

## Municipal Budgets, Local Aid and Property Taxes Amid COVID-19

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The COVID-19 pandemic has put cities and towns in a difficult bind. [Municipalities rely mostly on property taxes](#) to support our schools, public health, libraries, trash collection, road repair, firefighters, and other public goods. Municipal spending also depends on local aid from the state and from smaller locally-collected sources such as parking fees and hotel taxes that have declined as a result of the pandemic. With long-deferred increases to state educational aid to localities and annual increases to other local aid under threat, most municipalities *could* increase their property taxes, but those costs often fall hardest on the most vulnerable residents.

How municipal revenue shortfalls get resolved will have an impact on racial equity. Municipal services and infrastructure such as schools create access to opportunity that is particularly important for people of color who have been held back by a legacy of structural racism. If there is insufficient aid from the state and federal governments, communities could be pressed to cut the public services their residents depend on or increase property taxes.

While most municipalities could bridge revenue shortfalls by increasing property taxes, statewide limits from [Proposition 2 ½](#) leave other communities with little choice but to cut their budgets. Proposition 2 ½ set a *ceiling* that limits the total amount that a municipality may collect each year through the property tax, and set a *limit* that constrains the annual growth rate of property taxes that can only be exceeded by a local voter-approved override. Among Massachusetts' 351 cities and towns in 2020, 327 [set property taxes](#) at less than 90 percent of their total allowable tax ceiling prescribed by Proposition 2 ½, and 303 municipalities set levels less than 80 percent of their ceiling. In other words, they could collect significantly more property tax.<sup>1</sup> In Springfield and Holyoke, on the other hand, there is relatively less property wealth and fewer options to raise additional revenue. Total property taxes in these cities are basically already at the tax ceiling, preventing them from additional property tax revenue, even through a local override vote. A majority of residents in Springfield and Holyoke are people of color – 68 percent and 58 percent, respectively – compared to 28 percent statewide.

### Snapshot of Findings

- The pandemic has increased many city and town spending needs, while reducing a variety of municipal revenue sources.
- Most municipalities can resort to higher property taxes, but others can't.
- The impact of property taxes tends to fall hardest on low incomes residents, including renters, who are disproportionately people of color.
- State aid to municipalities can avert damaging budget cuts in vulnerable communities.

<sup>1</sup> Increasing property taxes to the levy ceiling ordinarily requires a successful local override vote to exceed the levy limit.

Similarly, in Worcester where 44 percent of residents are people of color, property taxes are already at 92 percent of the ceiling imposed by Prop 2 ½.

To the extent that local revenue shortfalls and inadequate state aid push municipalities to cut public spending, it will also hinder Massachusetts' economic recovery. Furloughing teachers, first responders, and other public employees, as well as forgoing repairs and other public contracts, will remove dollars that would have circulated in the local economy. Cutting state and local budgets during a recession is like cutting off the gas to the economy. It would be the surest way to deepen and prolong the current economic downturn.

## **MUNICIPAL EXPENSES INCREASE AS REVENUES FALL**

As a result of the pandemic, municipalities face increased spending needs and some declining revenue collections.

Municipalities have been spending more on expenses like first responders, local public health workers, COVID-19 testing, social distancing, cleaning supplies, PPE, payroll for unanticipated work as a result of the pandemic, and food pantries and other direct assistance to people struggling to pay the bills as a result of the pandemic and its economic impact. For the remainder of the calendar year, these expenses [should be largely reimbursable](#) with funds [made available to by the Commonwealth](#) through the federal Coronavirus Aid, Relief and Economic Security (CARES) Act's [Coronavirus Relief Fund](#). However, these funds may not be used to substitute lost revenue. Moreover, many of the additional expenses targeted by these funds are likely to continue long past the end of the year.

In the meantime, cities and town have lost significant revenue from a variety of sources. While the property tax is relatively stable, other smaller sources of revenue raised by municipalities are likely to have been significantly reduced by the pandemic: taxes and fees on restaurant meals, parking, hotels, jet fuel, cannabis, lottery, and new car sales.

State aid to communities can counteract the extent to which lower-wealth communities are forced to tax themselves more or invest less in locally-supported programs. Local aid refers to funds that flow from the state's budget to city and town budgets, helping them fund vital local services, including separate support for K-12 school districts. Local aid [has not kept pace](#) with the economy over the last two decades. State education aid can be an especially important source of funding for schools in low-income communities, which disproportionately educate children of color. Last year lawmakers enacted landmark legislation to update school funding aid levels that had become inadequate. Following through on those state commitments will have even greater importance in light of other fiscal challenges to municipalities caused by the pandemic.

## **PROPERTY TAXES OFTEN FALL HARDEST ON LOWEST INCOMES**

Overall, property taxes tend to [fall hardest on those with lower incomes](#). This is particularly the case for taxes on residential property. According to data provided by the Institute on Taxation and Economic Policy:

- Households with the highest 1 percent of incomes on average pay less than 3 percent of their income in combined residential and commercial property taxes, the smallest share of any group.
- Those with the lowest incomes tend to pay over 5 percent of their incomes in property taxes.
- As a percentage of their incomes, those in the middle 60 percent of incomes pay more than double in residential property taxes than do the top 1 percent.

There are several reasons [why property taxes tend to be regressive](#). A big factor is that landlords often pass a portion of these taxes onto their lower-income tenants. Also, housing costs comprise a far larger part of household expenses for families of color and those with low incomes. And while low- and middle-income families tend to hold most of their wealth in their home, high-income people typically hold most of their wealth in financial assets like stocks and bonds that are exempt from property taxes. The property tax assessment and appeals process may also be a factor, especially for people of color. Meanwhile, special tax incentives to businesses often reduce their property tax bills.

## REGRESSIVE IMPACTS OF PROPERTY TAXES CAN BE REDUCED

The Commonwealth has tools that can be improved to make property taxes more progressive. A key immediate action is to maintain and increase state aid to communities that have less capacity to raise their own property taxes. Strong aid to cities and towns will relieve them from raising their property taxes on residents. It will also bridge differences between how much communities can invest in local services like schools and libraries.

The Commonwealth could also enhance the current “Senior Circuit Breaker,” which provides refundable tax credits to limit the percent of income that low- and moderate-income seniors pay in property taxes or rent. Lawmakers could raise the benefit cap, extend the program to people of any age, and make it easier for municipalities that want to enact their own supplements to the Circuit Breaker.

Over the longer term, the Commonwealth and municipalities can [enact additional policies](#) that will use property taxes to encourage affordable low-income rentals, or reduce property tax bills for less expensive real estate, and otherwise make property taxes more progressive.

### Read MassBudget’s analysis of:

- The [outsized importance of property taxes](#) for cities and towns in Massachusetts.
- How high-income households pay a [smaller part of their income in property tax](#).
- Why residential [property taxes tend to be regressive](#).
- State and municipal [policies that currently make property taxes more progressive](#).
- Seven [policy changes that would make property taxes more progressive](#).