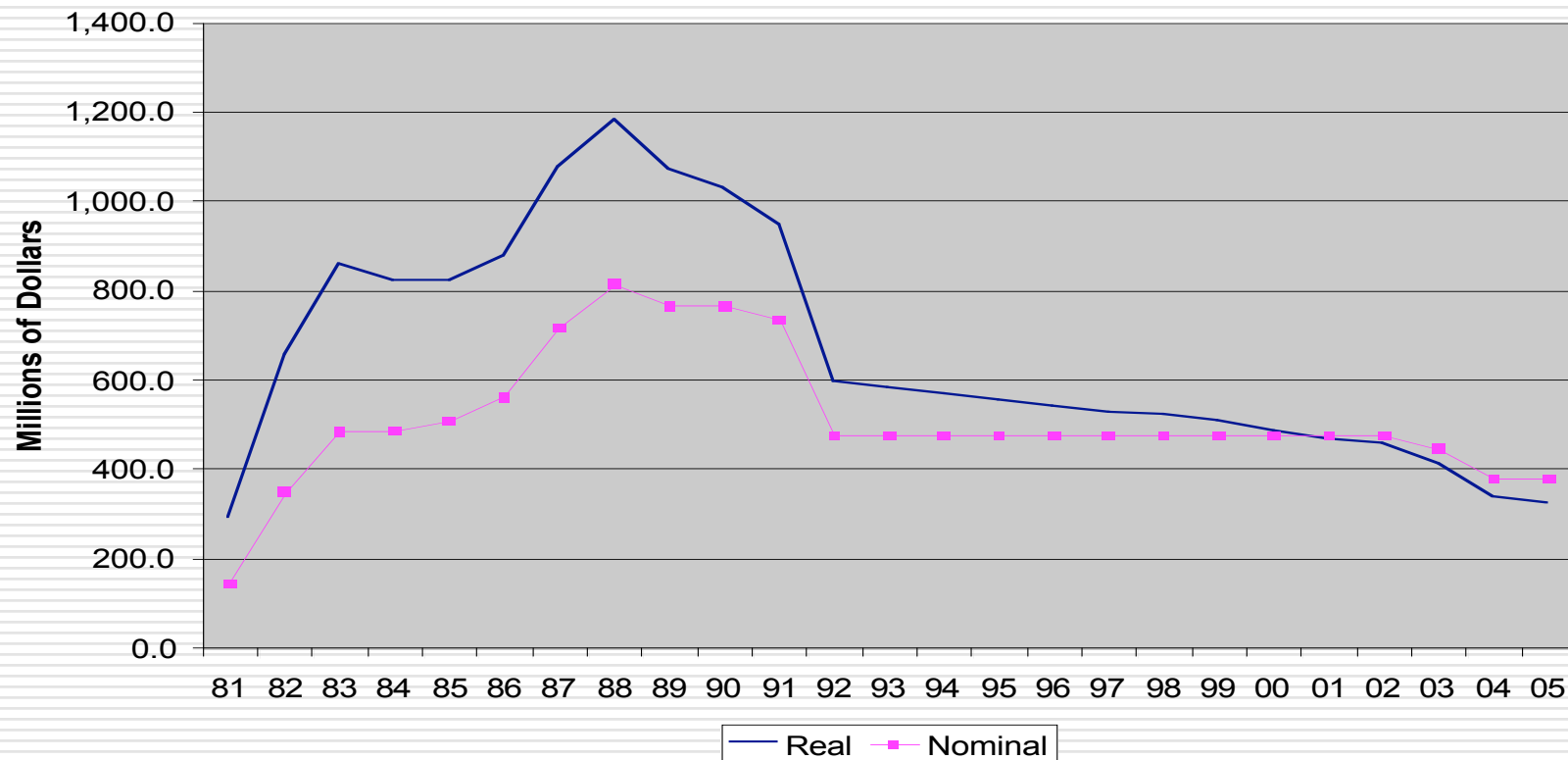
Non-Education State Aid is Lower Than It Has Been for Decades

Non-Chapter 70 Real State Aid Per Capita to Municipalities, by Type



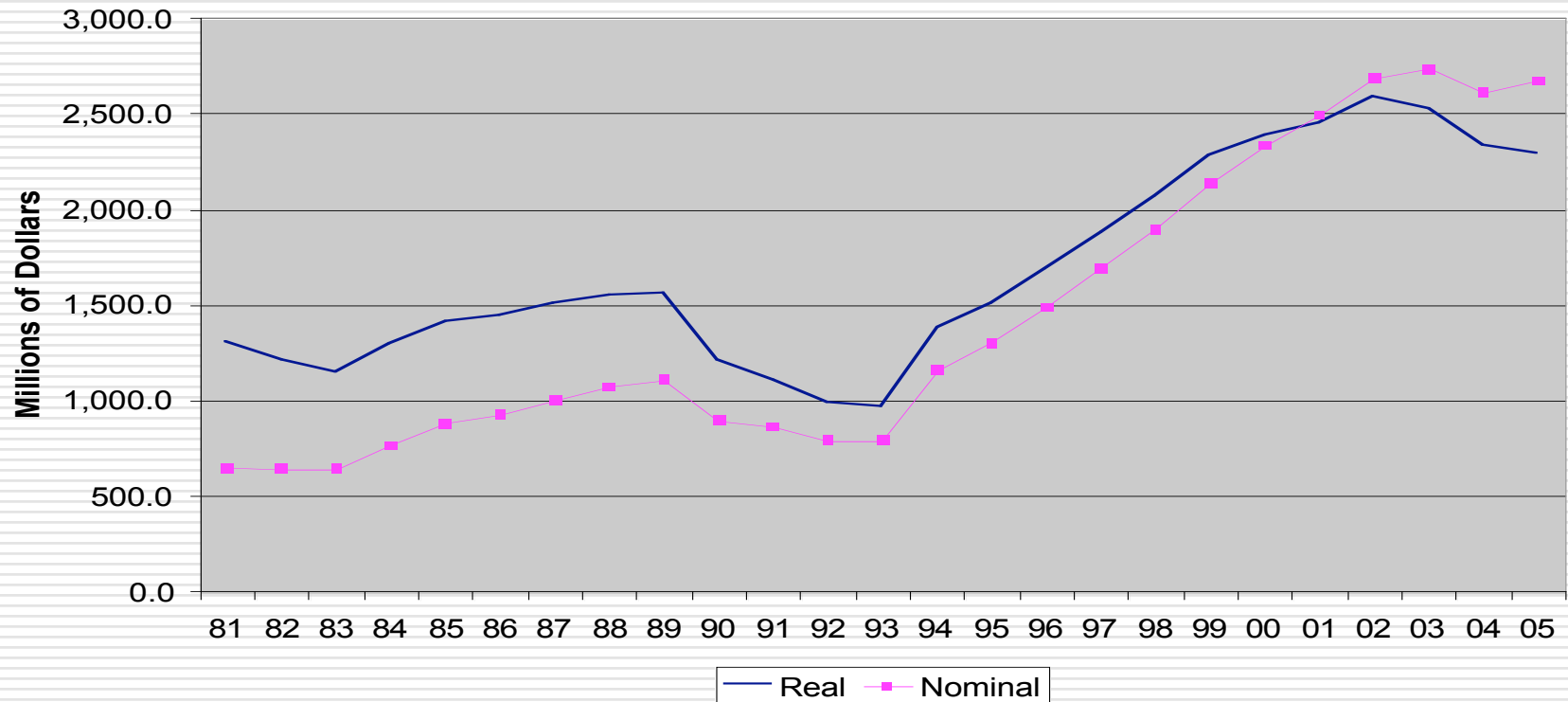
Additional Assistance is Far Below 1998 Levels

Additional Assistance, in Real and Nominal 2000 Dollars



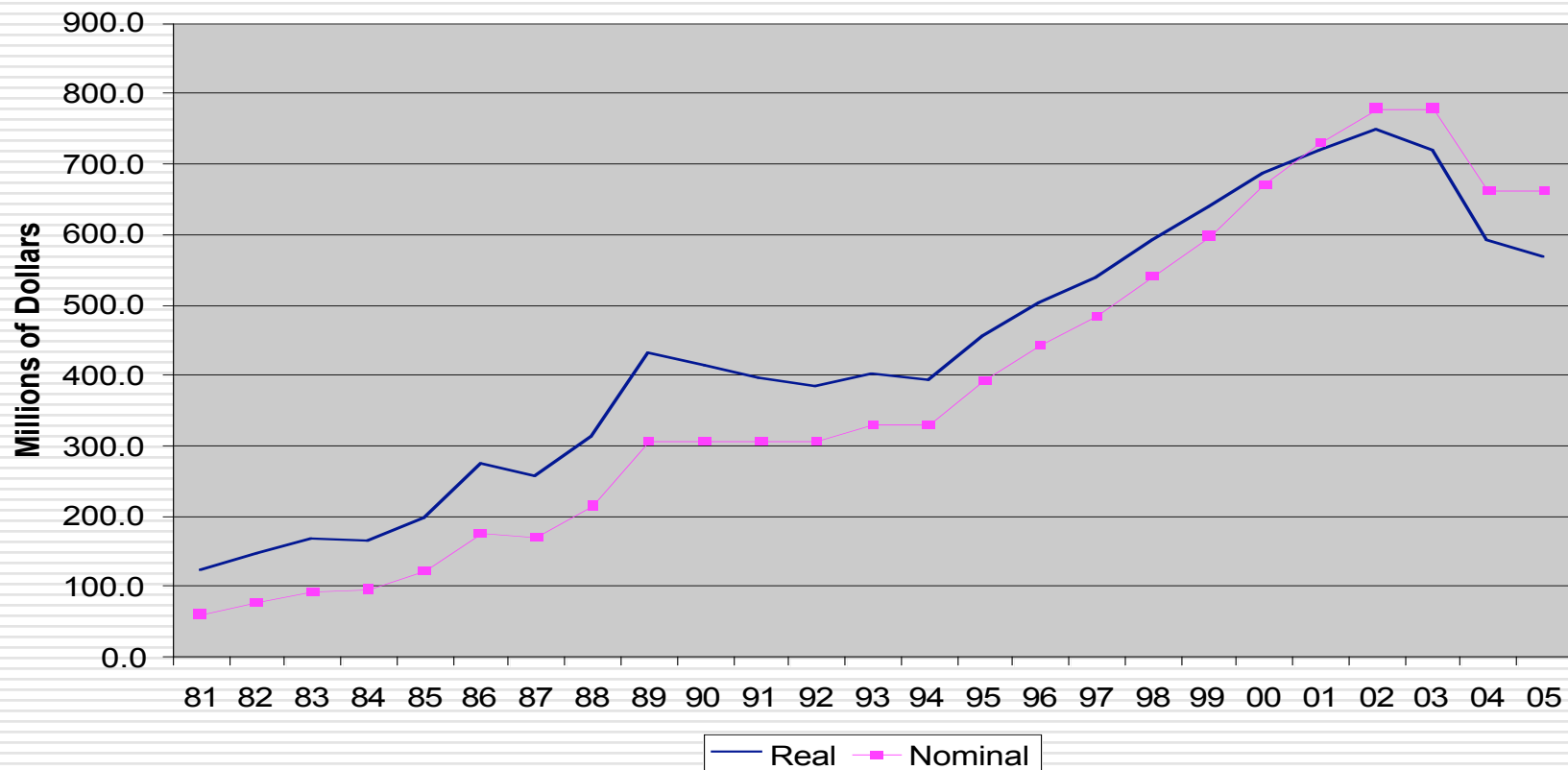
Even Education Aid is Not Recession Proof

Chapter 70 Aid to Municipalities, in Real and Nominal 2000 Dollars



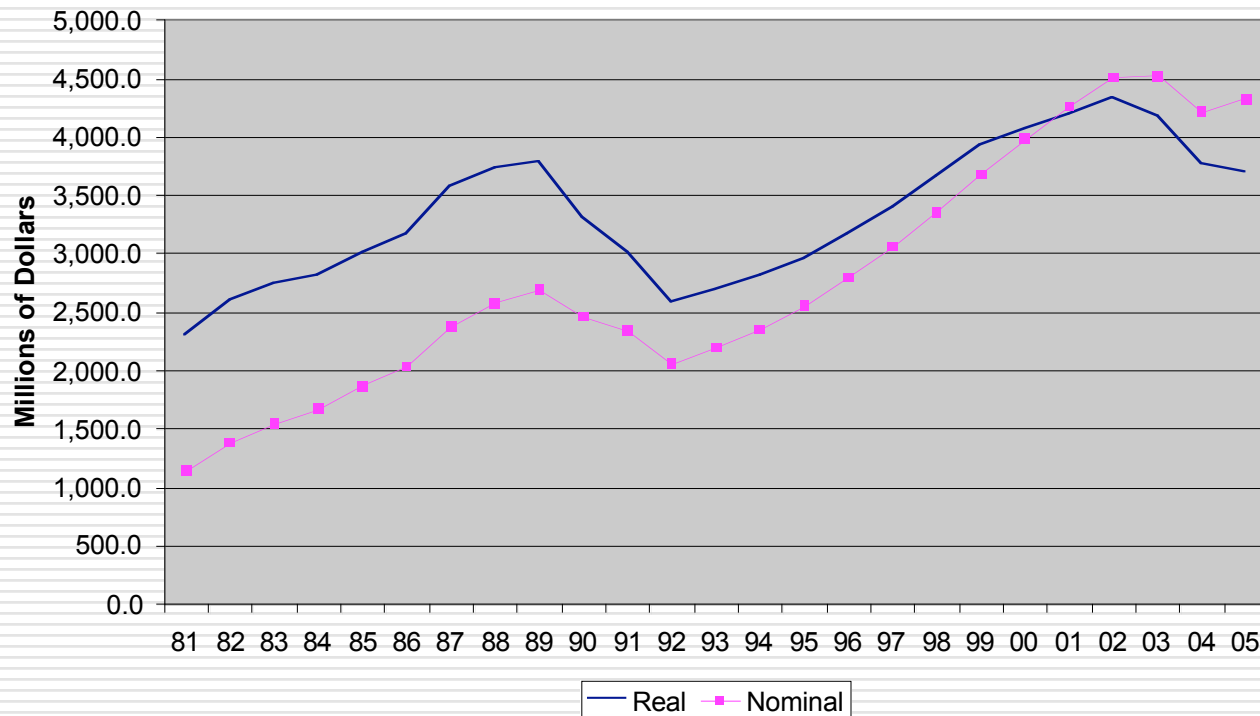
Lottery Aid Has Been Capped or Cut – or Both – in Recessions

Lottery Aid, in Real and Nominal 2000 Dollars



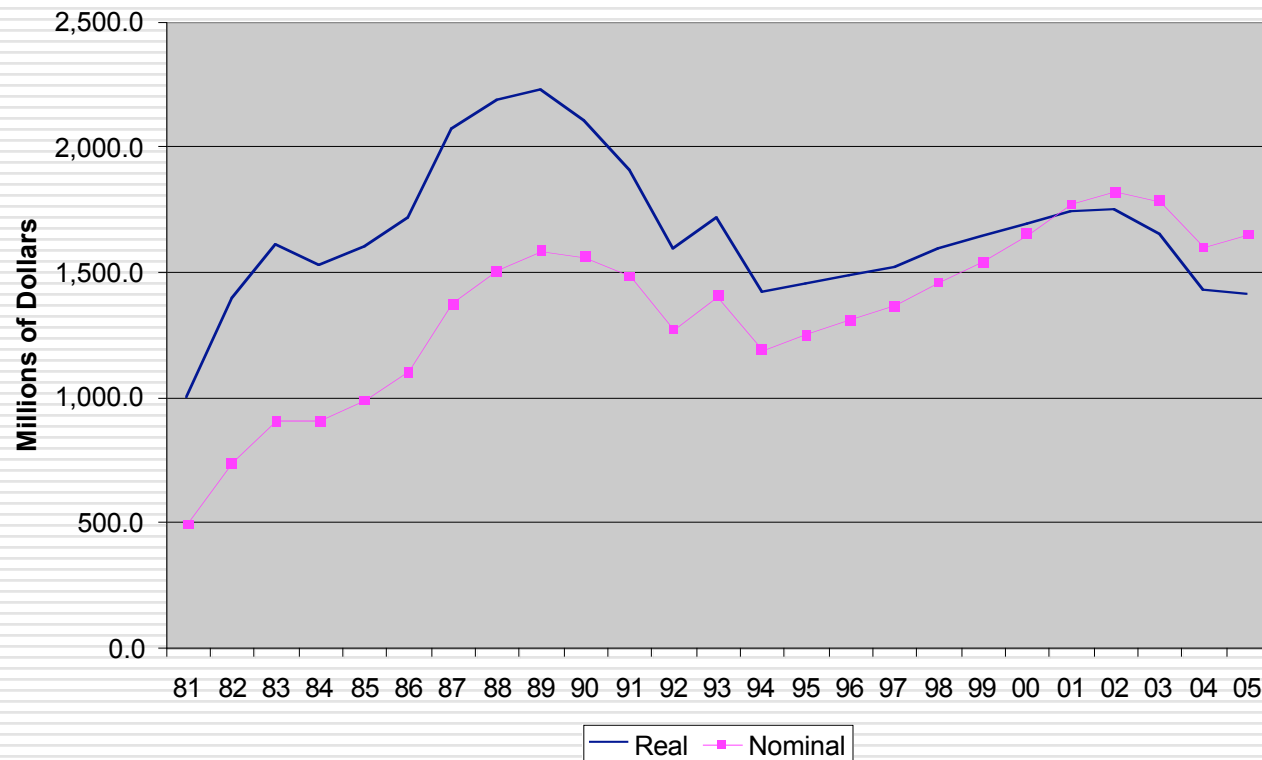
Real Total State Aid is Below the Peak of the 1980's

Total State Aid to Municipalities, in Real and Nominal 2000 Dollars



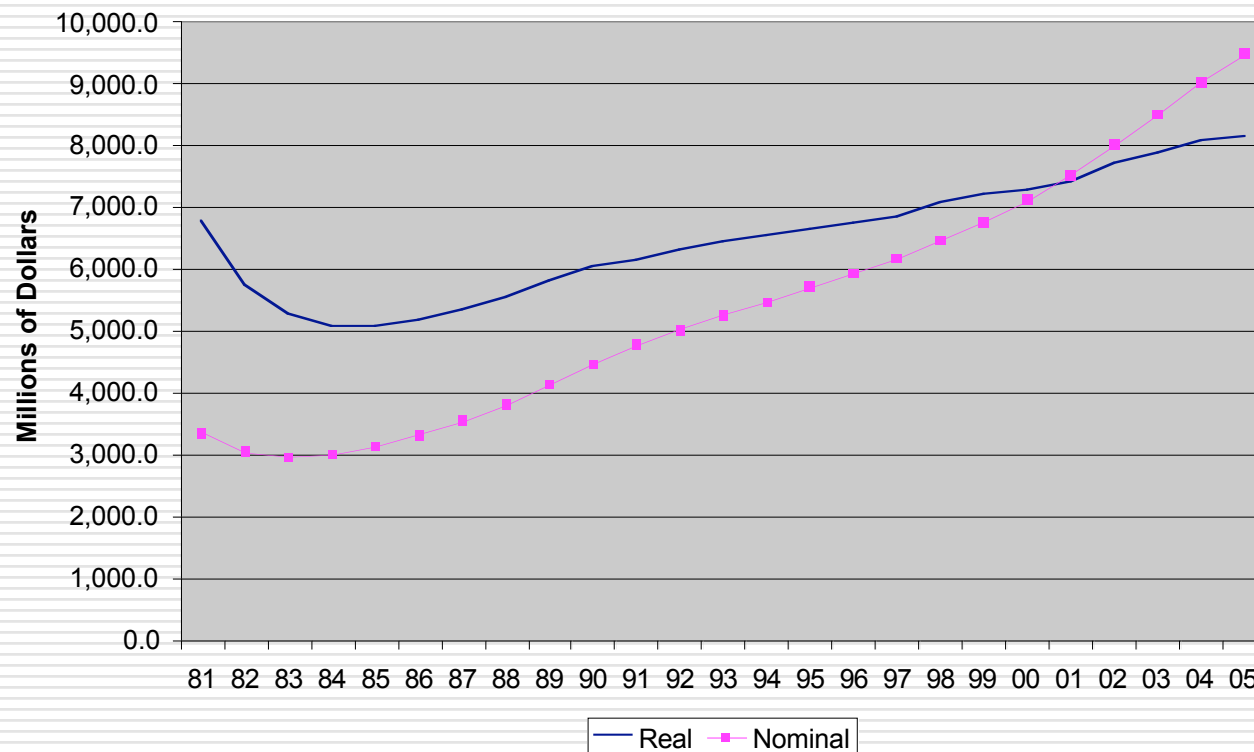
Real Non-School State Aid is as Low as the Early 1980's

Non-School State Aid, in Real and Nominal 2000 Dollars



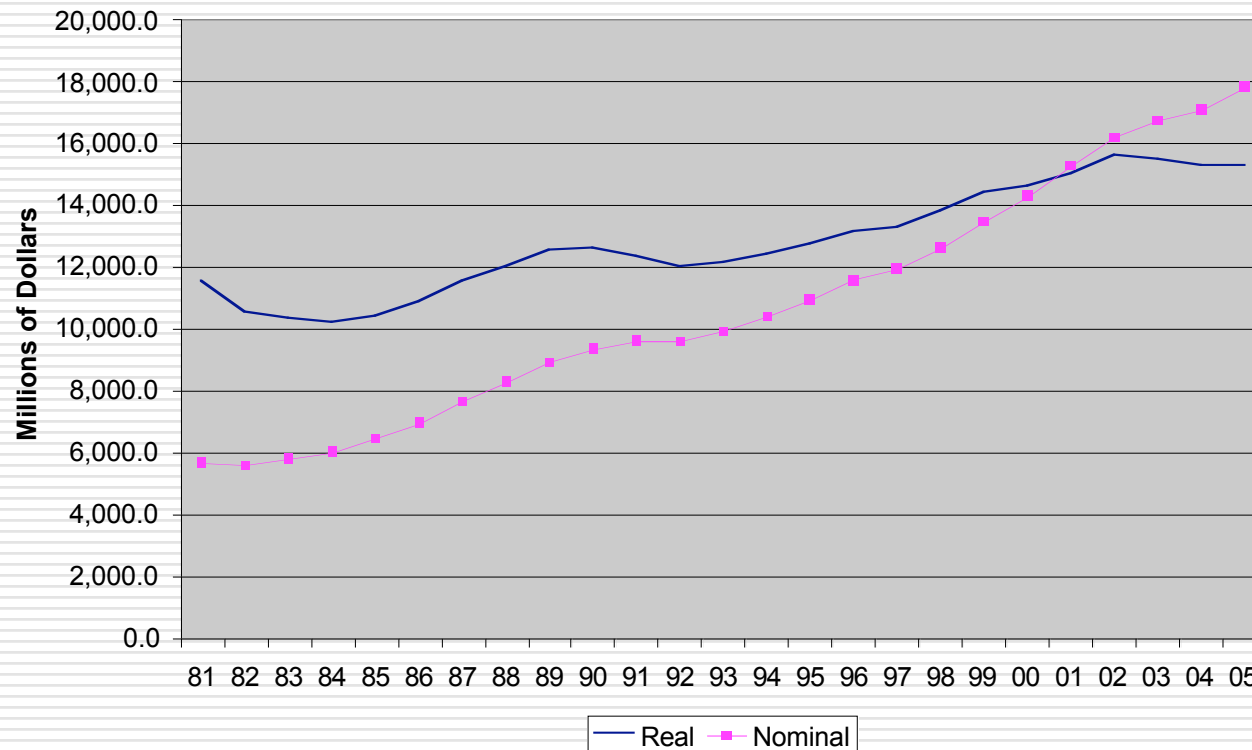
Local Property Taxes are Higher Than Ever – Even Before Prop 2.5

Property Tax Levy, in Real and Nominal 2000 Dollars



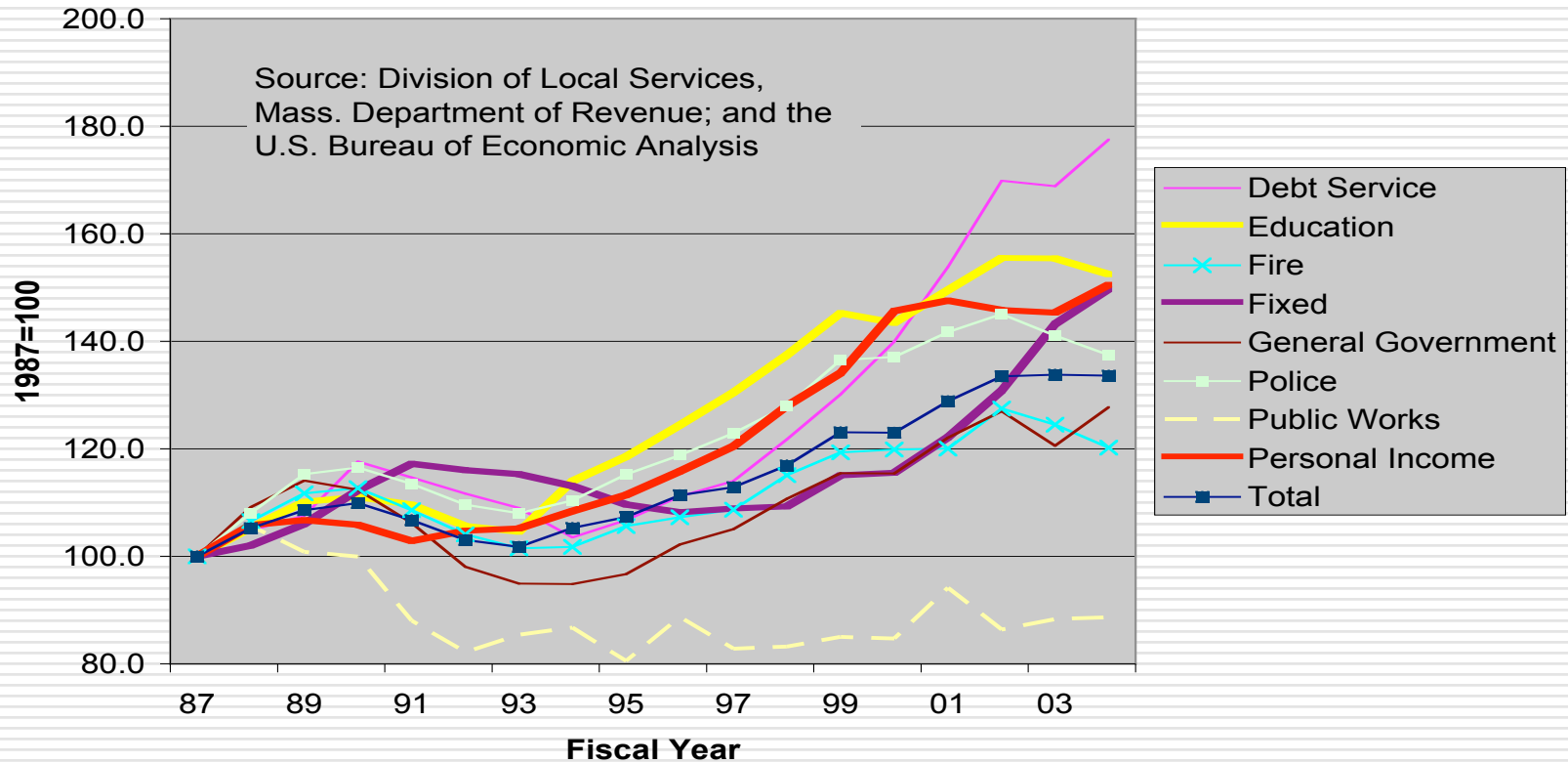
Municipal Revenues Have Declined, in Real Terms, in Each of the Last 3 Years

Total Municipal Revenues, Including State Aid, in Real and Nominal 2000 Dollars



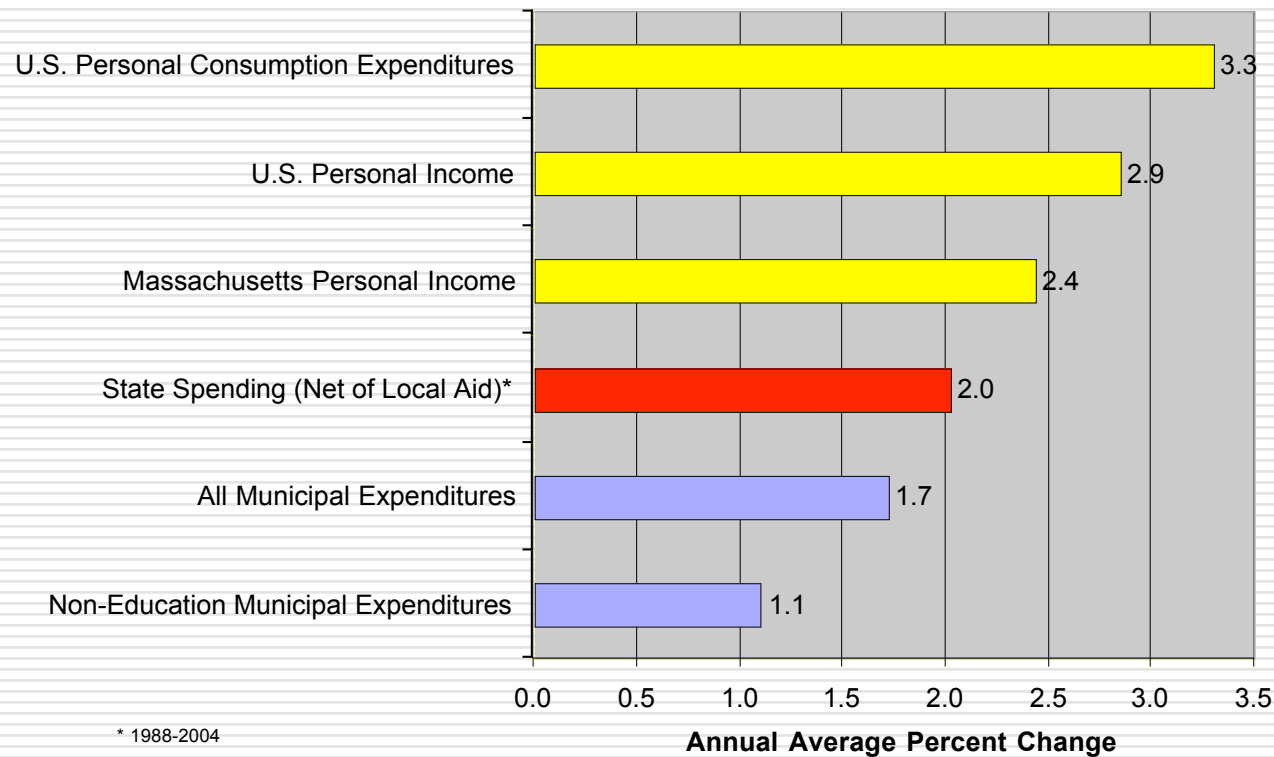
Except for Education, Local Service Delivery Has Fallen Behind Income

Real Income and Municipal General Fund Expenditures



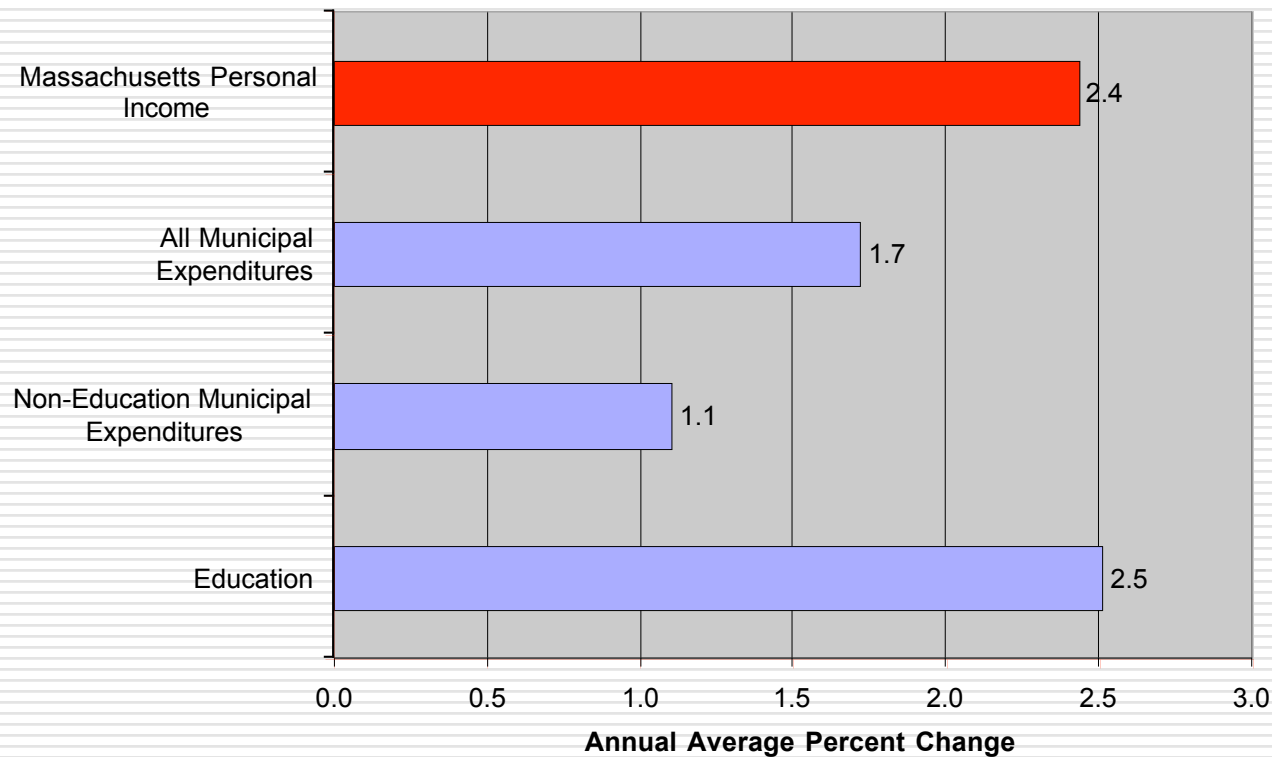
Locally-Provided Goods and Services are the Poor Stepchild of the State's Economy

Real Growth in Spending or Income, 1987-2004



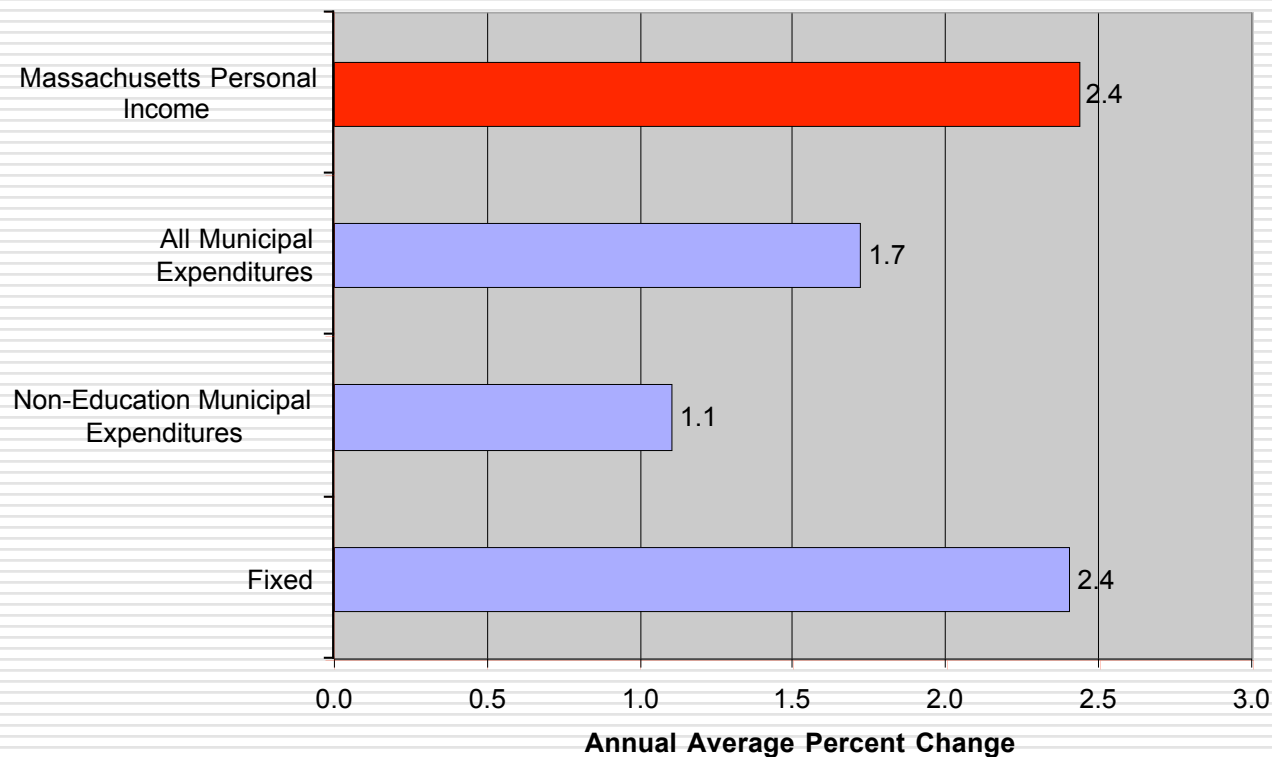
Despite Ed Reform, Education Spending Has Only Kept Pace with Income

Real Growth in Spending or Income, 1987-2004



Rising Fixed Costs, such as Health Insurance, Force Reductions in Other Local Services

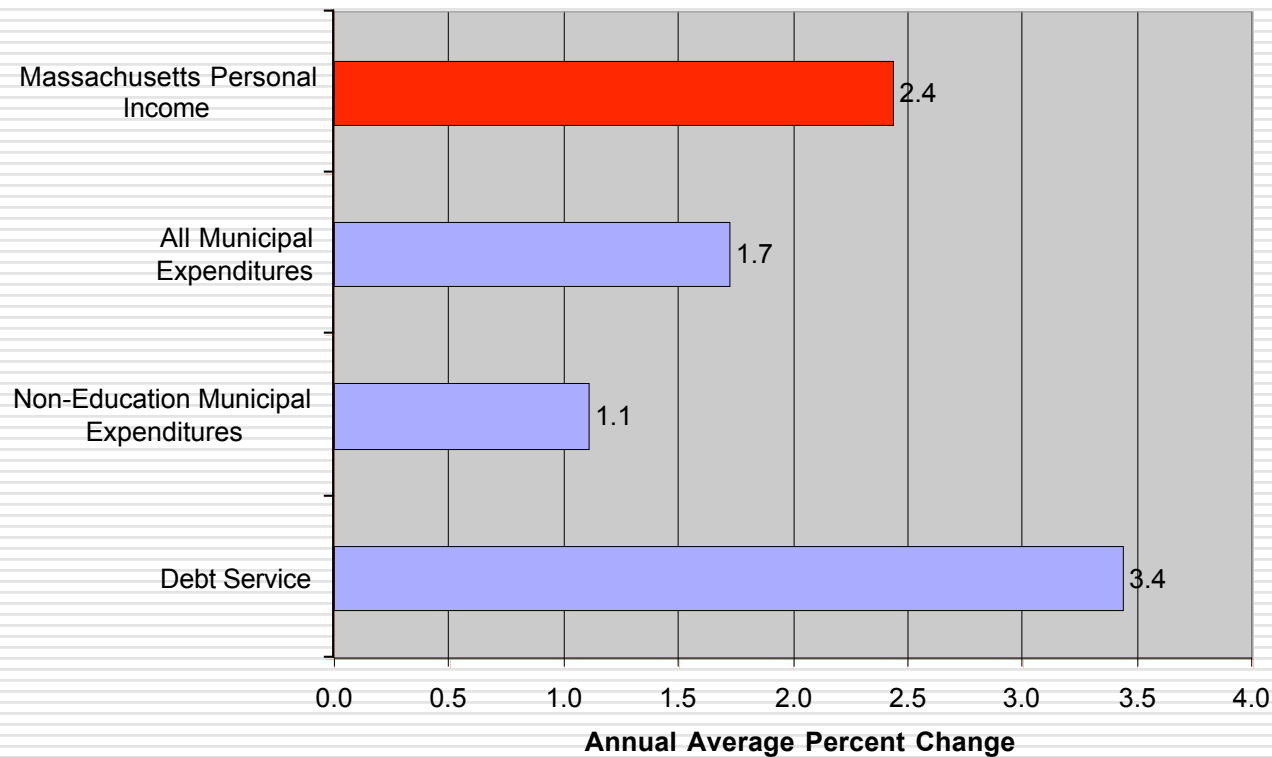
Real Growth in Spending or Income, 1987-2004



Fixed costs: Workers' Comp., Unemployment, Health Insurance, other employee benefits and retirement

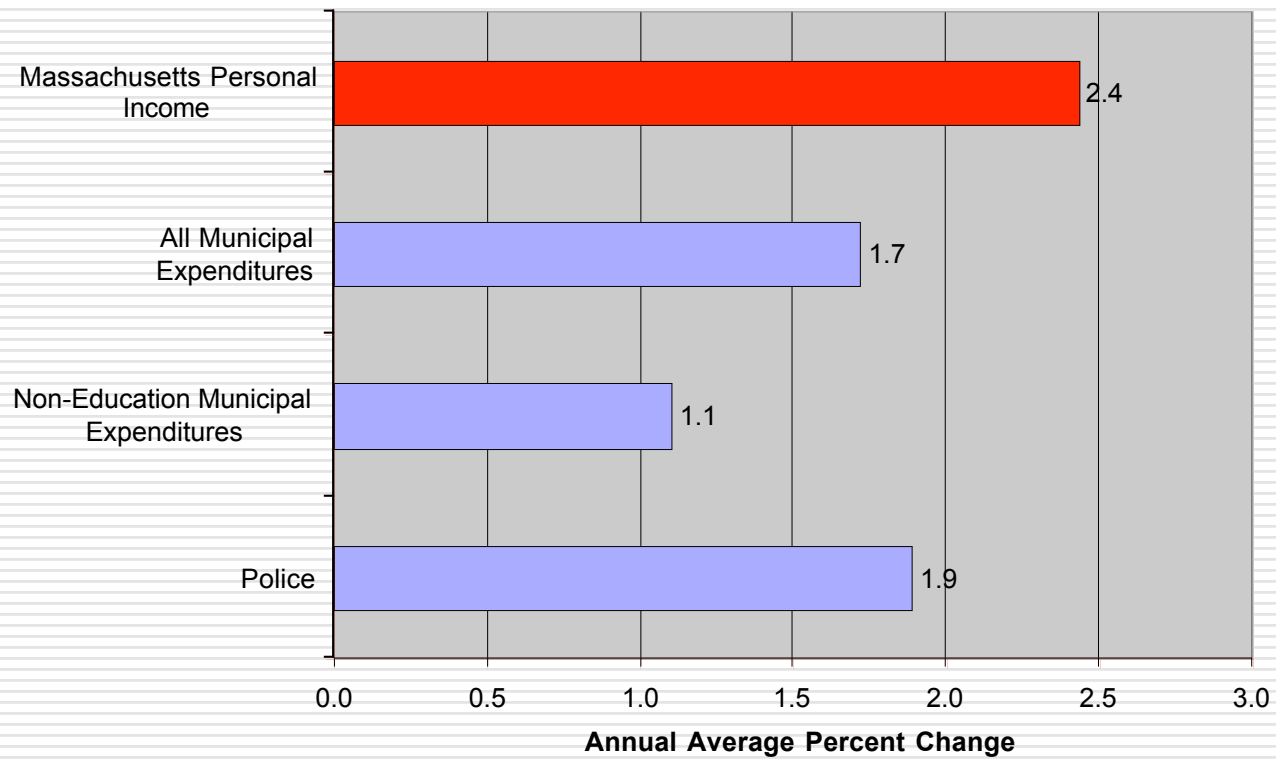
Debt Service Increased, Mainly for School Construction

Real Growth in Spending or Income, 1987-2004



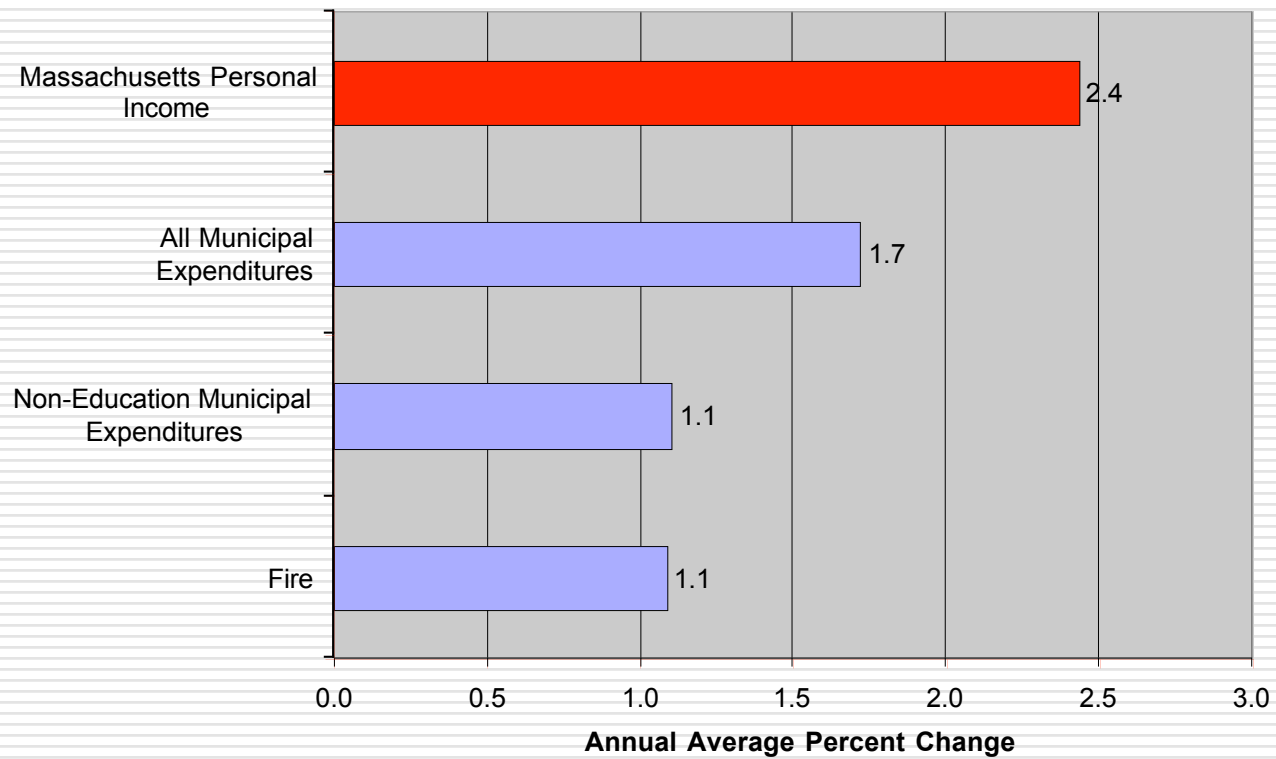
Police Protection

Real Growth in Spending or Income, 1987-2004



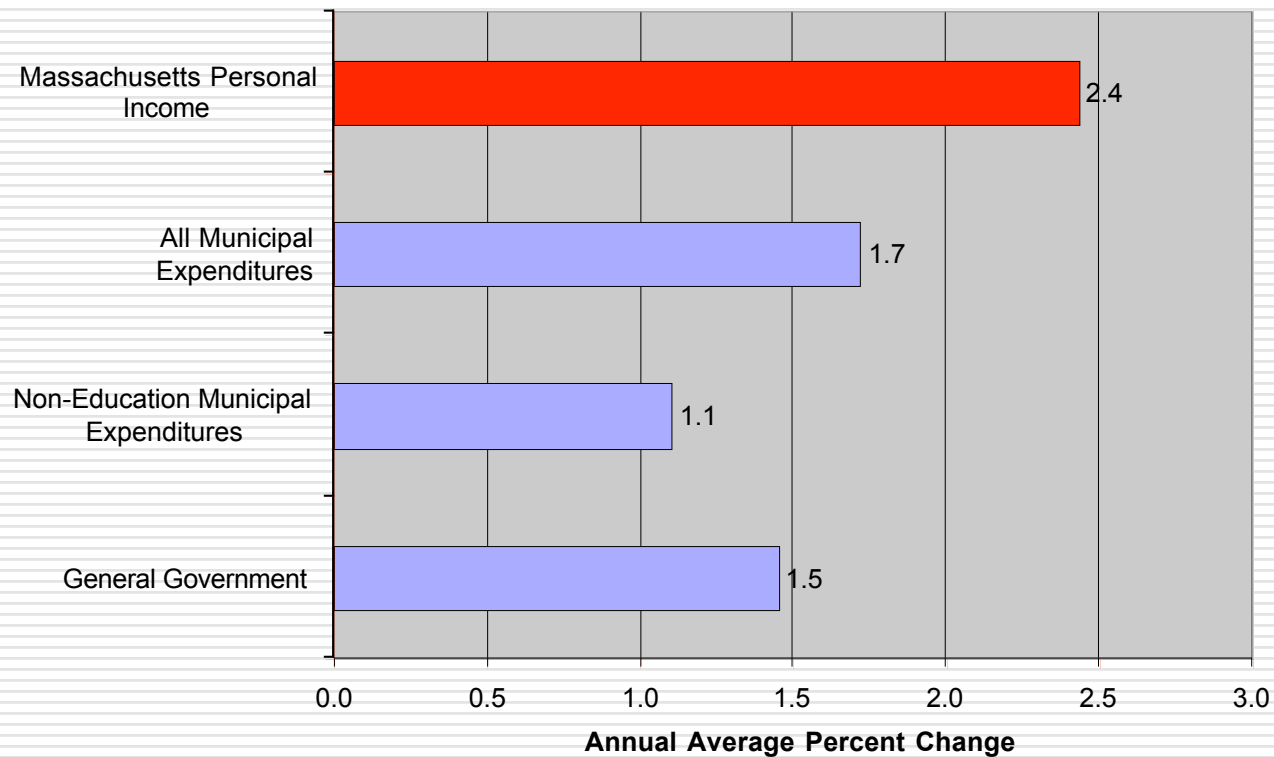
Fire Protection

Real Growth in Spending or Income, 1987-2004



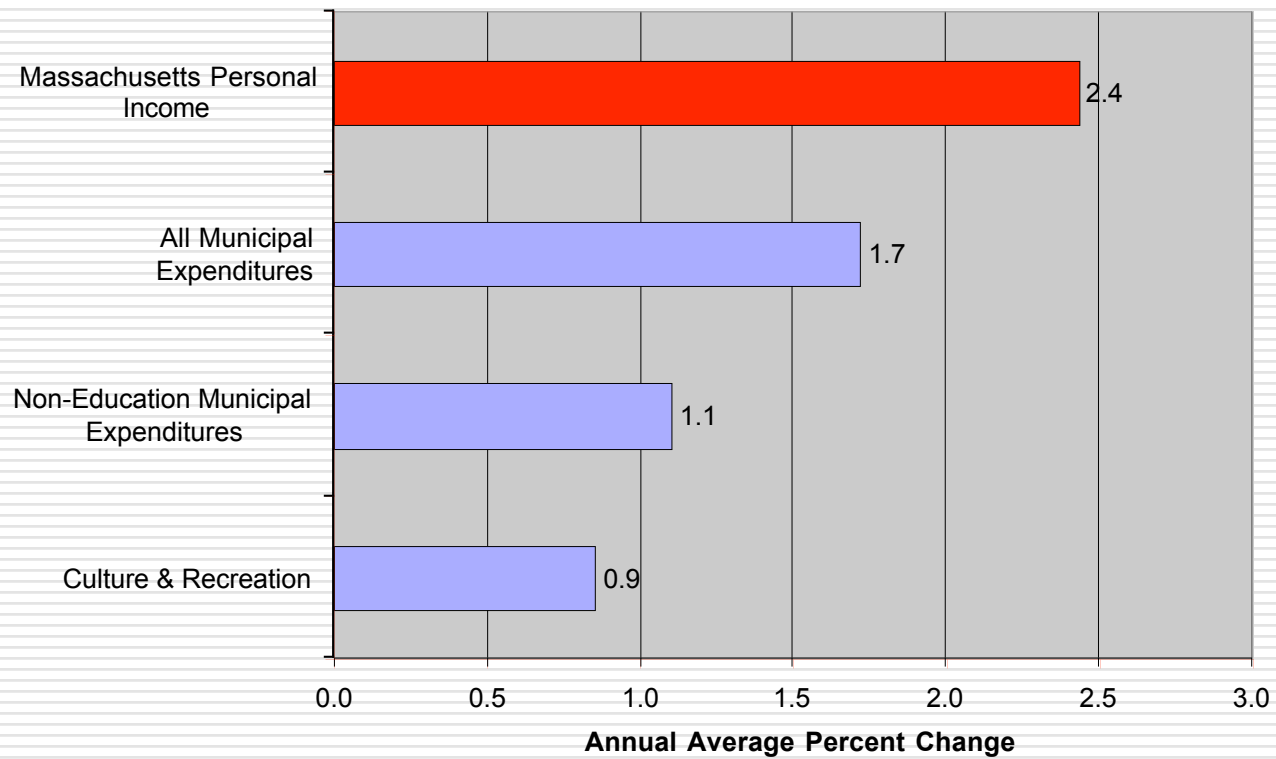
General Government Functions

Real Growth in Spending or Income, 1987-2004



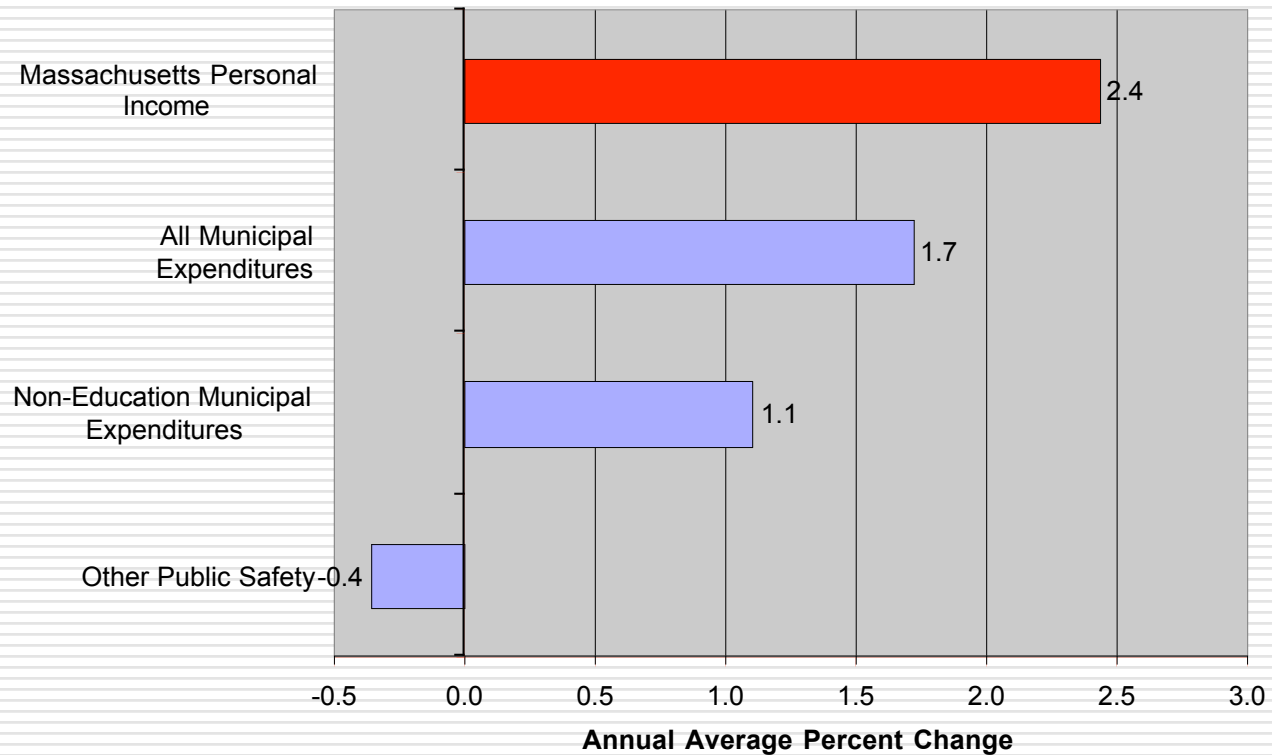
Culture and Recreation

Real Growth in Spending or Income, 1987-2004



Other Public Safety

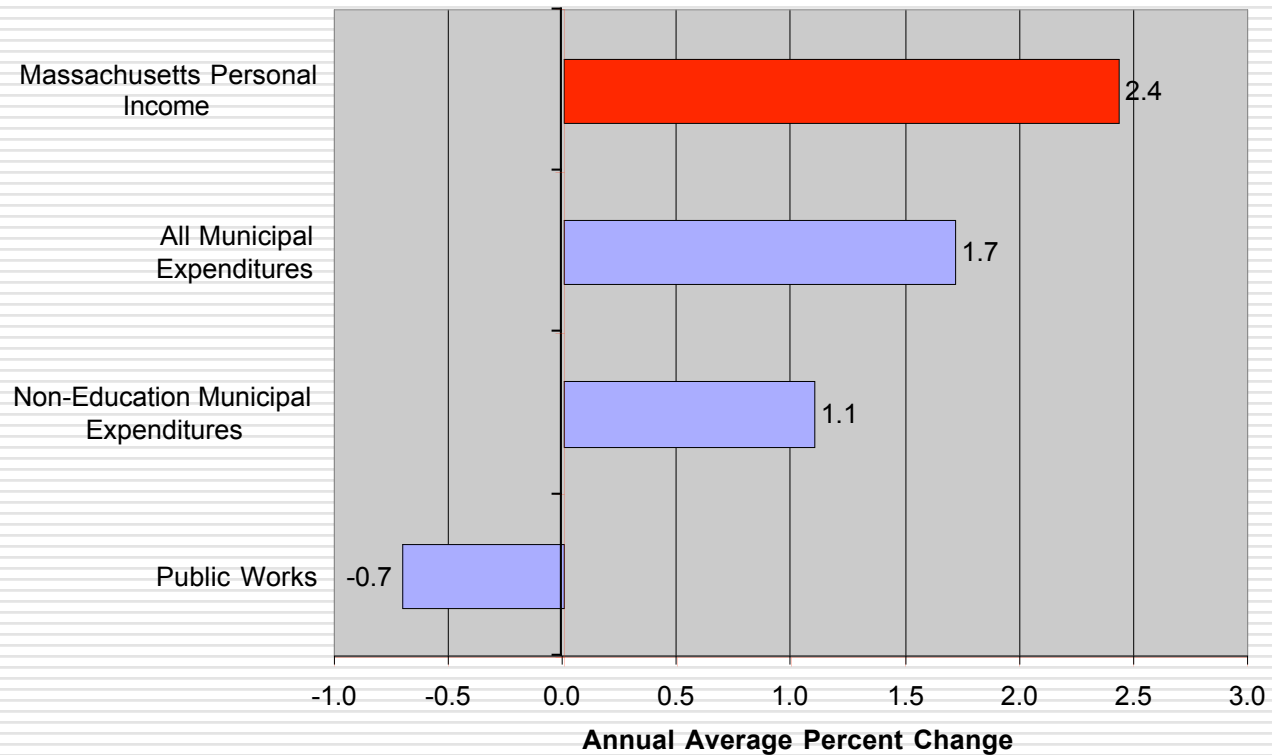
Real Growth in Spending or Income, 1987-2004



Other Public Safety: Emergency Medical Services, Inspection and Other

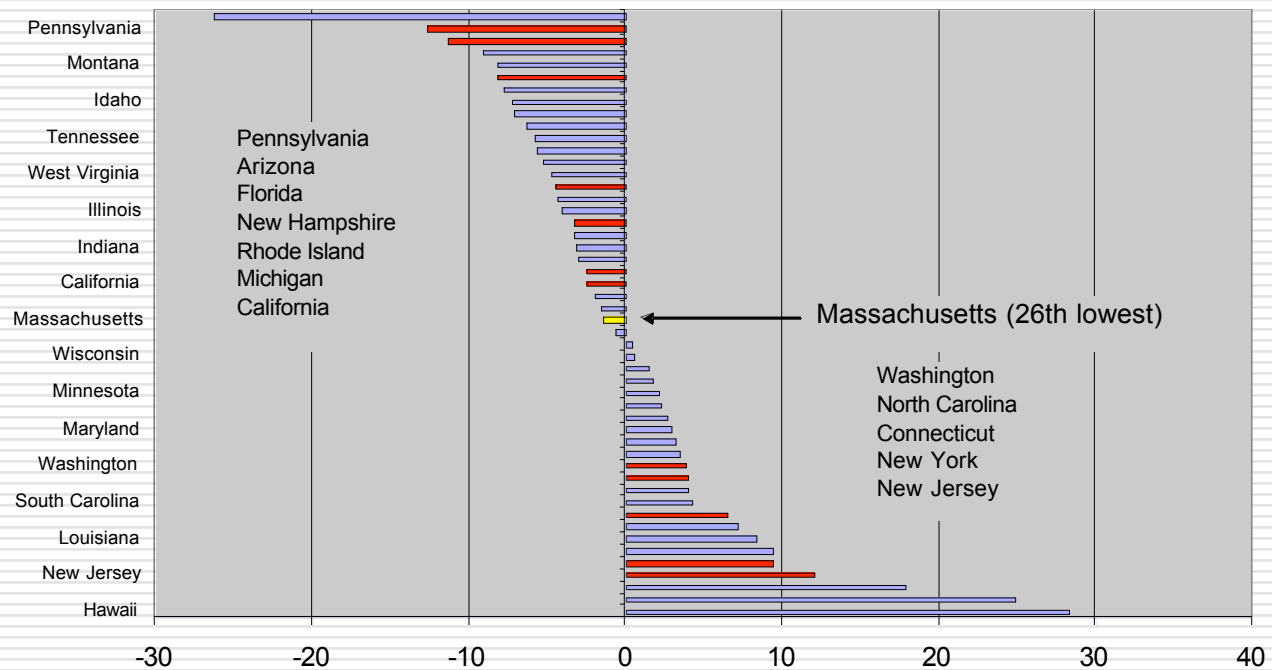
Public Works Spending Lags Far Behind

Real Growth in Spending or Income, 1987-2004



Massachusetts Has About an Average Number of State and Local Government Employees Per Capita, After Controlling for School Enrollment and Population Density

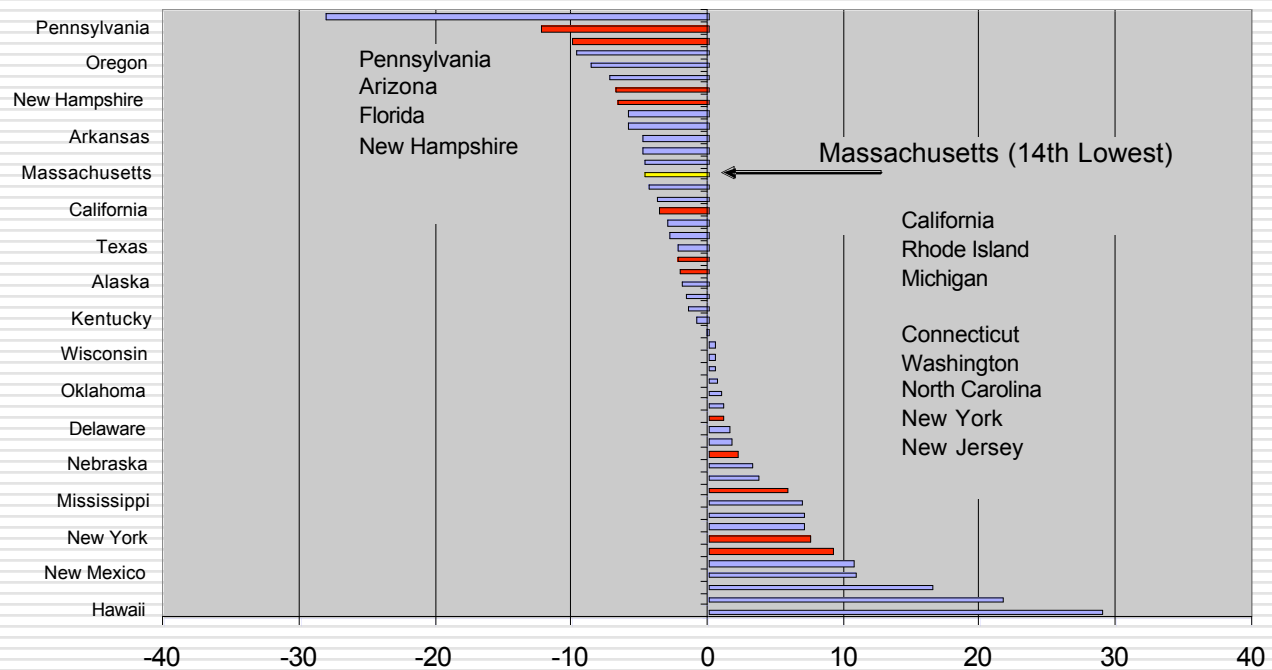
Number of State and Local Government Workers Fewer Than Expected (negative) or Greater Than Expected (positive), Per 1,000 Population



Comparison states are in red

After Controlling for Income as Well as Enrollment and Population Density, Massachusetts' Rank Drops to 14th

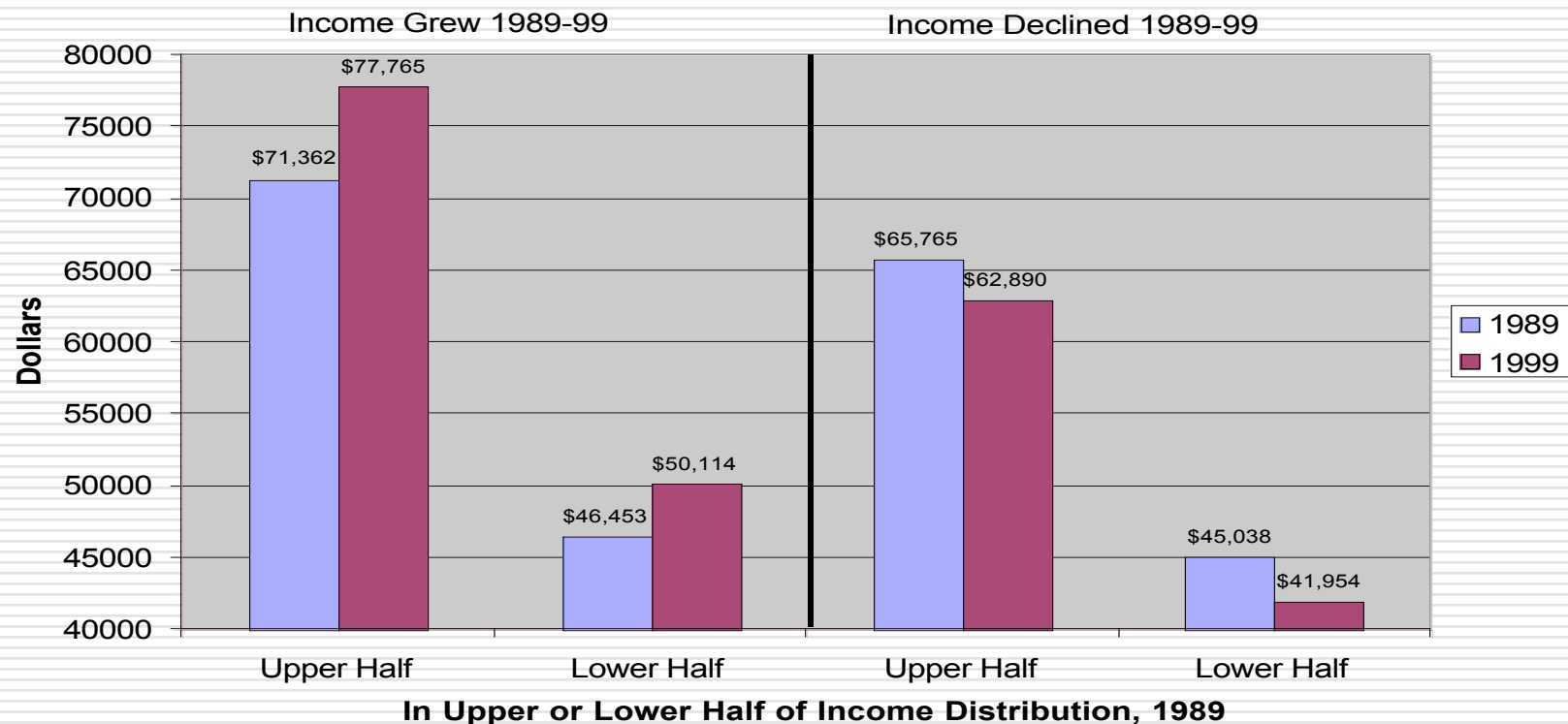
Number of State and Local Government Workers Fewer Than Expected (negative) or Greater Than Expected (positive), Per 1,000 Population



Comparison states are in red

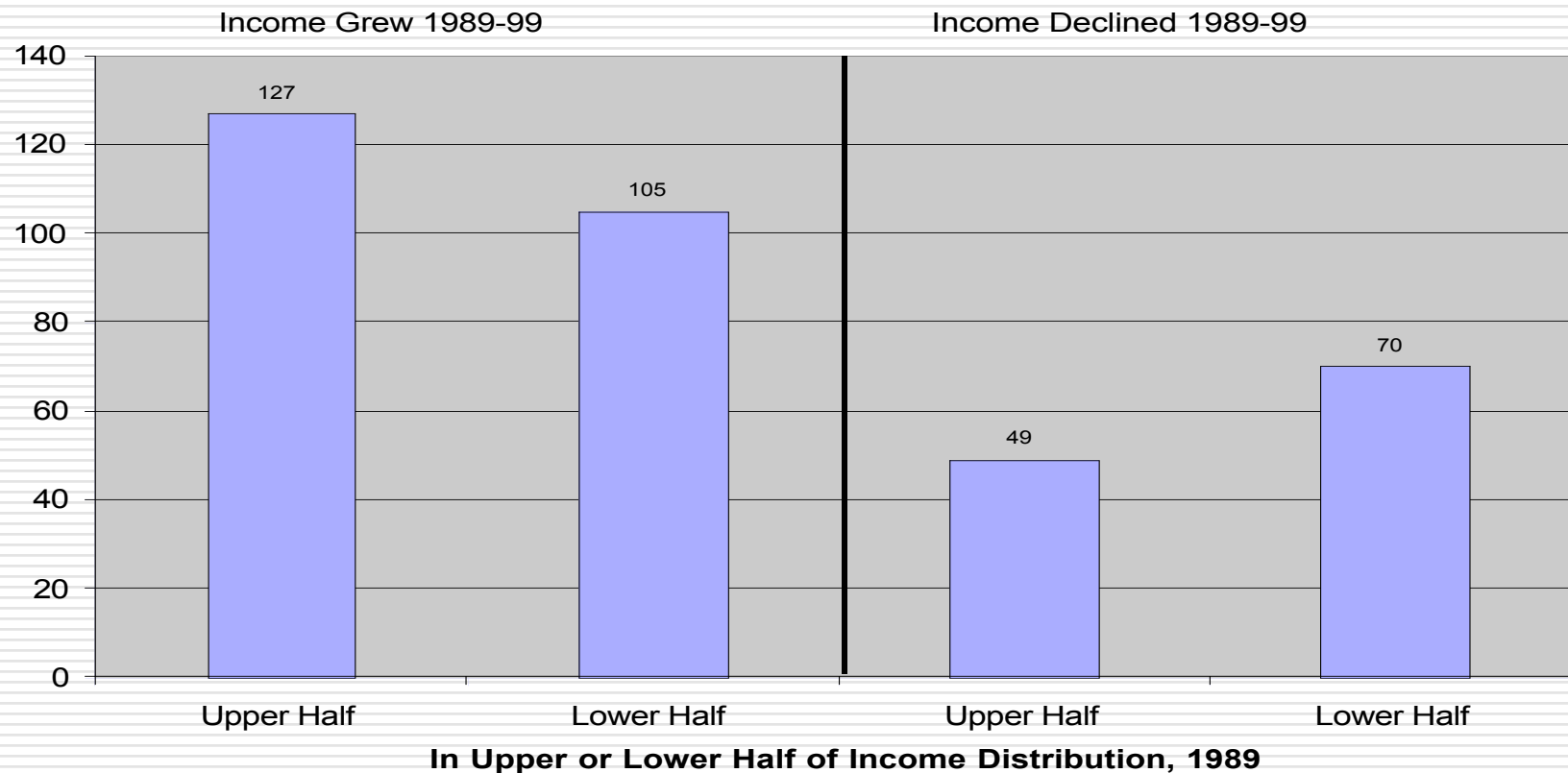
The Ability to Pay for Services Has Become More Unequal

Average Median Household Income, by Income Classification and Year

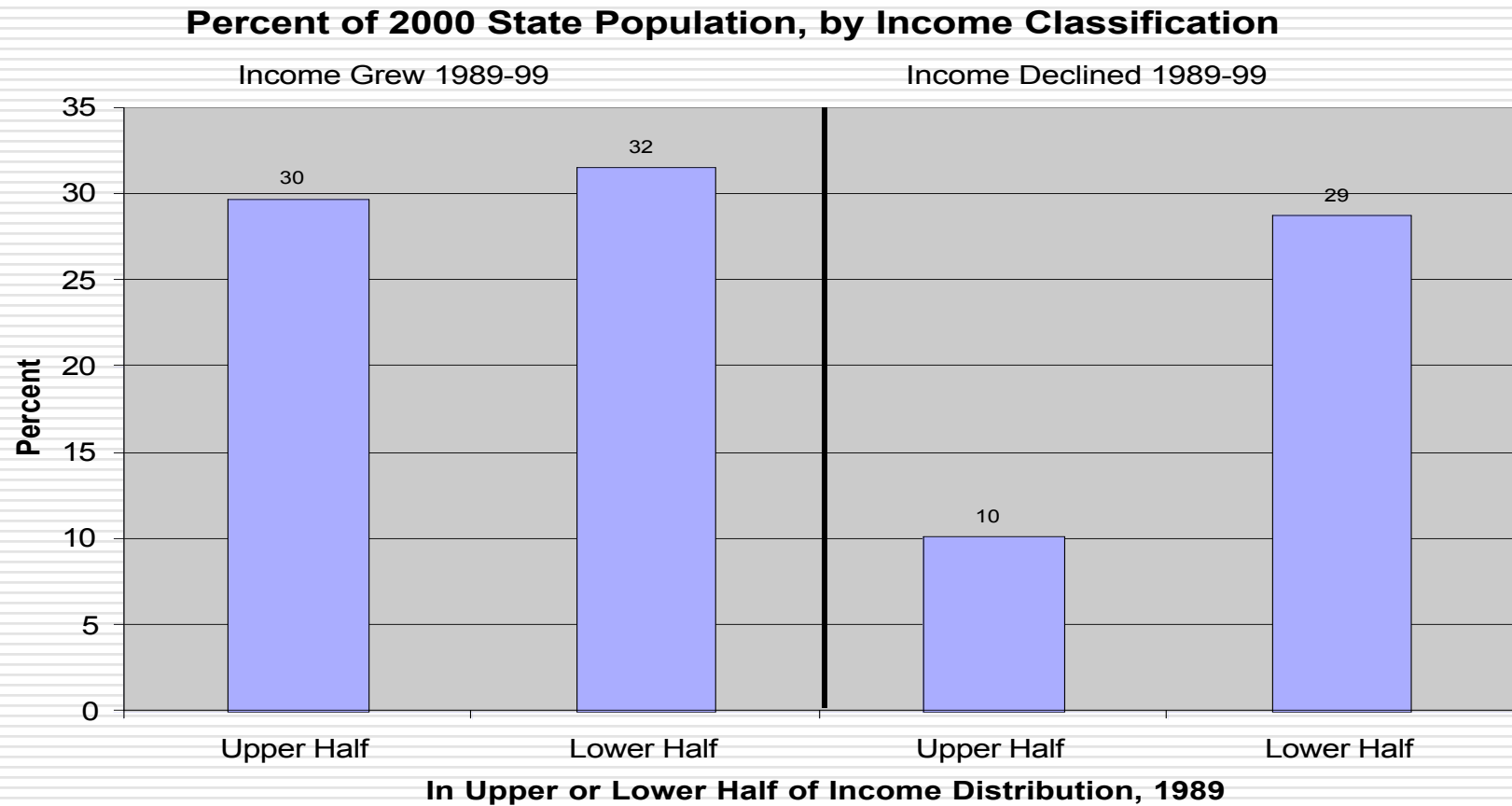


Many Municipalities Have Fallen Behind in the 1990's

Number of Municipalities, by Income Classification



Nearly 30% of Residents Live in Poorer Communities That Lost Income in the 90's

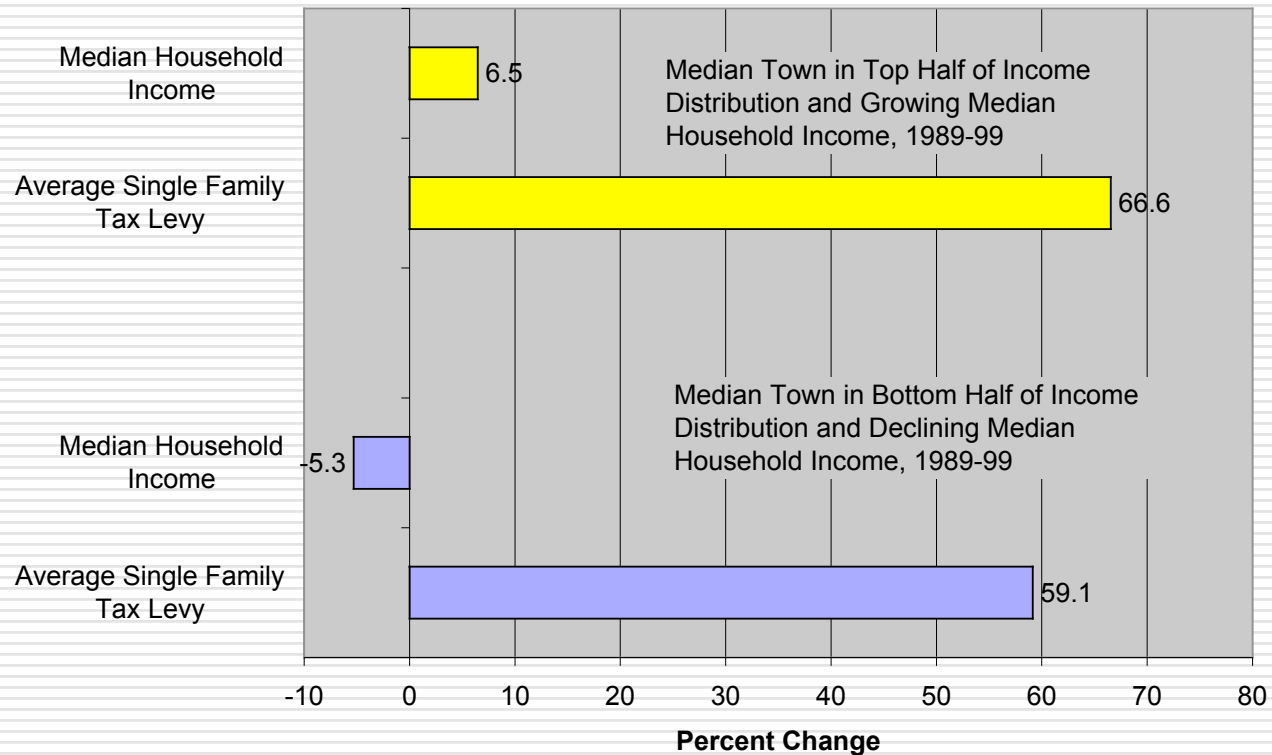


Selected Communities In Upper or Lower Half of 1989 Median Household Income, by Income Growth, 1989-99

Income Grew 1989-99		Income Declined 1989-99	
Upper Half	Lower Half	Upper Half	Lower Half
WESTON	BOSTON	FRAMINGHAM	WORCESTER
DOVER	CAMBRIDGE	WEYMOUTH	SPRINGFIELD
CARLISLE	SOMERVILLE	WOBURN	LOWELL
SUDBURY	WALTHAM	CHELMSFORD	BROCKTON
WELLESLEY	HAVERTHILL	RANDOLPH	NEW BEDFORD
NEWTON	MEDFORD	TEWKSBURY	FALL RIVER
NATICK	PLYMOUTH	DRACUT	LYNN
BILLERICA	PEABODY	SAUGUS	QUINCY
BROOKLINE	BARNSTABLE	DANVERS	LAWRENCE
ARLINGTON	ATTLEBORO	STONEHAM	MALDEN

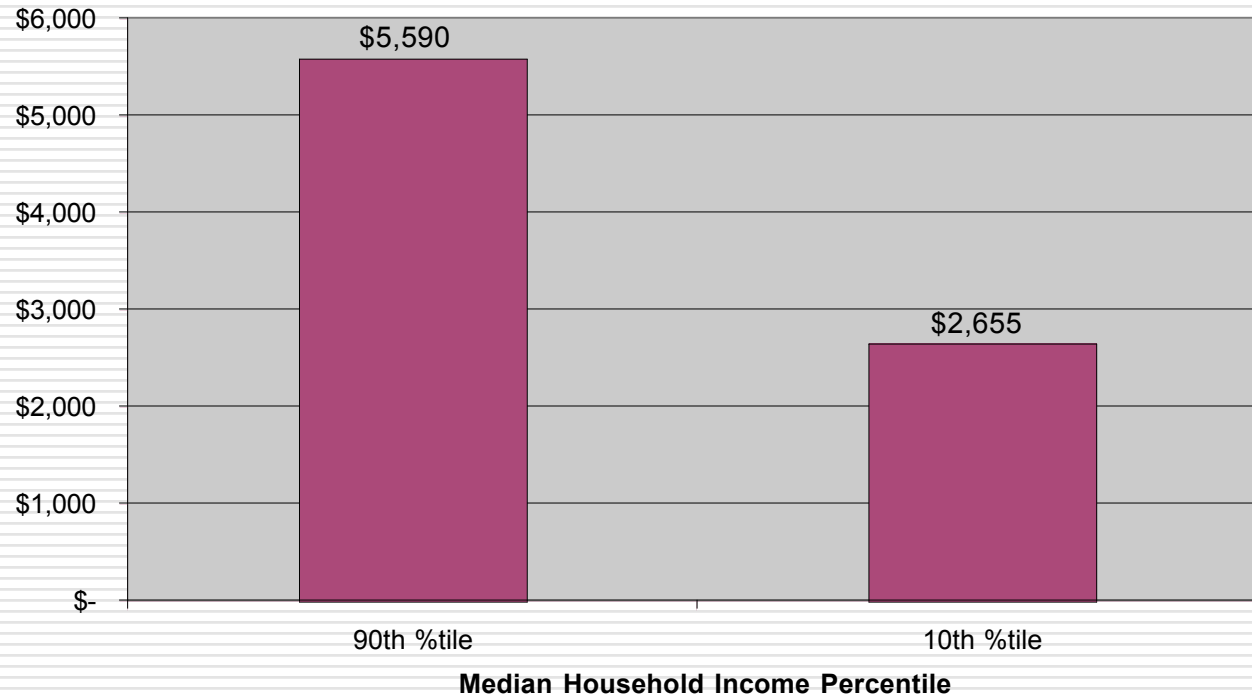
All Municipalities Are Stressed – Some More Than Others

Change in Property Tax and Household Income, 1989-1999



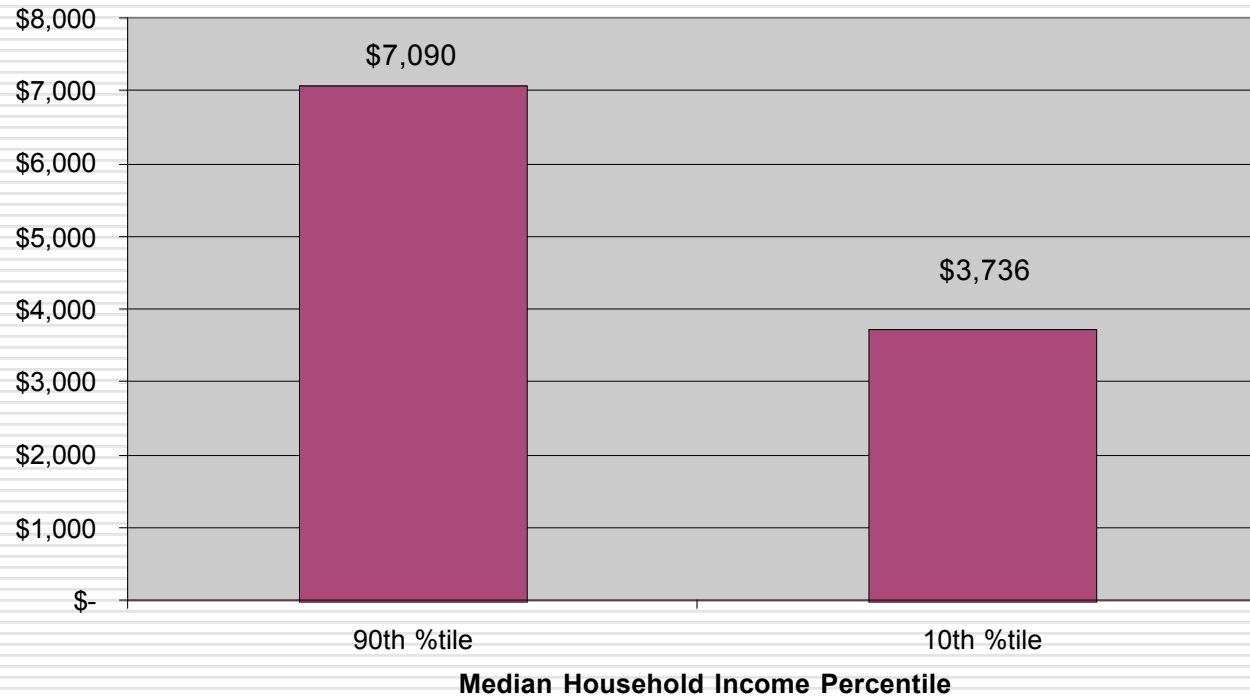
Households in Higher Income Communities Tax Themselves More...

Average Per Household Property Tax, by Income of Community, FY 2000



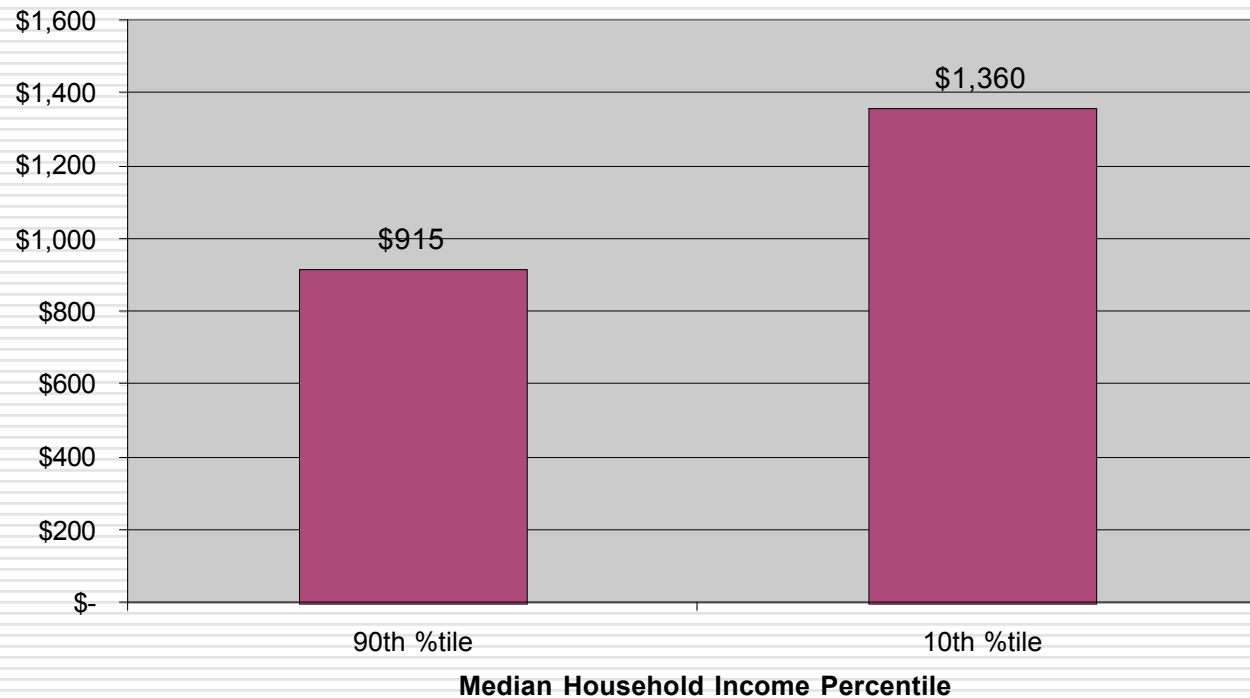
...So Their Towns Have More Own-Source Revenue

Average Per Household Own Source Revenue, by Income of Community, FY 2000



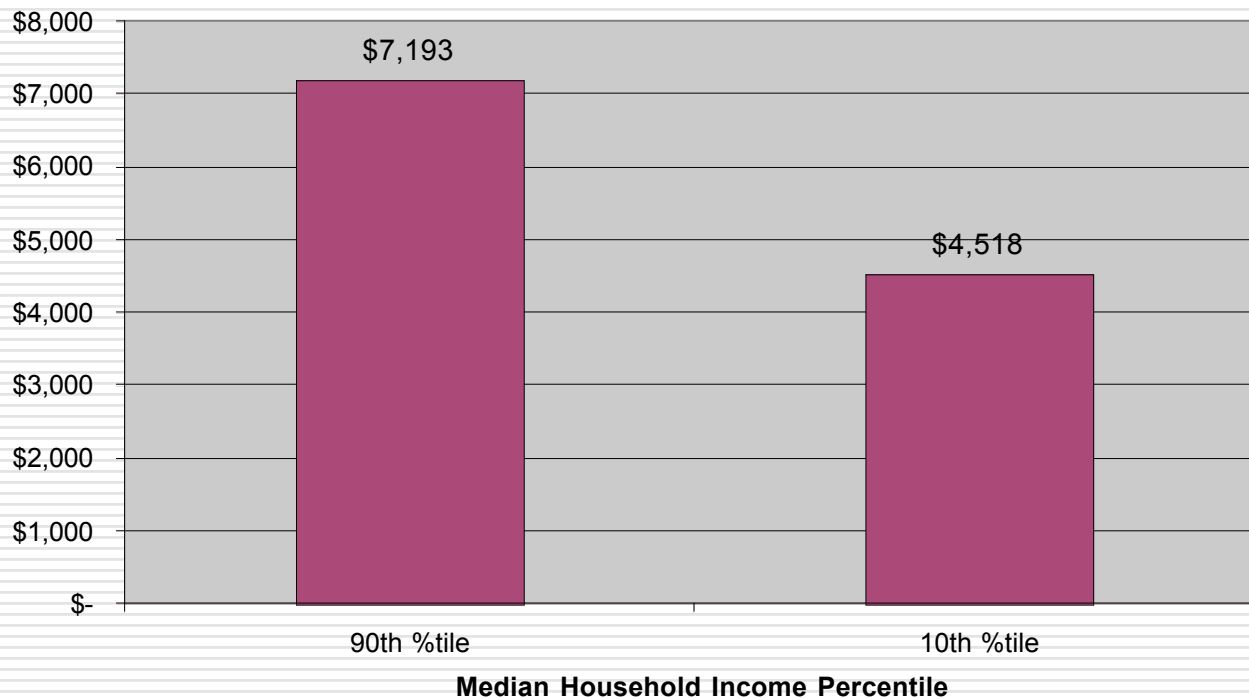
State Aid Offsets Some of the Inequality

Average Per Household State Aid, by Income of Community,
FY 2000



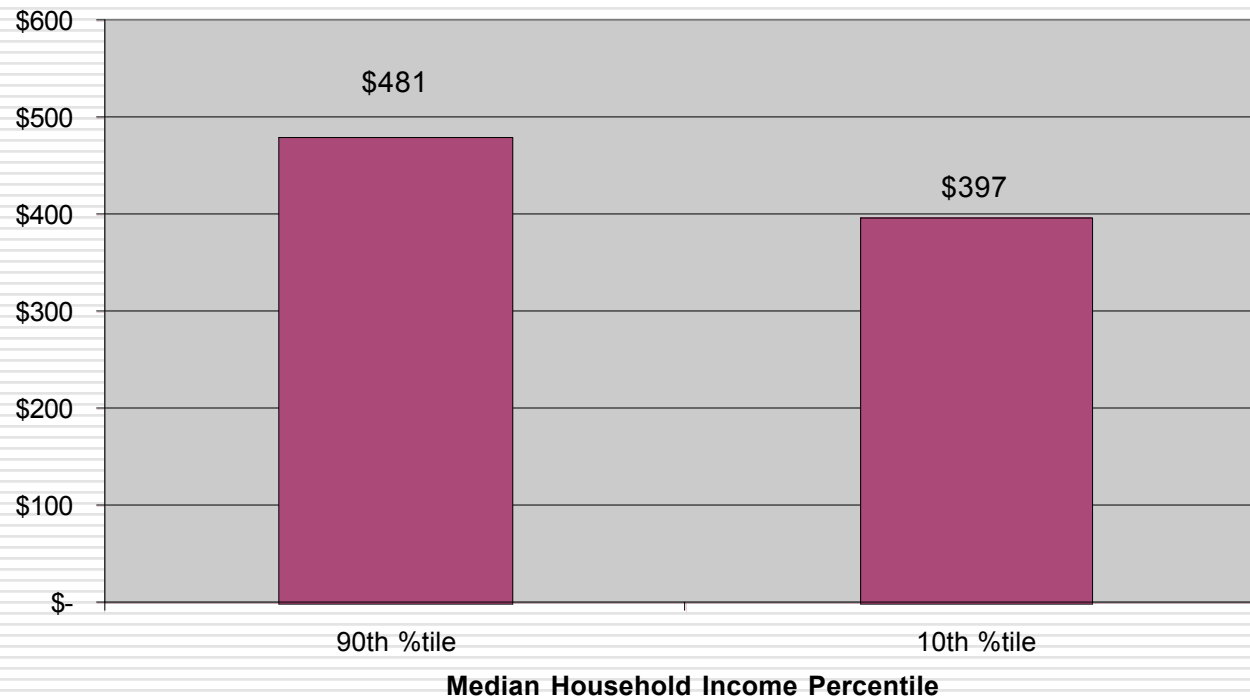
But Spending Disparities Remain

Average Per Household Municipal Spending, Including State Aid, By Income of Community, FY 2000



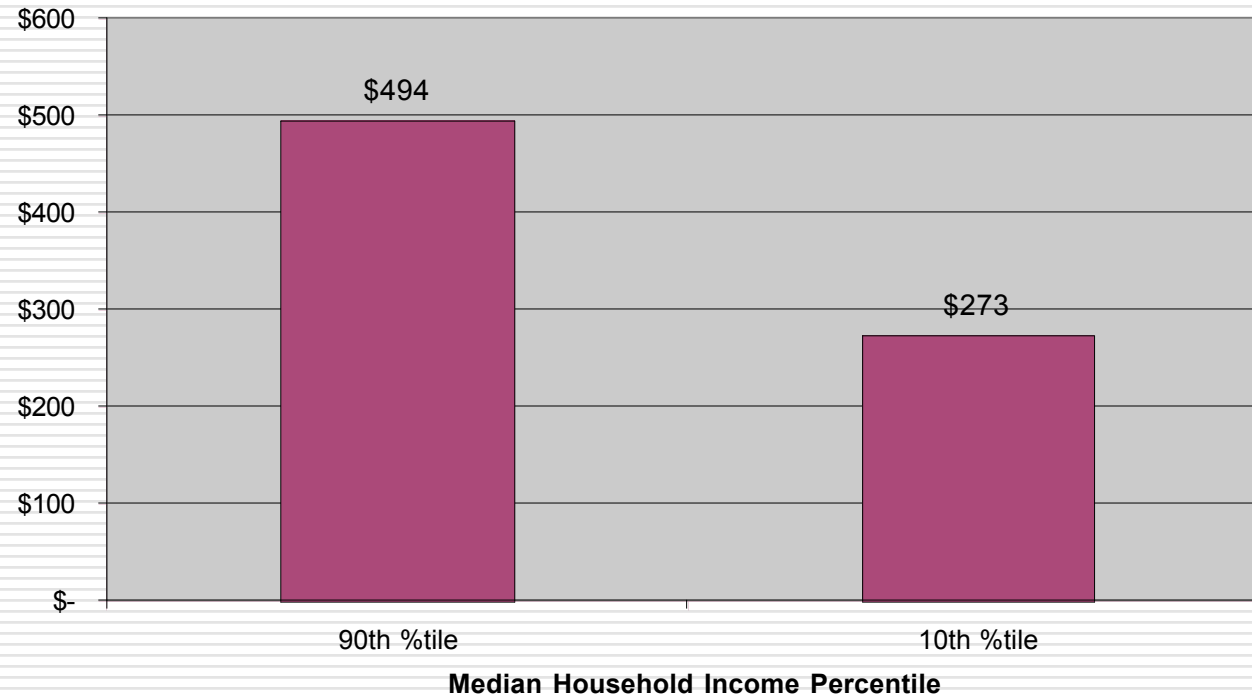
Including Police,

Average Per Household Spending on Police, by Income of Community, FY 2000



And Fire

Average Per Household Spending on Fire, by Income of Community, FY 2000



Local Tax Capability

- Massachusetts communities are heavily reliant on the property tax.
-

Per Capita Revenue Property Tax 2002

State	
New Jersey	1,907
Connecticut	1,760
New Hampshire	1,755
New York	1,414
Rhode Island	1,395
<i>Massachusetts</i>	1,374
US	991
Florida	986
Michigan	985
Washington	982
California	893
Pennsylvania	888
Arizona	829
North Carolina	674

Source: Author's Calculations of U.S. Census Bureau 2002 Census of Governments

Local tax capability

- Other states provide significant alternate taxing powers for local governments including sales and income taxes
-

Revenue Sources Available to Local Governments

State	Property	Income	Sales
US	X	X	X
Michigan	X	X	X
New Jersey	X	X	X
New York	X	X	X
Pennsylvania	X	X	X
Arizona	X		X
California	X		X
Florida	X		X
North Carolina	X		X
Washington	X		X
Connecticut	X		
Massachusetts	X		
New Hampshire	X		
Rhode Island	X		
Source: Author's Calculations of U.S. Census Bureau 2002 Census of Governments			

And so...

- ❑ High cost of living and high personal incomes demand high levels of public services.
 - ❑ And yet we are falling further and further behind as we watch young talented workers leave for other competitor states.
 - ❑ Our fiscal partnership between state and local government is at its lowest ebb in decades.
-

Furthermore...

- ❑ Firms choose to locate in cities and towns, based on their ability to deliver important services and the reputation of the quality of life in the community.
 - ❑ We need to invest in all aspects of municipal services including education, public safety, culture and recreation, and infrastructure in order to attract and retain jobs and people.
 - ❑ The current over-reliance on the property tax and limited local aid is not enough.
-

Summary...

- ❑ All municipalities in the Commonwealth are stressed.
 - ❑ The growing disparities between communities is a big problem.
 - ❑ We have the ability to make the necessary investments in cities and towns, and we need to do so to grow our economy.
-

Conclusion

- It's the economy!
-