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A Special Report

Municipal Fiscal Stress In Massachusetts: Prognosis And Prescription

Joseph S. Slavet, Editor

September 1994

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Municipal Fiscal Stress In Massachusetts: Prognosis And Prescription

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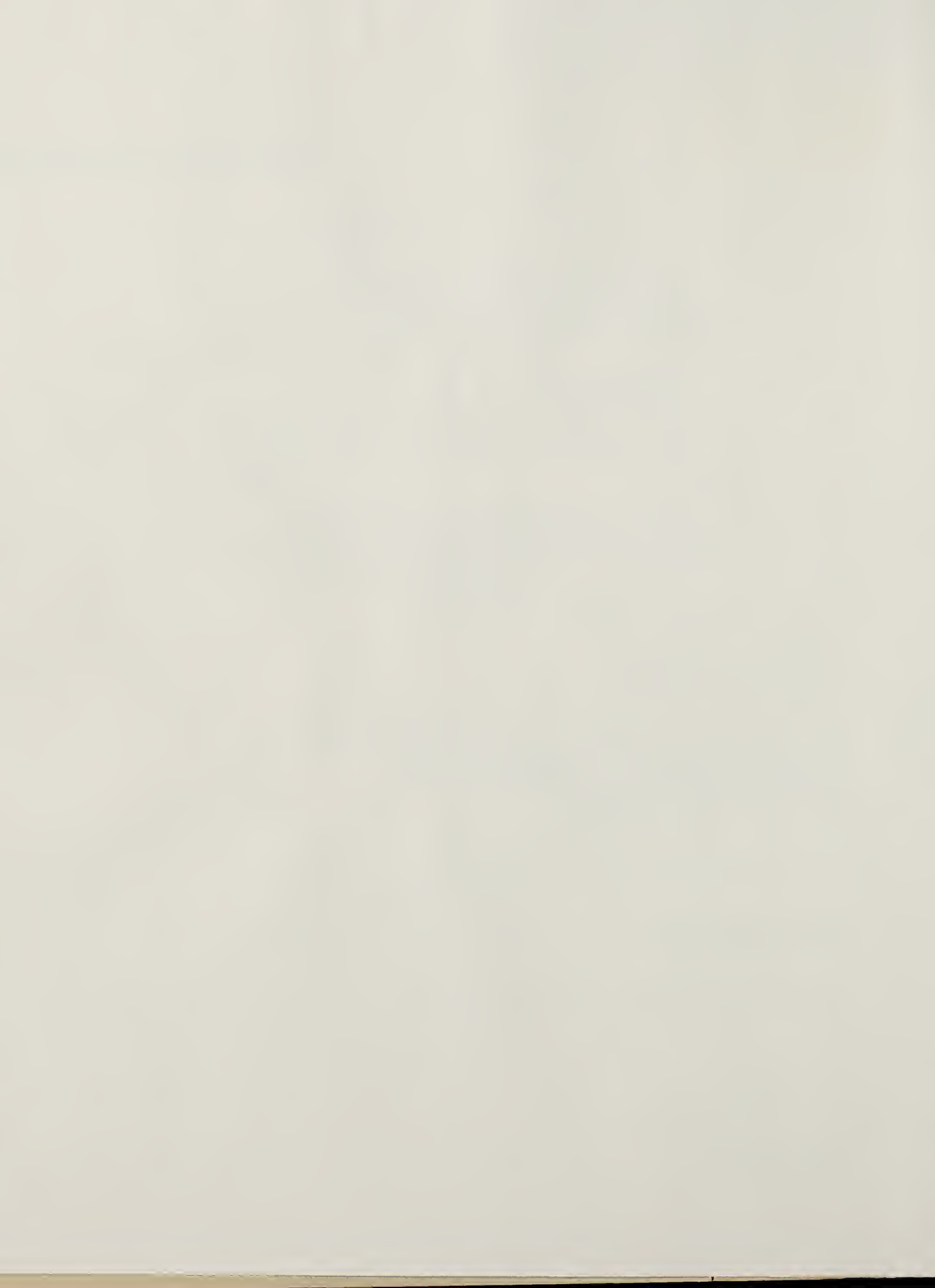
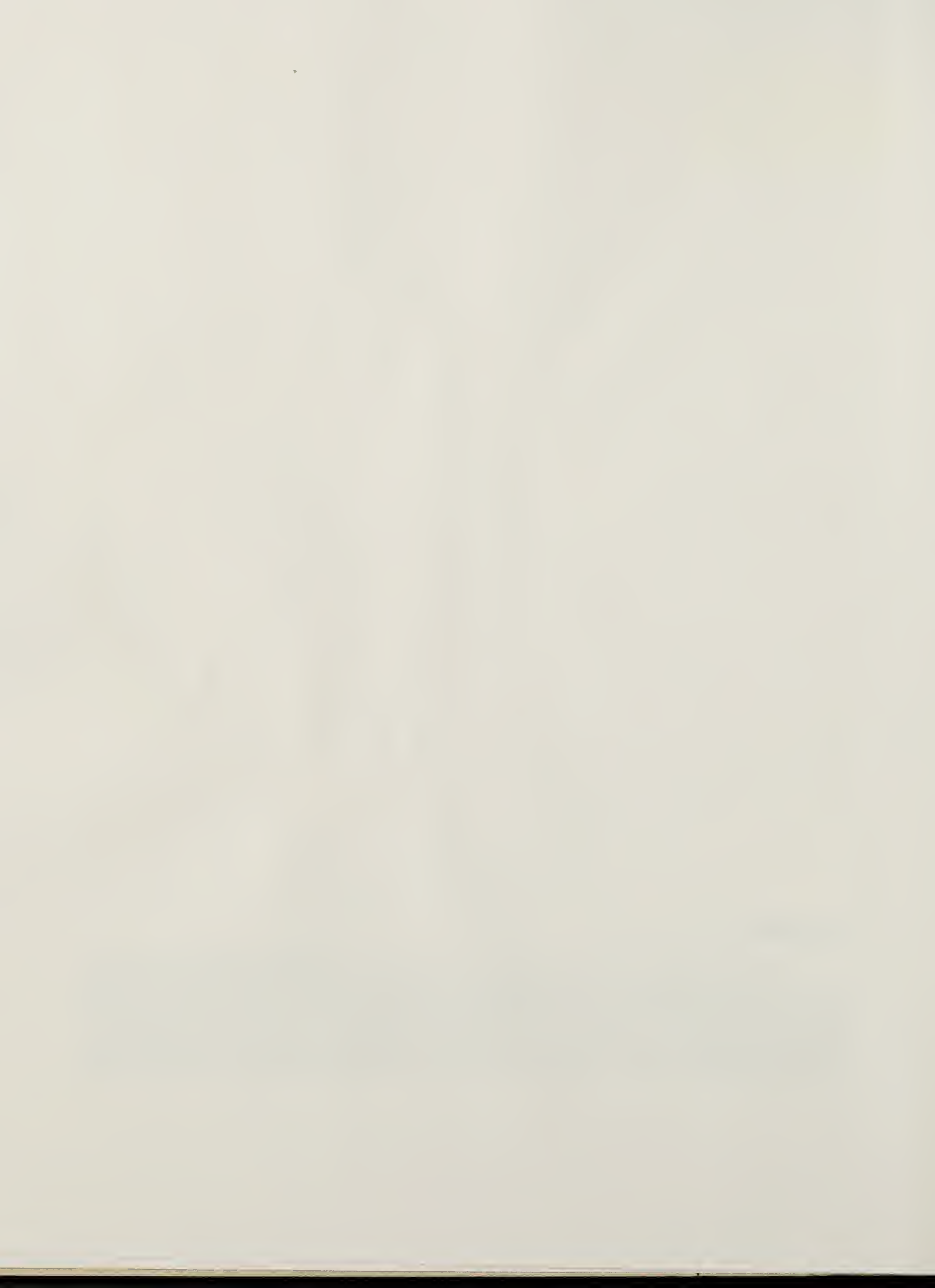


The Editor

Joseph S. Slavet is a Senior Fellow at the McCormack Institute, former Director of Boston Urban Observatory, the first Director of Action for Boston Community Development, and a former Executive Director of the Boston Municipal Research Bureau. Slavet has had diversified administrative, research, and consultant experience and has co-sponsored many books on state fiscal policy, state land use policy, municipal finance, and educational policy.



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The commissioned papers and commentaries in this publication were originally presented at a conference on the municipal fiscal crisis in Massachusetts held on October 15, 1993 at the Federal Reserve Bank of Boston. Co-sponsors of this conference were the John W. McCormack Institute of Public Affairs at the University of Massachusetts Boston, the Massachusetts Taxpayers Foundation and the Massachusetts Department of Revenue. The following persons represented their respective institutions in planning and organizing the conference:

John W. McCormack Institute of Public Affairs:

Joseph S. Slavet, Senior Fellow

Richard A. Manley, Senior Fellow

Kathleen J. Foley, Assistant Director

Massachusetts Taxpayers Foundation:

Susanne E. Tompkins, Vice President and Director of Research

Don Buckholz, Senior Research Associate

Massachusetts Department of Revenue:

Leslie A. Kirwan, Deputy Commissioner

Rob Addelson, Chief, Municipal Data Management

John Sanguinet, Financial Analyst

Not included in the above list of conference planners, but a key person in the conference planning process, was Katherine L. Bradbury, Assistant Vice President and Economist at the Federal Reserve Bank of Boston. Well known for her clear-thinking in writings on state and

local fiscal issues, Ms. Bradbury prepared the initial program outline of issues that stimulated the creative juices of the conference organizers. She also served as a major source of advice and counsel in developing the final agenda and identifying appropriate program players.

The conference and this publication could not have been possible without the generous support of the Fleet Bank of Massachusetts and the Shawmut National Bank. More important perhaps than the financial assistance of these two private institutions was the willingness of their chief executive officers, John P. Hamill and Allen W. Sanborn, to participate actively by serving as moderators of the morning and afternoon sessions, thereby confirming their commitment to the proposition that the fiscal health of the state's cities and towns is of concern to the state's business leadership.

We are also grateful for the panelist presentations at the conference whose specific comments were not available for inclusion in this publication, including those of Mitchell Adams, Massachusetts Commissioner of Revenue; Ed Moscovitch, Consultant, Cape Ann Economics; Richard Voke, Majority Leader, Massachusetts House of Representatives; Peter Torigian, Mayor of Peabody; Mark Roosevelt, Chairman, House Committee on Education; Geoffrey Beckwith, Executive Director, Massachusetts Municipal Association; Steven Wilson, Special Assistant to the Governor of the Commonwealth of Massachusetts; Mark Robinson, Secretary, Massachusetts Executive Office of Administration and Finance; James Young, Chairman, Callard and Madden Associates; Steve Kulik, President, Massachusetts Municipal Association; and Charles Royer, Director, Institute of Politics, Kennedy School of Government, Harvard University.

Also not included in this volume were the post-luncheon remarks of Jack Beatty, Senior Editor of the *Atlantic Monthly*, who lightened the conference mood with selections from his best-seller biography of James Michael Curley, offering humorous anecdotes with near-perfect

imitations of Curley himself in suggesting how "The Rascal King" dealt with fiscal stress.

The conference itself would not have happened without the several mailings of invitations sent out by the Division of Local Services of the Massachusetts Department of Revenue, for which I am grateful.

I am also indebted to the many persons who assisted in arranging and implementing the myriad conference logistics, including the food and reception necessary for maintaining attendee morale and comfort.

Finally, I wish to express my particular appreciation to my colleague, Dick Manley, for his devoted role as co-director of the conference project and for his special achievement as our chairperson of ways and means in raising the outside resources to make the conference possible. And nothing would have happened, of course, without the conscientious devotion to her assignment and detail of Ms. Kathy Rowan, whose loyalty and serenity under pressure was the key to smooth sailing and success of the entire enterprise.

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INTRODUCTION AND SUMMARY

Joseph S. Slavet

The papers in this volume were prepared during the summer and fall of 1993, when the popular mood was cynical and future prospects for fiscal recovery seemed uncertain at best. Between 1988 and 1992, Massachusetts had lost 358,000 jobs, over 9 percent of its employment base. The state's unemployment rate had climbed by a full percentage point or more over the unemployment rate for the nation as a whole. Several of the state's older industrial communities were suffering from chronic conditions of economic disinvestment and deterioration, expanding social pathology and demographic shifts with negative implications for their fiscal health and stability. The Legislature had placed one municipality in receivership and had put several others under the jurisdiction of state financial control boards.

The economic decline of the early nineties had stripped fiscally-vulnerable cities and towns of both jobs and tax revenues. Local political constituencies began to resist ballot questions to override property tax limitation. Exacerbating the erosion of the local tax base were drastic reductions in local aid from the Commonwealth during the 1991 and 1992 fiscal years as state policymakers resorted to desperate measures for bridging state financial commitments with smaller increases in state tax revenue collections.

Local pessimism spread as news stories reported the slashing of payrolls, even in municipal police and fire departments, and widespread teacher layoffs that sent pupil-teacher ratios to ordinarily unacceptable levels. Also fueling the mood of local cynicism from time to

time were the tales of local mismanagement, misfeasance and malfeasance.

Although there were encouraging signs of economic recovery and municipal fiscal stability by the fall of 1993, it was also quite evident that fiscal improvement would be spotty rather than widespread. Local revenues in FY1993 for the state as a whole was up by only 3.6 percent over the prior year, barely above the rate of inflation. Total assessed valuation declined by 6 percent in 1993, reflecting continuing contraction of the real estate market. Increases in property taxes from new growth in 1993 added only $91 million to the local tax limit, far below the $150 million level enjoyed during the late eighties, but a slight improvement over new growth in 1992. Property taxes rose by 4.6 percent in FY1993 over the prior year while local aid from the Commonwealth, up by 6.5 percent, indicated a significant improvement, an improvement that covered much of the local revenue shortfall in revenues from new construction and property tax limit overrides. It should be noted, however, that most of the additional local aid was dedicated to local schools under the recently-enacted educational reform legislation and the $2.2 billion in FY93 local aid was still $426 million below the FY1989 distribution.

The conclusion that the fiscal recovery would not be universal, not affecting all cities and towns positively and proportionately, came from the following facts:

1. Many cities and towns were living from hand to mouth. The total excess capacity of all municipalities, the difference between their property tax levels and their legal tax limits, totalled only $28 million as of June 30, 1993, less than one-half of one percent of their property tax total. However, 45 percent of the 351 cities and towns had zero excess capacity; and only 23 localities enjoyed excess capacity of 5 percent or more.

2. Of the 231 cities and towns with Moody's bond credit ratings as of April 30, 1994, one out of five had speculative ratings of Baa or lower.

3. A growing number of cities and towns, particularly those with separate tax rates on commercial/industrial/personal property, were sharply increasing the tax burdens on their jobs-producing sectors, thereby circumscribing future potential for jobs expansion. By FY1993, the total number of municipalities with non-residential property tax rates in excess of $20 per $1000 of assessed valuation had risen to 57.

The papers in this volume not only bring a variety of perspectives to the overall problem of municipal fiscal stress, but they deal directly with the underlying issues facing state and local policymakers and the voters of the Commonwealth.

In her "Overview of Current Fiscal Condition," Professor Ladd concludes that the state's municipalities have been experiencing more fiscal stress than during the mid-eighties and this is certainly due to short-run budgetary pressures -- low levels of free cash and other unrestricted reserves, large amounts of short-term debt to pay current bills, cut-backs in capital spending as shares of total revenue, and low bond ratings. She emphasizes, however, that the more serious aspect of municipal fiscal stress in Massachusetts may be traced to structural factors -- increasing constraints on the capacity of cities and towns to raise revenue (property tax limitation and reductions in state/federal financial assistance) and upward pressures on spending from factors largely beyond the control of local decision-makers (pension contributions, health insurance, other employee benefits, debt service, intergovernmental assessments, rising crime rates leading to higher costs for law enforcement, and increasing numbers of pupils, especially special education students.) Ladd points out that many cities and towns are facing both types of fiscal pressures.

And, she warns, those that have been able to manage their own budgets despite the pressures and constraints may be improving their short-term budgetary outlook without necessarily correcting their underlying structural condition.

In her comments on Helen Ladd's paper, from her perch as the elected representative of a large chronically dependent community of color, Senator Wilkerson notes the close correlation between voting patterns and voter turnout with employment and the delivery of services. Her conclusion is that healthy communities receive services superior to chronically dependent communities not because they are white but because they vote, and that voting is the means for transforming some chronically dependent communities into healthier communities.

From his vantage point as a sociologist, Professor Robert Ross, with the assistance of Jean Riesman, views the municipal fiscal stress problem within the context of structural change and the political decision-making process. He uses the cities of Chelsea, which went bankrupt, and Worcester, which managed with some difficulty to maintain fiscal stability, as case studies to test his hypothesis that coping with fiscal stress and overcoming structural disadvantage may have more to do with the presence of honest, strong and far-sighted political leadership.

The central theme of Susanne Tompkins is that Massachusetts made a sharp shift in local aid policy in 1993 when the Legislature enacted educational reform. By changing local aid from a policy of revenue sharing without regard to the uses of the local aid dollar, to directing the utilization of state-distributed money for the achievement of policy/programmatic goals, Tompkins concludes that the Commonwealth was shifting the focus of state financial assistance from local revenue to local spending. While conceding that the policy reversal in local aid underlying educational reform deserves a fair trial, she lists other misgivings: whether the

Commonwealth can afford the cost of a major initiative that will increase at a rate well in excess of state revenue growth; whether the state's fiscal climate is favorable for any new major investment; whether the narrow range of mutual support for educational reform, which was opposed locally by municipal officials concerned about the impact of the new educational demands on limited resources, may encounter future dissension and erosion of support; and whether transferring the control of educational policy from school committees and regional districts runs so contrary to the deeply-rooted tradition in Massachusetts of local governance by lay boards that mandated state standards will eventually lead to local resistance and disappointment in achieving statewide goals despite the infusion of one billion dollars in additional school aid.

For many cities and towns, financial stress could remain a chronic situation even as the improving economy bolsters property tax collections, state aid, federal aid and miscellaneous local revenue sources. This is the conclusion of Fred Breimyer in taking a hard look at what the future held for municipal fiscal stress in Massachusetts.

As a respected expert on the Massachusetts economy, he points out that the benefits of economic growth will not be shared widely throughout the Commonwealth since the R & D processes that produce breakthroughs and create new opportunities are heavily concentrated geographically in eastern Massachusetts and centered in Cambridge. Breimyer also warns that the strong growth possibilities that do exist are narrowly focused and technologically based, favoring only select areas within the state. As a result, he emphasizes, the outlook for most municipalities is that fiscal stress will continue. The good news is that, in most locations, it is not becoming worse. Yet, even so, the road back to fiscal good health is likely to be long and

difficult as fiscal stress will remain a common condition for many cities and towns for a considerable time to come.

An idealist who tested his philosophy as a successful practitioner of state policy, Frank Keefe believes strongly and documents in his paper that although state government on its own cannot break the adverse cycles of economic deterioration and their unfortunate consequences of local fiscal distress, state government can initiate and implement protective policies that can strengthen the capacity of communities to get through difficult economic periods with less pain. He advocates long-term state investments in education and infrastructure, targeting state initiatives to reinforce cities and population centers, safeguarding environmental quality, revitalizing poorer communities and correcting fiscal disparities. As a creative source of new ideas, Keefe proposes two initiatives that would counteract and cushion the adverse impact on cities and towns of economic decline on new construction and local aid -- a Municipal Stabilization Fund and biennial municipal budgets on a local option basis. As a long-standing student of development strategy, he presses for a growth policy vision that channels new growth to areas that need it most when measured against fiscal, social and economic criteria.

Alden Raine, in picking up Frank Keefe's closing plea for targeting state investment to places that need it most, offers the following active steps for achieving this goal: specific regional development strategies; regional infrastructure developments (highway construction, waster water treatment construction, turnpike modernization and Logan Airport modernization); construction of state buildings/facilities in older urban centers; implementing the state's Economic Development Act, the Massachusetts version of the enterprise zone concept, emphasizing eligibility for tax increment financing, various state tax credits, state subsidies for land assembly

and infrastructure development; and a new Executive Office of Economic Development that would merge activities of the Executive Office of Economic Affairs and the Executive Office of Communities and Development.

Finally, it seemed logical to have a seasoned political scientist with outstanding academic credentials and practitioner experience at all levels of the federal system to wind up the afternoon, a clean-up hitter who could fill our fiscally-stressed scorecards with useful policy prescriptions. Professor Robert Wood's menu of options came from a series of political and economic assumptions: neither the Commonwealth nor most of its municipalities were out of the fiscal woods yet; there is a backlog of postponed and unmet public needs compounded by sizeable new demands; the capacity to finance the aggregate of essential community facilities and services remains seriously constrained by a slow and still weak economic recovery and artificial policy restraints such as Proposition 2 ½ and the state's budget busters; and there is an attitudinal overlay of public cynicism and suspicion intensified by a series of scandals, real and alleged, that has brought trust in government to its lowest ebb since Vietnam.

After disposing of a package of what Wood calls "policy mirages" -- privatization, public entrepreneurship and help from above -- he proposes a list of new policy options, not quite as romantic as the mirages, that he considers more workable: genuine belt-tightening tied to pay-as-you-go financing and professional collective bargaining processes, thereby levelling the playing field for labor and public managers; new revenue sources, especially at the local level; and building new institutions within a framework of re-visited regional government.

OVERVIEW OF CURRENT FISCAL CONDITION

Helen F. Ladd
Professor of Public Policy Studies and Economics, Duke University

Cutbacks in federal aid resulting from budgetary pressures at the national level, a national recession that has reduced the rate of growth of state revenues, and taxpayer resistance to tax increases at the local level have seriously strained the fiscal position of local governments in many states throughout the country. Massachusetts is no exception. Indeed, as illustrated below, these trends have recently combined to put great fiscal pressure on many Massachusetts cities and towns.

While cities and towns are not the only type of local government in the state, they clearly dominate all other types. Counties, for example, have very few expenditure responsibilities and no taxing authority of their own, and regional school districts and special districts are less important in this state than in many others. Moreover, the expenses of regional school districts and counties are paid for in part by assessments on cities and towns. Hence, this overview focuses on the fiscal condition of the state's 351 cities and towns.

There is no single best way to measure the fiscal condition of local governments. In fact, the available measures provide more information on the condition of one municipality relative to another or on changes in the fiscal condition of municipalities over time than on their absolute fiscal condition. In other words, statements of the form, "cities and towns are experiencing too much fiscal stress," are difficult to make. However, one can make statements of the form,

"cities and towns are worse off today than at some time in the past" or "the fiscal position of one group of cities is worse today than another group or is deteriorating more rapidly."

In this spirit, the following analysis focuses on a variety of measures of fiscal pressure, makes comparisons over time, and compares groups of cities and towns to each other. The measures of fiscal pressure fall into three categories. First are measures of short run **budgetary** or **financial** pressure. Second are measures of the longer run underlying or **structural** fiscal condition of cities and towns, and third are measures of fiscal **effort** or **performance.** For comparisons over time, this paper centers on the three-year periods 1985-88 and 1988-91, with reference to 1992 (and 1993) information when it is available. The first period represents the final three years of the state's economic boom. The second three years cover the slowdown of the state economy and the period of the national recession.

For much of the analysis, the cities and towns are grouped into quintiles based on their reliance on resolution aid from the state.[1] This grouping highlights one of the major causes of recent fiscal pressure on cities and towns, namely, cutbacks in state aid. Other than with respect to their reliance on state aid, which varies on average across quintiles from over 20 percent to less than 1 percent, the groups are not easy to characterize. The 70 municipalities in the first quintile are, on average, the largest by population and have experienced the largest recent average declines in property valuations per capita. However, neither of these two characteristics nor others, such as per capita income, vary in a systematic way across the quintiles.

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[1] Resolution aid is the amount of cherry sheet aid historically distributed on an equalizing basis for general use. It includes Chapter 70 aid for education and so-called additional assistance. See the appendix for a list of cities and towns by category. Note that aid for regional school districts is not included in resolution aid.

Emerging from the overall analysis is the conclusion that cities and towns have been experiencing significantly greater fiscal pressure in recent years than during the mid 1980s and that, in general, those most dependent on state aid are facing the most pressure.

Measures of Short Run Budgetary or Financial Pressure

Trends in all four of the following measures support the conclusion that cities and towns, especially those most dependent on state aid, experienced more budgetary pressure in the early 1990s than in the mid 1980s. Each of these measures is intended to capture some aspect of the short run budgetary or financial pressure facing cities and towns.

Free cash represents unrestricted reserves available to be spent at the discretion of the municipality. Because different communities follow different practices with respect to free cash, one must be careful about making judgements about the adequacy of free cash in one community relative to another. Nonetheless, declines in free cash provide clear evidence of short-run budgetary pressure. This conclusion follows from the fact that free cash in any one year is calculated as free cash in the previous year adjusted downward for any budget deficit (or upward in the event of a surplus) and for uncollected property taxes. Hence, a decline in free cash indicates that the city or town is running a budget deficit or is having difficulty collecting taxes (a clear indicator of stress on the part of local taxpayers).

Figure 1 portrays the average levels of free cash expressed as a percent of revenue for three years for all municipalities and for the quintiles of municipalities grouped by their reliance on state aid.[2] For the quintiles, "high" indicates the 70 communities for which state aid accounts

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[2] The figures are based on the 341 cities and towns for which the municipality's free cash was certified by the Department of Revenue in each of the three years.

for the largest share of revenue and "low," the 71 communities for which state aid is the lowest share. This figure demonstrates a dramatic reduction on average in free cash as a share of revenue for all municipalities in 1991 compared to the years 1988 and 1985. In 1991, the average share was 1.2 percent.[3] While the Massachusetts Department of Revenue (the source of the free cash data) is careful not to specify a specific prudent level of free cash, this 1.2 percent seems extremely low. For comparison, the National Association of State Budget Officers advocates that states maintain reserves equal to five percent of their revenue. The pattern by quintiles of cities and towns is clear: those that rely most heavily on state aid have the lowest amount of free cash (a negative amount) in 1991 with the shares growing monotonically to 4.3 percent in communities that rely least on state aid.

More recent data strengthen the conclusion that free cash is extremely low. Restricting the comparison to the 331 municipalities for which free cash was certified for 1992, we find that, on average, free cash declined as a share of total revenue from 1.2 percent in 1991 to 0.9 percent in 1992 in municipalities throughout the state. In addition, the average for cities and towns most dependent on state aid became even more negative, declining from -0.4 percent to -1.2.

Short term debt as a fraction of total revenue provides a second measure of budgetary pressure. When cities and towns are under fiscal pressures, they tend to borrow more in the short-term market to pay their bills. A rise in short-term debt at the end of the year indicates rising budgetary pressure. As shown in Figure 2, on average, all cities and towns and most of the quintiles of municipalities faced more pressure in 1991 than in previous years. Two points

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[3] The results reported here are averages weighted by population. In other words they represent the situation in the municipality with the average resident. The analysis was also done in terms of unweighted averages which represent the situation in the average or typical municipality. With a few exceptions, the patterns over time and across groups of cities are quite similar for the weighted and unweighted averages.

are worth noting. First the use of short-term debt might have been even greater in 1991 had not many communities shifted to quarterly collection of taxes during that year. Second, reliance on short-term debt increased the most in quintiles I and V, that is, in those that rely the most and those that rely the least on state aid. In the latter set of municipalities, the use of more short-term debt could reflect the few alternatives that many of those communities have for dealing with temporary budgetary shortfalls.

Capital outlays as a share of total revenue can be used as a third measure of budgetary pressure on the grounds that when municipalities are facing budgetary pressure, they typically cut back on their capital spending. Compared to the politically sensitive areas of spending on police, fire and schools, cutbacks in capital spending are often more politically feasible because such cutbacks tend not to be noticed -- unless, of course, a bridge collapses or a water main breaks. Figure 3 shows that capital spending was lower as a share of total revenue in 1991 than in 1998, thereby providing additional evidence of budgetary pressure.

A final measure that reflects several fiscal factors, including current budgetary pressures, is the city or town's **bond rating**. As shown in Table 1, the number of Massachusetts communities with low Moody's ratings (Baa ratings or below) increased to 43 in 1992. These low bond ratings make it expensive or difficult or both for the municipality to borrow money. Between 1985 and 1991, 42 cities and towns experienced upgradings in their bond rating, representing a positive outcome. However, 27 had their bond rating down- graded and of these, 11 were municipalities in the quintile most heavily dependent on aid from the state. A more recent accounting of changes in bond ratings for the period 1990-93 indicates an even less

sanguine picture. During that period 27 ratings were reduced while only 11 went up.[4] According to spokespeople for Moody's, this number of downgradings is greater than in any other New England state during the period (Boston Globe, April 14, 1993). This evidence confirms the pessimistic conclusion that emerges from other indicators of short-term budgetary pressure.

These four measures combine to provide a relatively clear picture of the financial or budgetary stress that Massachusetts cities and towns are currently experiencing. Of the four measures, the clearest is free cash. Recent reductions in free cash clearly indicate that cities and towns had little or no budgetary flexibility in 1991 or 1992.

Components of Underlying or Structural Fiscal Pressures

The short-run budgetary condition of a city or town is only one aspect of a community's fiscal condition. Of perhaps even greater policy significance is the community's underlying or structural fiscal condition. Structural refers to the community's ability to raise revenue to meet the expenditure need of its residents. While weak underlying fiscal condition may be positively correlated with weak budgetary condition, the correlation need not be perfect. For example, poor financial management could mean that a city with a strong underlying fiscal condition -- that is, one that has adequate revenue-raising capacity relative to its expenditure need -- faces short-run budgetary stress. Alternatively, provided the political and managerial will were there, a city in weak fiscal position could achieve a respectable budgetary position. However, the cost of budgetary balance in this city might be excessively poor public services or high tax burdens on local residents.

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[4] Based on an internal Massachusetts Department of Revenue memo, dated April 14, 1993.

To determine the underlying or structural fiscal condition of cities and towns, we need to look at the pressures facing local governments on both the revenue and the expenditure side. The more constrained cities are in their ability to raise revenue and the more spending pressure they face, the weaker is their underlying structural fiscal condition.

Increasing constraints on the capacity to raise revenue

Most of the constraints that Massachusetts cities and towns face in their ability to raise tax revenue relate to the fact that, since 1980, their primary tax, the local property tax, has been restricted by Proposition 2 1/2. This limitation measure caps the growth of property tax levies in all cities and towns each year at 2 1/2 percent above the previous year's levy limit, plus new growth. By local referendum, cities and towns can vote to exclude debt service and capital outlays from the debt limit on a temporary basis, and can vote to override the limit on a permanent basis. Cites and towns are also subject to a ceiling of 2 1/2 percent on the effective property tax rate. However, the override process cannot be used to exceed the ceiling.

Under the provisions of Proposition 2 1/2, a city is constrained by its **excess capacity** and its **override potential.** Excess capacity is defined as the difference between the city's levy limit (that is, the amount of property taxes a city is allowed to collect in a specific year) and the amount of property taxes it levies that year. The smaller a city's excess capacity relative to its levy limit, the less flexibility the city has to raise property taxes without an override. In other words, excess capacity is like a reserve: taxes foregone in one year represent an opportunity to increase the levy in the following year. The override potential is measured by the difference between the tax rate ceiling, 2 1/2 percent, and the city's effective tax rate.

Figure 4 shows a dramatic decline in excess capacity between 1988 and 1991, with an additional decline in 1992 in most types of cities and towns. In particular, excess capacity fell on average from 2.48 percent of the levy limit in 1988 to 0.57 percent in 1991 and 0.47 percent in 1992. In other words, cities and towns had much less flexibility to raise property taxes without an override in 1992 than in either 1985 or 1988.

Interpreting the data on override potential is more complicated. In principle, if cities and towns have effective tax rates below 2 1/2 percent, they can vote to override the levy limit by an amount that would raise the effective tax rate to 2 1/2 percent. In fact, as of 1992, the effective tax rate in the typical city or town was only 1.2 percent, which technically indicates a substantial margin of override potential[5] However, it is difficult for many communities, especially urbanized centers, to pass overrides. Prior to 1990, Northhampton was the only city (as distinct from towns) to include an override question on the ballot. More recently, a few cities have passed them, but urbanized centers are still much less likely to propose and pass them than other types of communities.

The experience with overrides between 1990 and 1992 is summarized in Table 2. Emerging from the table is the fact that the urbanized centers were least likely to propose an override and experienced the smallest proportion of successful votes. As of spring 1993; several wealthier areas were also having difficulty passing overrides. For example, Milton, which had passed overrides in 1988, 1989, and 1990 failed to pass an override in 1993 (Boston Globe, April 5, 1993).

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[5] The unweighted average effective property tax rates vary by quintile of municipalities as follows: High aid: 1.25%, med-high: 1.28%, medium: 1.26%, med.-low 1.22%, and low aid: 1.01%.

In addition, declining property valuations reduce override capacity and also could significantly reduce the probability of successful overrides in the next few years. Between 1990 and 1992, property valuations decreased by 9 percent across the state. As illustrated in Figure 5, this two-year period is the first for which a decline occurred. Moreover, a recent study predicts that declining property values in Boston will cause that city to reach its tax rate ceiling of 2 1/2 percent in 1995.[6] Although declining property values are likely to push only a few cities to their tax rate ceilings in the near future, they will raise effective tax rates and no doubt will make voters even more reluctant to pass overrides.

During the mid 1980s, property tax revenue from new growth helped cushion the constraints of Proposition 2 1/2. As shown in Figure 6, revenue from this source is declining. In fact, revenue from new construction would have declined even more had there not been a statutory change that liberalized the definition of property changes qualifying as new growth.

At the same time that local governments are becoming more constrained in terms of their ability to raise property taxes, they have experienced large cutbacks in their other major revenue source, intergovernmental aid. Such aid comes from both the federal and state governments. Federal aid declined the most during the 1985-88 period, in part because of the demise of general revenue sharing and reductions by the Reagan and Bush administrations in other programs of direct aid to local governments. Reductions in federal aid as a share of total revenue continued during the 1988-91 period but at a slower rate. (See Figure 7). The large federal deficit suggests that President Clinton will have little flexibility to reverse this trend.

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[6] See Assessing Department of the City of Boston,"The Re-Emergence of the Proposition 2 1/2 Levy Ceiling," September 8, 1992.

Cutbacks in state aid have put even greater fiscal pressure on cities and towns in recent years. After rising slightly during the 1985-88 period, total state aid as a share of local revenue fell by almost 8 percentage points in the typical city or town between 1988 and 1991. This aid includes so-called resolution aid, as well as aid directed to specific purposes and disbursements from the state's lottery. Resolution aid is the amount of state aid historically distributed on an equalizing basis for general use, and includes Chapter 70 aid for education and additional assistance. Focusing on resolution aid alone, we find that as a share of total revenue, such aid declined by 6.5 percent in the typical Massachusetts city or town between 1988 and 1991.

Table 3 depicts the recent situation. Based on the 338 communities for which 1993 data are available, the table shows that Massachusetts cities and towns experienced an additional decline in aid as a share of revenue in 1992. Only in FY 1993 did the ratio of state aid to local revenues reverse its downward trend.

In sum, the revenue-raising capacity of Massachusetts cities and towns is becoming increasingly constrained. During the 1980s, rising property values, new growth, and greater state aid cushioned the effects of Proposition 2 1/2. In more recent years, declining property value, a slowdown in new growth, and less state aid have combined to put significant pressure on Massachusetts cities and towns.

Upward pressures on spending

At the same time that the revenue of local governments has become increasingly constrained, cities and towns are facing upward pressure on spending from factors outside their control. Higher insurance premiums, for example, have increased their fixed costs, rising crime rates have put upward pressure on public safety spending, and rising numbers of pupils,

especially special education students, have put upward pressure on school spending.

Costs that are outside the immediate control of local officials include such fixed costs as pension contributions, health insurance, additional employee benefits, and other insurance; debt service, which primarily reflects capital outlay decisions made in the past; and intergovernmental assessments imposed on the cities and towns, primarily by the state.

The top three rows of Table 4 show the level and rates of change of these three spending categories. Per capita fixed costs increased by almost 23 percent in all municipalities between 1985 and 1988 and by 27 percent between 1988 and 1991. The increase during the 1988-91 period is particularly striking in light of smaller rates of increase in such discretionary spending categories as education (see further discussion below). In other words, insurance premiums, pension contributions, and other employee benefits, over which municipalities have little control in the short run, have been growing much faster than spending to pay for current service levels.

Another spending category outside the immediate control of local officials is debt service. This category also continued to grow at a rapid rate during the 1988-91 period. Its 21 percent growth rate put it second only to fixed costs as a source of higher spending. One bright spot for local governments is intergovernmental assessments which fell during the 1985-88 period because of the state takeover of county jail costs.

Also not fully under the control of city officials are local crime rates. To the extent that they rise as a result of the increased propensity among the population to commit crimes, citizens demand more spending on public safety. Crime rates are available from the Uniform Crime Reports of the FBI but are not available for all cities and towns. For the 162 municipalities for which data are available, the pattern is clear: over time, the number of crimes per 1000 people

has been increasing. As shown in Table 5, the average crime rate (weighted by population) increased from 49.7 per 1000 to 54.3 in 1991, thereby putting upward pressure on spending.

With respect to pressures for upward spending on elementary and secondary education, the relatively good news is that the number of pupils did not increase very much between 1988 and 1991. (See Table 6.) However, even a small increase as in the high-aid communities or a moderate increase, as in the low-aid communities, can put significant upward pressure on school spending. The bad news is the rapid growth of the expensive-to-educate special needs pupils. Between 1988 and 1991, for example, the number of such pupils increased by 7.9 percent overall (based on the weighted average for all municipalities) and in the typical municipality, by 11.9 percent.[7]

To summarize, even if municipalities want to restrict the growth of spending, certain factors outside their total control make it difficult for them to do so. Because they have little control over fixed costs, crime rates, and the number of students requiring special education, municipalities are facing upward pressure on their spending.

Indicators of Performance and Effort

The previous section focused on the fiscal constraints and pressures facing municipal governments. This section looks at the fiscal decisions cities and towns made in light of those pressures. That is, we look at tax bills and user charges on the revenue side, and spending and local government employment on the service side. The indicators in this section can also be interpreted as measures of the fiscal impacts on local residents in their roles as taxpayers and service recipients.

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[7] For this calculation, pupils attending regional school districts were allocated to the towns and cities in which they live and which are responsible for their financial support.

Despite the limitations of Proposition 2 1/2, average residential tax bills have been rising at a relatively rapid rate. As shown in Table 7, residential tax bills increased by about 24 percent on average between 1986 and 1989 and by another 25 percent between 1989 and 1992, with the largest percent increases occurring in the towns least dependent on state aid. The fact that these increases exceed the 2 1/2 percent annual revenue growth limit is explained by a shift in property tax burdens as between business and residential property (recall that total property tax levies, not just on residential property, are subject to the growth limit and to override votes).

Rising even faster than residential property taxes are user charges (see Figure 10). Between 1988 and 1991, such charges increased on average by 49 percent and as a share of revenue in the typical community by 2.9 percentage points. This increasing reliance on user charges represents a partial response to the restrictions on property taxes. The main point, however, is that residents are facing rising financial burdens, not only in the form of property taxes on their houses, but also in the form of a variety of user charges.

In the absence of direct measures of changes in the quality of services provided during this period to local residents, we must rely on an imperfect measure, changes in spending. This indicator is flawed because increases in spending need not translate into higher service quality. To the extent that the environment for providing services has deteriorated over time indicated, for example, by the rise in crime rates, more spending may be required to provide a given level of protection. Referring back to Table 4, we see the levels of and percent changes in nominal per capita spending by category for the years 1985, 1988, and 1991. For comparison, it may be useful to note that prices of the goods and services purchased by state and local governments increased by 11.7 percent in the first subperiod and 11.5 percent in the second subperiod.

The table shows that between 1988 and 1991, local government officials apparently made a serious effort to slow the rate of growth of spending. However, as noted earlier, that effort was thwarted in part by escalating spending on fixed costs and debt service, both of which are outside the immediate control of city officials. Thus, for example while fixed costs grew by 27 percent, the growth in basic services was restricted to 13.5 percent, that on elementary and secondary education to 15 percent, and spending on health, welfare and recreation actually declined.

Even as a measure of inputs, as distinct from outputs, spending is a flawed measure because of the difficulty in correcting over time and across communities for the prices of inputs. A more direct measure of inputs is the number of people employed by local governments. The services provided by local governments tend to be quite labor intensive. Hence, it is natural to presume that a reduction in local employment leads to a drop in service quality. Only if employees were completely ineffective or unproductive, if the reduction were associated with labor-enhancing computer technology, or if the reduction in local employment simply represented a transfer of functions to the state, would a reduction in labor not lead to a cut in service quality.

Figure 11 shows the trends in local government employment between 1979 and 1993. Local public sector employment dropped precipitously in the early 1980s, increased gradually during the 1980s, reached a peak in 1989, and has been falling ever since. This recent pattern suggests that services levels are currently declining. Whether or not they are currently too low cannot be answered by this type of analysis. Instead, one would need to look at more specific indicators of service need and quality of life.

Summary and Conclusion

This analysis shows that Massachusetts cities and towns are currently experiencing a lot of fiscal distress, and certainly more today than in the mid-1980s. The distinction made here between a municipality's budgetary or financial distress and its underlying or structural distress is conceptually important: even though a municipality manages to balance its budget, it may be experiencing fiscal pressures of a more fundamental nature. Currently many Massachusetts cities and towns are facing significant pressure of both types. However, to the extent that local officials learn over time to manage their budgets more effectively in a constrained environment, the short-run budgetary outlook could improve at the same time that the underlying structural condition of cities and towns remains poor.

The finding that municipalities that rely most heavily on state aid face more significant pressure on average than other municipalities should provide a clear warning to state policy makers. Additional cutbacks in state aid would clearly be detrimental to the fiscal health of local governments.

Note: Many of the figures and tables in this paper were initially prepared as testimony for the Massachusetts Bay Transportation Authority in connection with the Carmen's Union Interest Arbitration. I would like to thank Ethan Zimmer for his work on the tables and figures and Katherine Bradbury for her comments on an earlier version of this paper.

Figure 1

Free Cash as a Percent of Revenue
Weighted

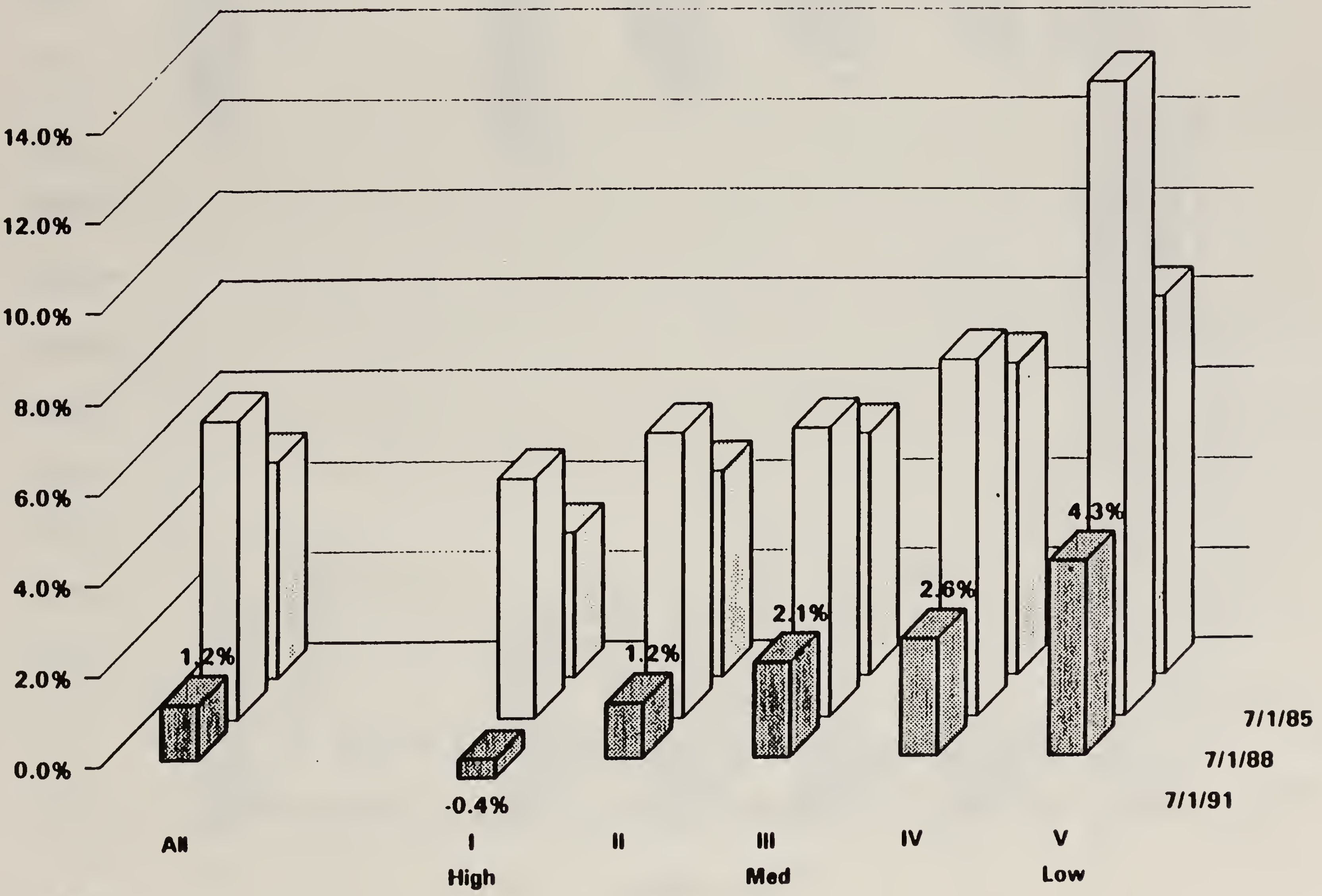

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Figure 2

Average Short Term Debt at End-of-Year as a Percent of Total Revenue

Weighted

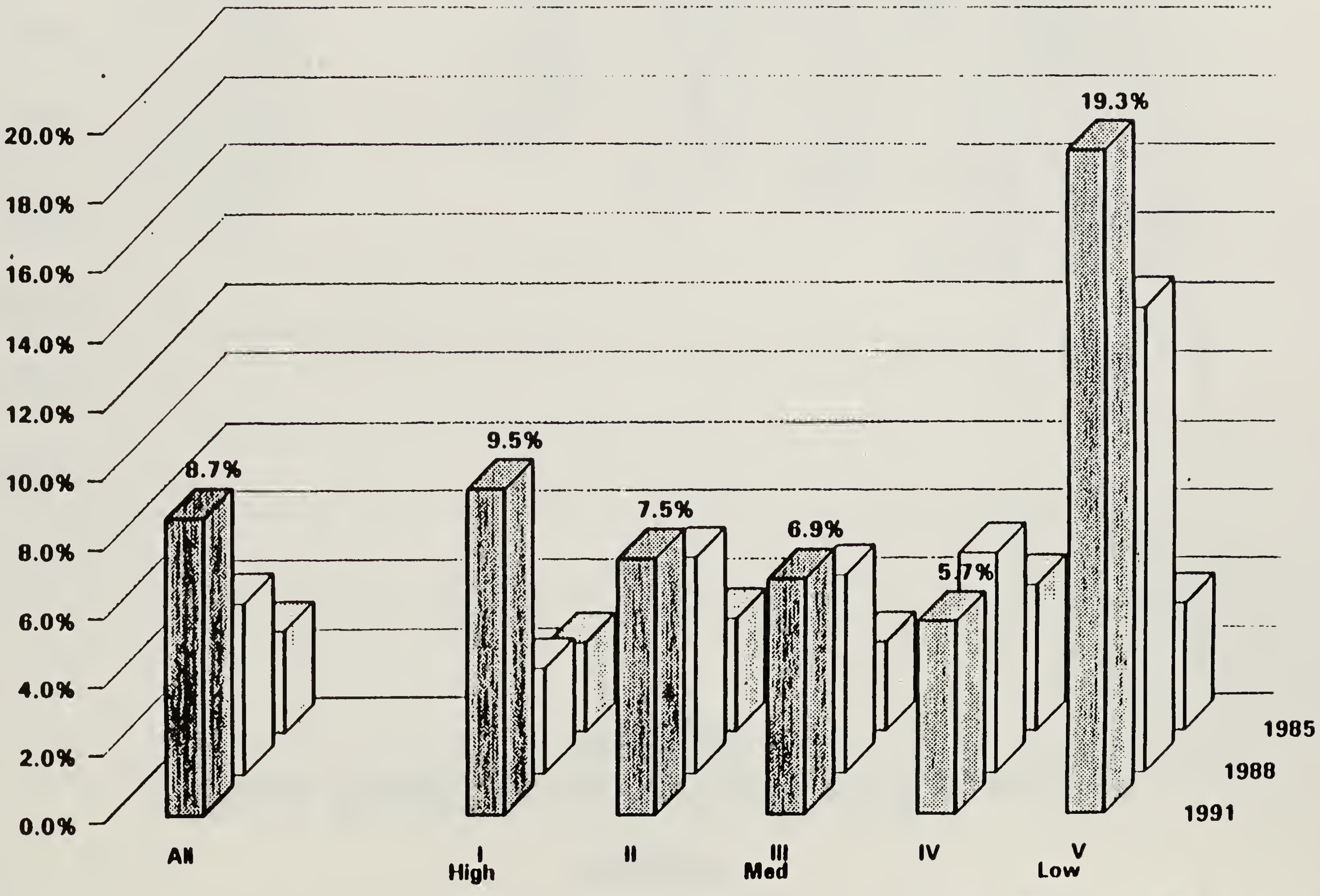

Figure 3

Capital Outlays as a Percent of Total Revenue

Weighted

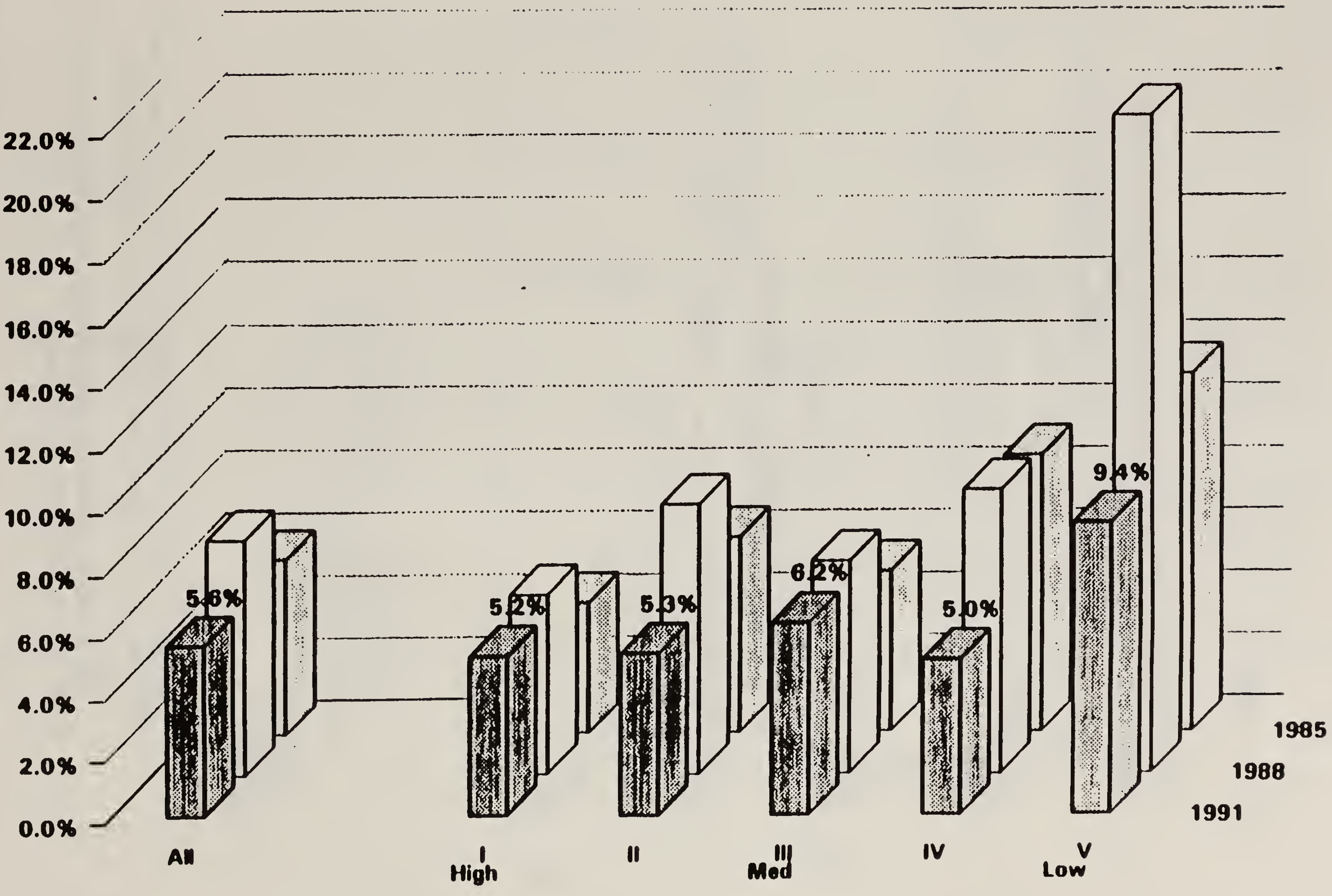

Table 1

MOODY'S BOND RATINGS

	1985	1988	1991	1992
Number of Communities with Baa Rating or Below:	28	25	35	43

DOWN AND UP GRADINGS – 1985 - 1991

Municipality Group	Number	Number Down	Number Up
I HIGH AID	58	11	8
II	58	7	12
III MED AID	46	7	8
IV	42	1	9
V LOW AID	18	1	5

Notes

Number is number of cities and towns with at least two ratings in 1985, 1988 and 1991. If up and down, 1988 to 1991 change dominates.

Baa is lowest investment rating. Ratings below Baa are below investment quality and are considered junk bonds.

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Figure 4

Excess Capacity as a Percent of Levy Limit

Weighted

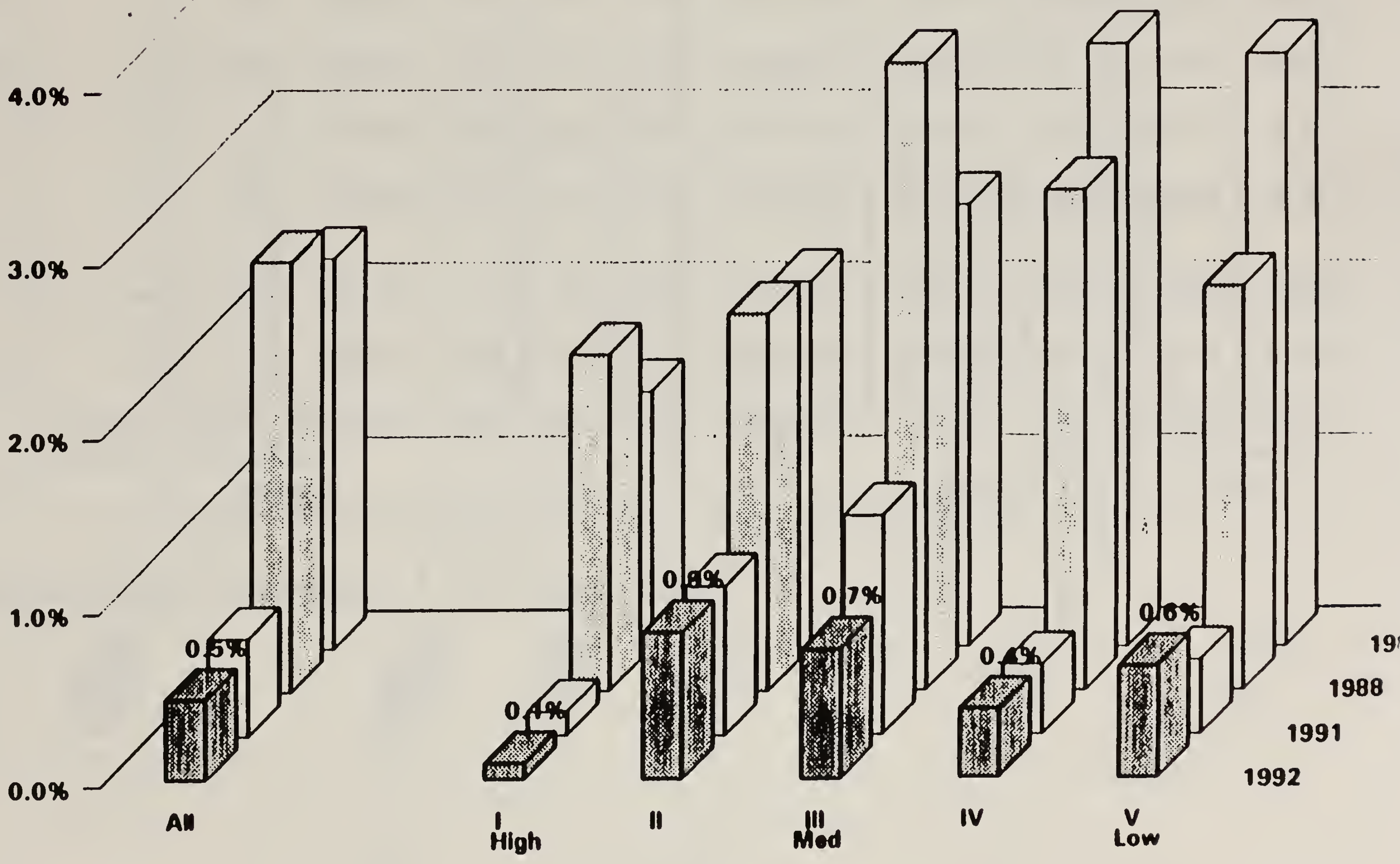

Table 2

PROPOSITION 2½ OVERRIDE ATTEMPTS AND AMOUNTS 1990 - 1992

Kind of Community	Number in Group	Attempting Communities		Votes			$ Amounts			Amount per Capita	
		Number	Population	Total	Won	% Won	Attempted	Won	% Won	Attempted	Won
Urbanized Center	45	18	836,234	100	16	16.0%	85,599,467	23,205,607	27.1%	102.36	27.75
Economically Developed Suburbs	59	40	958,236	121	29	24.0%	79,100,583	24,630,664	31.1%	82.55	25.70
Growth Communities	46	34	409,291	321	56	17.4%	46,255,542	13,471,217	29.1%	113.01	32.91
Residential Suburbs	53	52	442,334	299	116	38.8%	67,648,545	31,608,642	46.7%	152.94	71.46
Rural Economic Suburbs	61	40	295,721	213	45	21.1%	39,160,140	5,522,915	14.1%	132.42	18.68
Small Rural Communities	46	40	118,429	223	65	29.1%	22,213,280	4,551,117	20.5%	187.57	38.43
Resort/Retirement Communities	41	33	98,357	330	163	49.4%	23,805,680	13,788,000	57.9%	242.03	140.18
Total	351	257	3,158,602	1,607	490	30.5%	363,783,237	116,778,162	32.1%	115.17	36.97

Source
"City & Town", Massachusetts Department of Revenue, November 1992.

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Figure 5

Average Percent Change in Property Valuations

Weighted

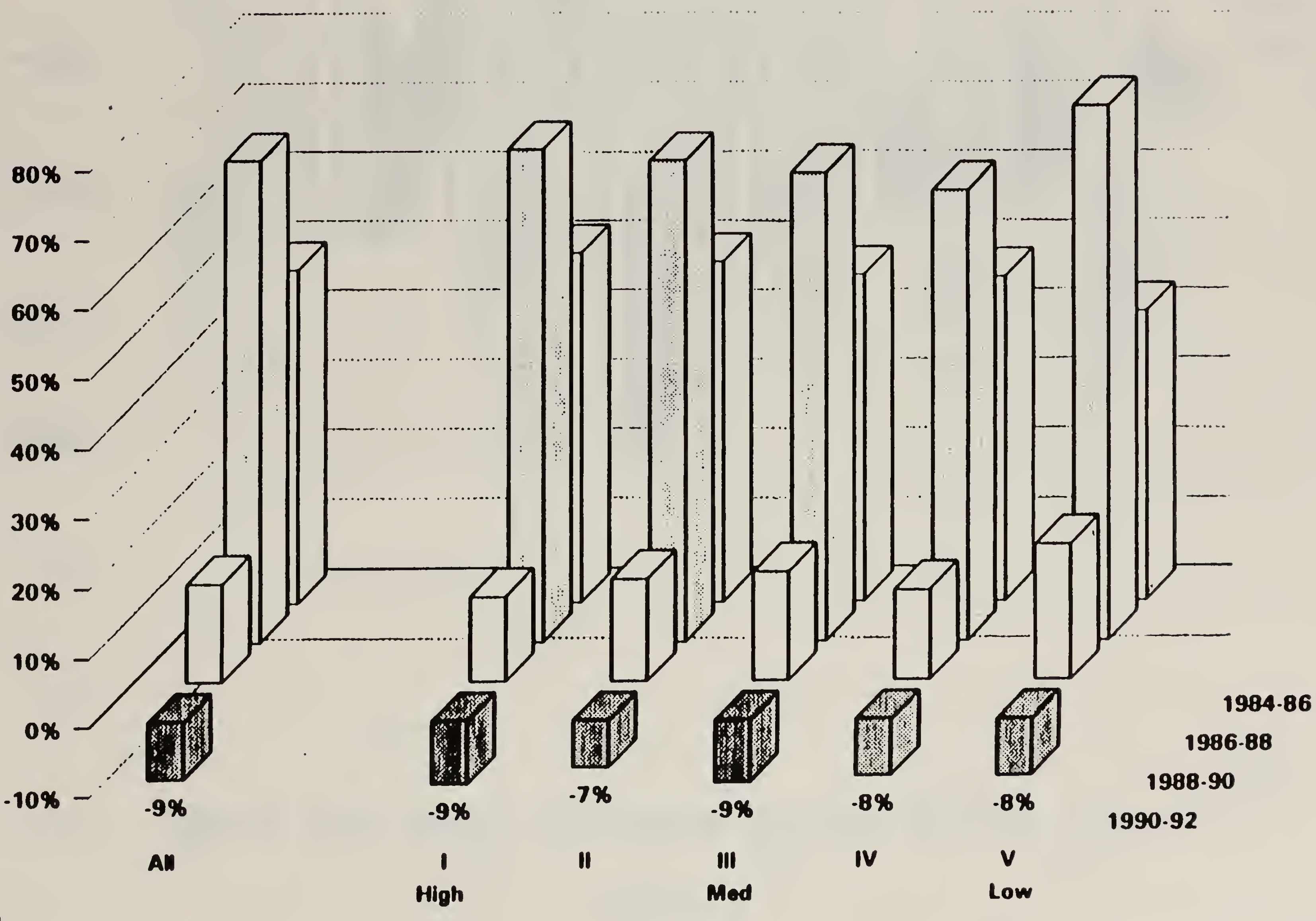

Figure 6

New Growth Applied to the Levy Limit

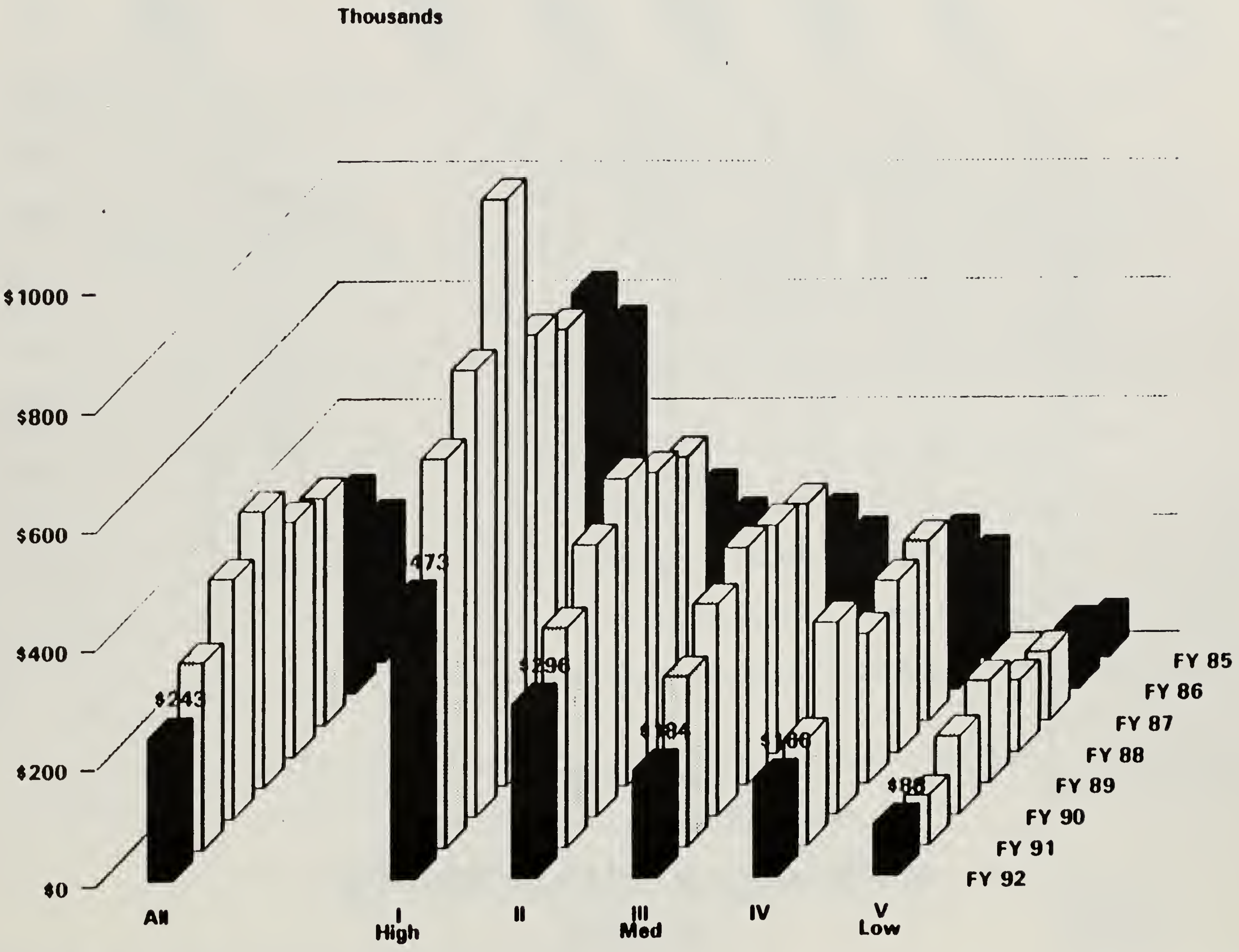

Figure 7

Change in Federal Aid as a Percent of Total Revenue

Unweighted Averages

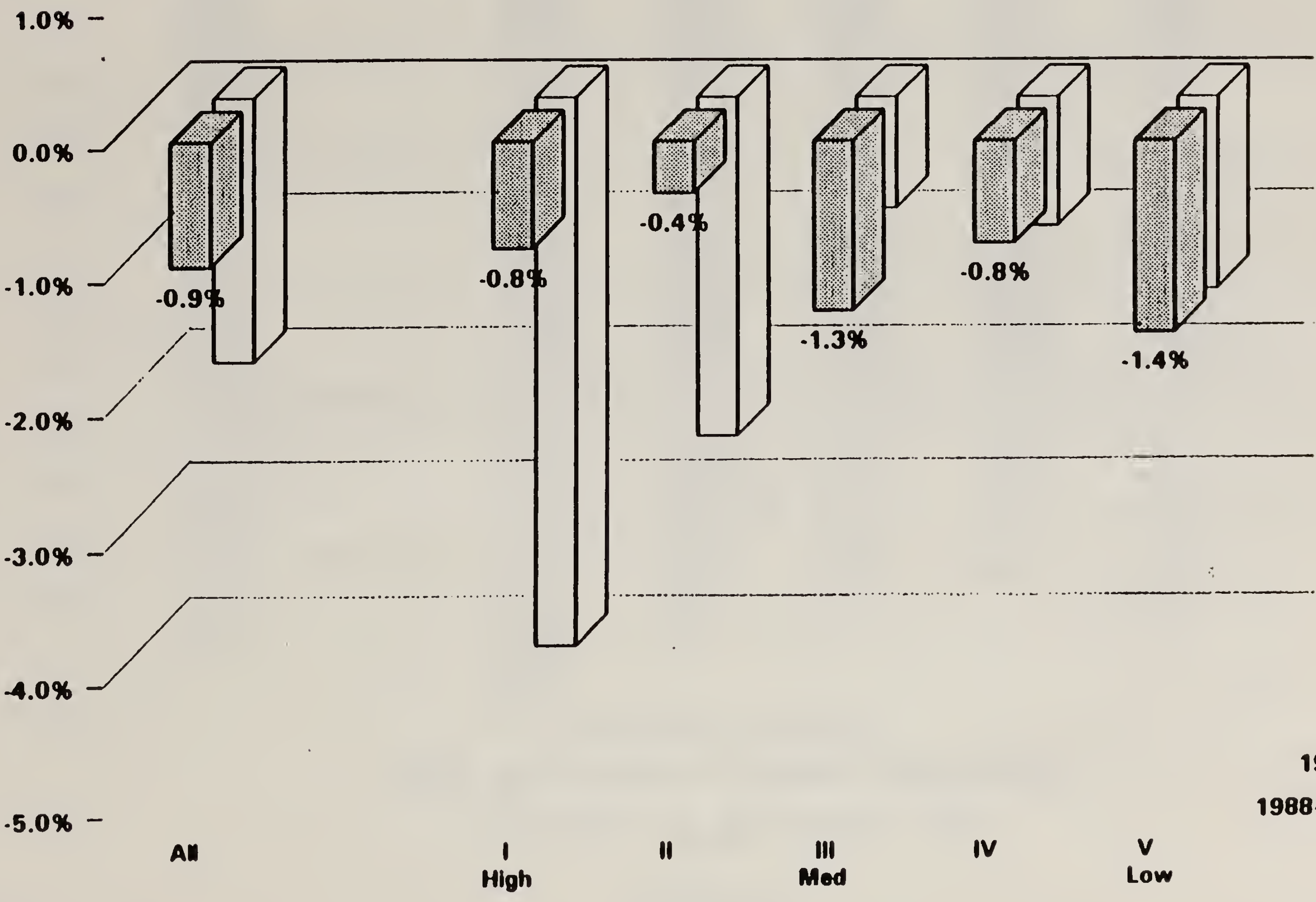

Figure 8

Change in All State Aid as a Percent of Total Revenue

Unweighted Averages

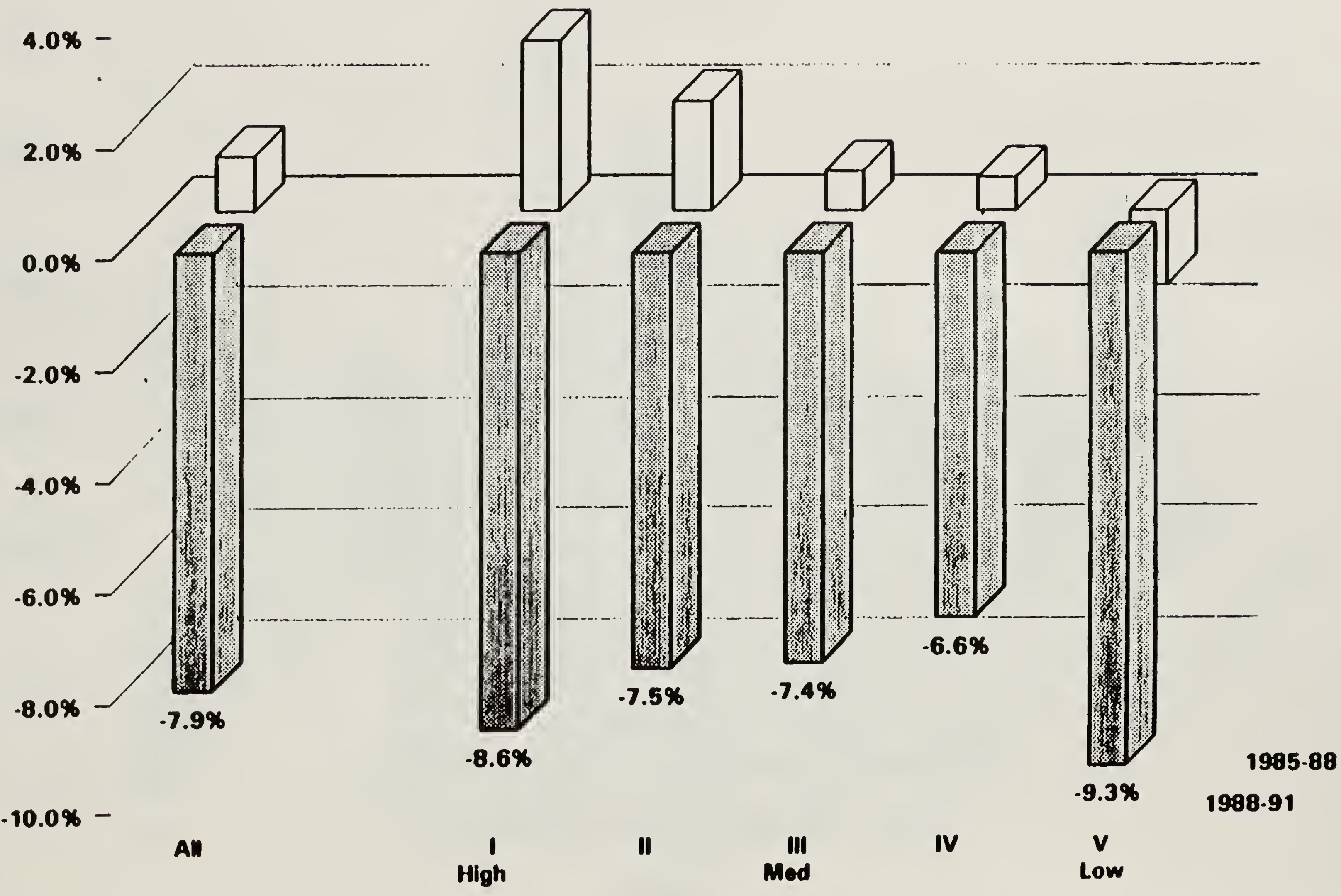

Figure 9

Change in Resolution Aid as a Percent of Total Revenue

Unweighted Averages

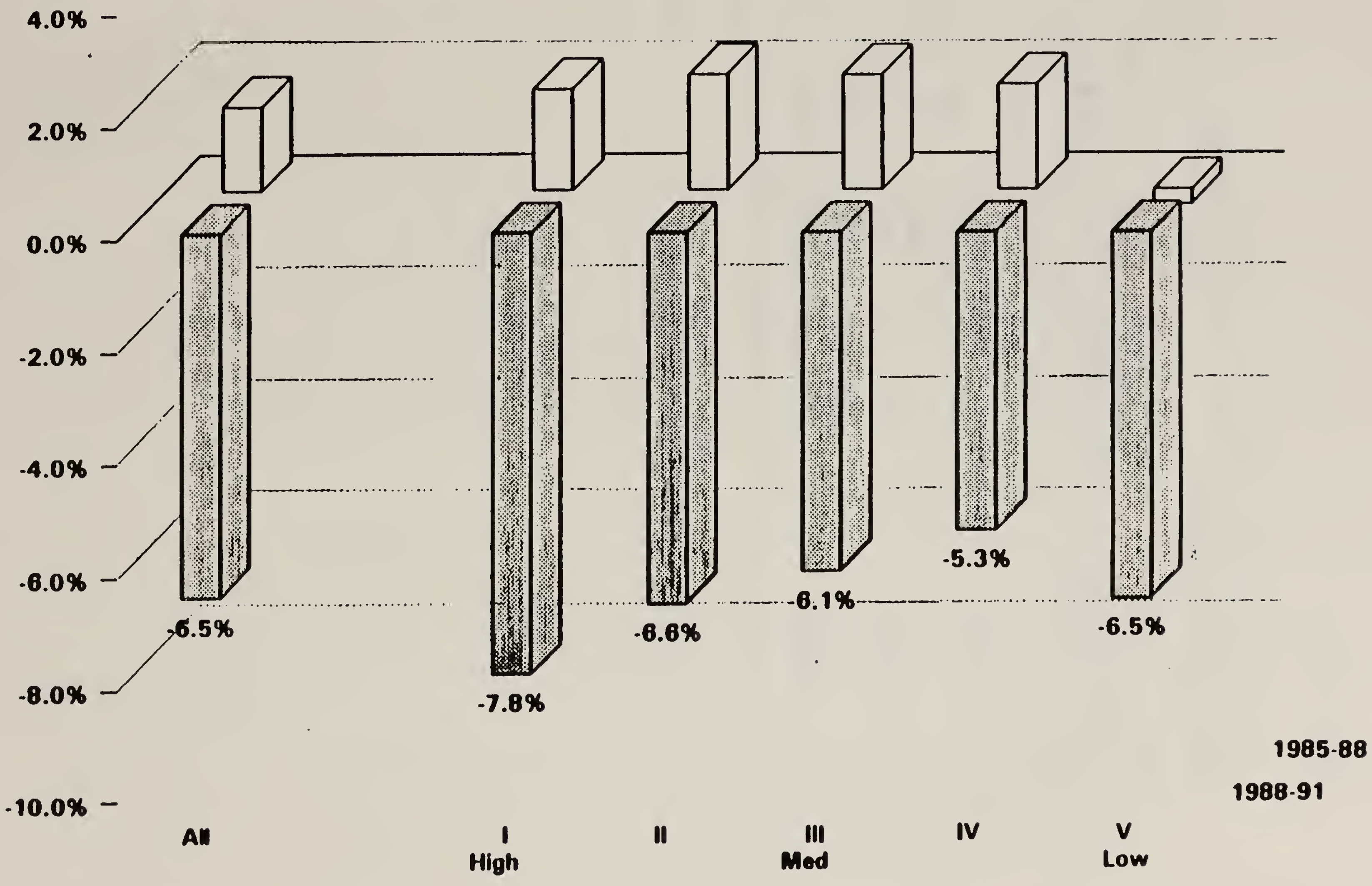

Table 3

TOTAL STATE AID AS A PERCENT OF TOTAL REVENUE
(WEIGHTED AVERAGES)

Municipal Group	Number of Communities	1991	1992	1993
ALL	338	0.242	0.213	0.218
I - HIGH AID	67	0.353	0.321	0.329
II	67	0.202	0.174	0.179
III - MED AID	68	0.139	0.116	0.117
IV	69	0.085	0.069	0.073
V - LOW AID	67	0.055	0.055	0.056

Table 4

PER CAPITA SPENDING - ALL MUNICIPALITIES
(WEIGHTED AVERAGES)

	Per Capita (Dollars)			Change	
	1985	1988	1991	1985-88	1988-91
FIXED COSTS	115	141	179	22.7%	27.0%
DEBT SERVICE	61	73	89	20.4%	21.0%
INTER-GOVERNMENTAL ASSESSMENTS	45	42	43	-6.8%	1.7%
BASIC SERVICES					
TOTAL	600	758	860	26.2%	13.5%
EDUCATION	414	514	591	24.1%	15.0%
NON-EDUCATION	186	243	268	30.9%	10.2%
WELFARE, HEALTH AND RECREATION	50	84	83	69.3%	-1.0%
GENERAL GOVERNMENT	55	70	75	28.2%	7.5%

Table 5

CRIMES PER 1,000 PERSONS

Averages - (Unweighted)

Municipal Group	Number of Communities	1985	1988	1991
ALL	162	29.6	30.6	33.6
I - HIGH AID	42	34.9	38.2	40.9
II	38	30.7	32.1	38.1
III - MED AID	30	26.4	25.1	27.3
IV	28	17.8	20.9	22.6
V - LOW AID	24	38.5	35.0	36.2

Averages - (Weighted)

Municipal Group	Number of Communities	1985	1988	1991
ALL	162	49.7	52.2	54.3
I - HIGH AID	42	64.3	70.5	70.1
II	38	35.1	37.1	44.0
III - MED AID	30	25.5	24.2	27.6
IV	28	22.8	21.0	24.1
V - LOW AID	24	52.6	47.8	47.1

Note

High average crime rate in the low aid communities reflects high crime rates per resident in resort communities.

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Table 6

PERCENT CHANGE IN NUMBER OF PUPILS 1988 - 1991

Averages - (Weighted)

Municipal Groups	Total Pupils	Special Need Pupils
ALL	0.6%	7.9%
I -HIGH AID	1.1%	8.5%
II	-0.2%	5.0%
III - MED AID	-1.2%	13.9%
IV	0.2%	4.3%
V - LOW AID	5.8%	6.6%

Averages - (Unweighted)

Municipal Groups	Total Pupils	Special Need Pupils
ALL	1.5%	11.9%
I -HIGH AID	1.5%	12.0%
II	0.9%	10.3%
III - MED AID	0.3%	20.5%
IV	-0.2%	5.9%
V - LOW AID	5.2%	11.0%

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Table 7

PERCENT CHANGE IN AVERAGE RESIDENTIAL TAX BILL
(COMMUNITIES WITH COMPLETE DATA)

Municipal Group	Number of Communities	1986-89	1989-92
ALL	239	23.6%	25.4%
I -HIGH AID	44	17.5%	17.6%
II	51	17.8%	22.5%
III - MED AID	48	28.3%	25.5%
IV	54	27.7%	26.7%
V - LOW AID	42	26.2%	35.3%

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589\TAvgBill

Figure 10

Change in User Charges

Weighted Averages

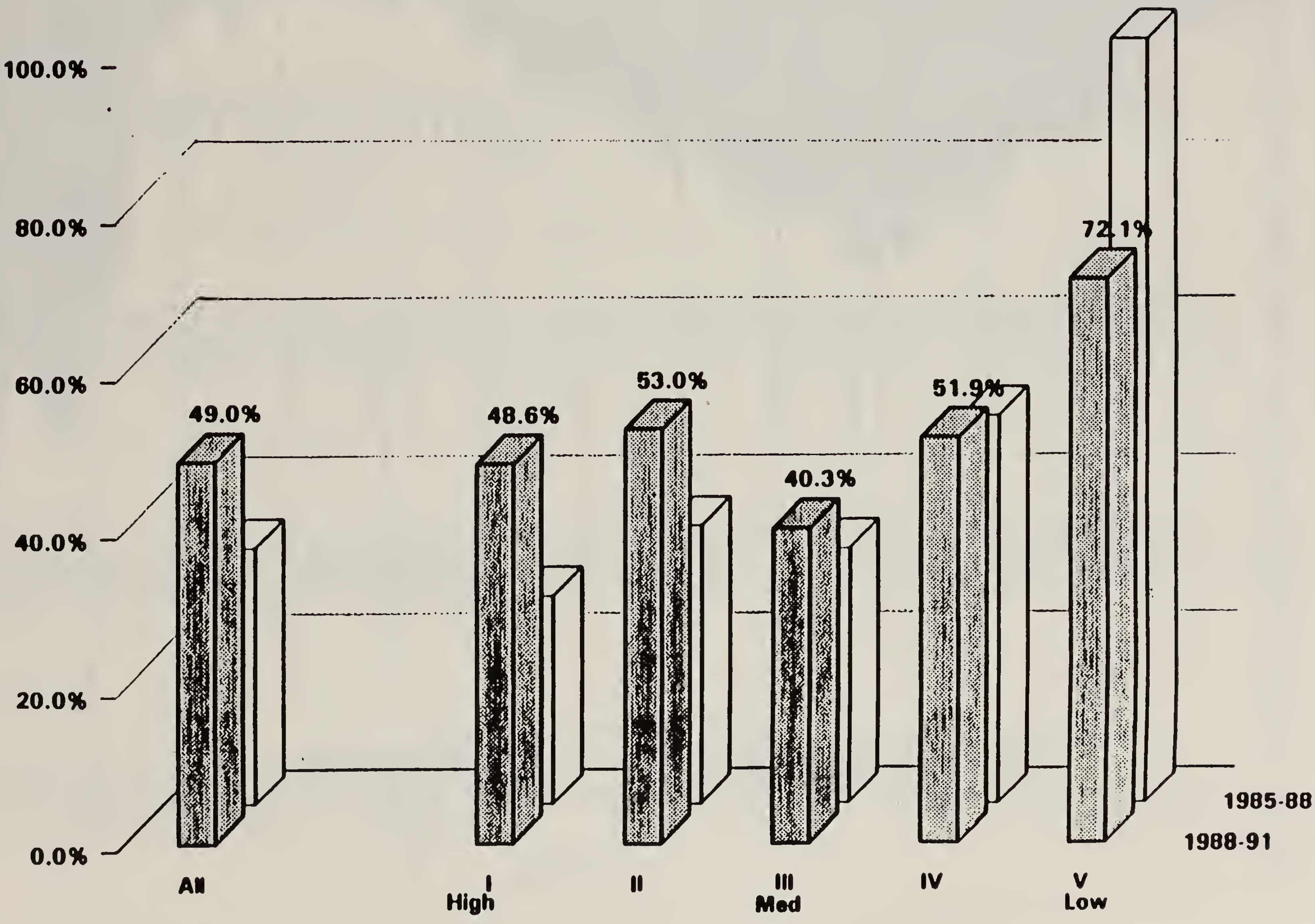
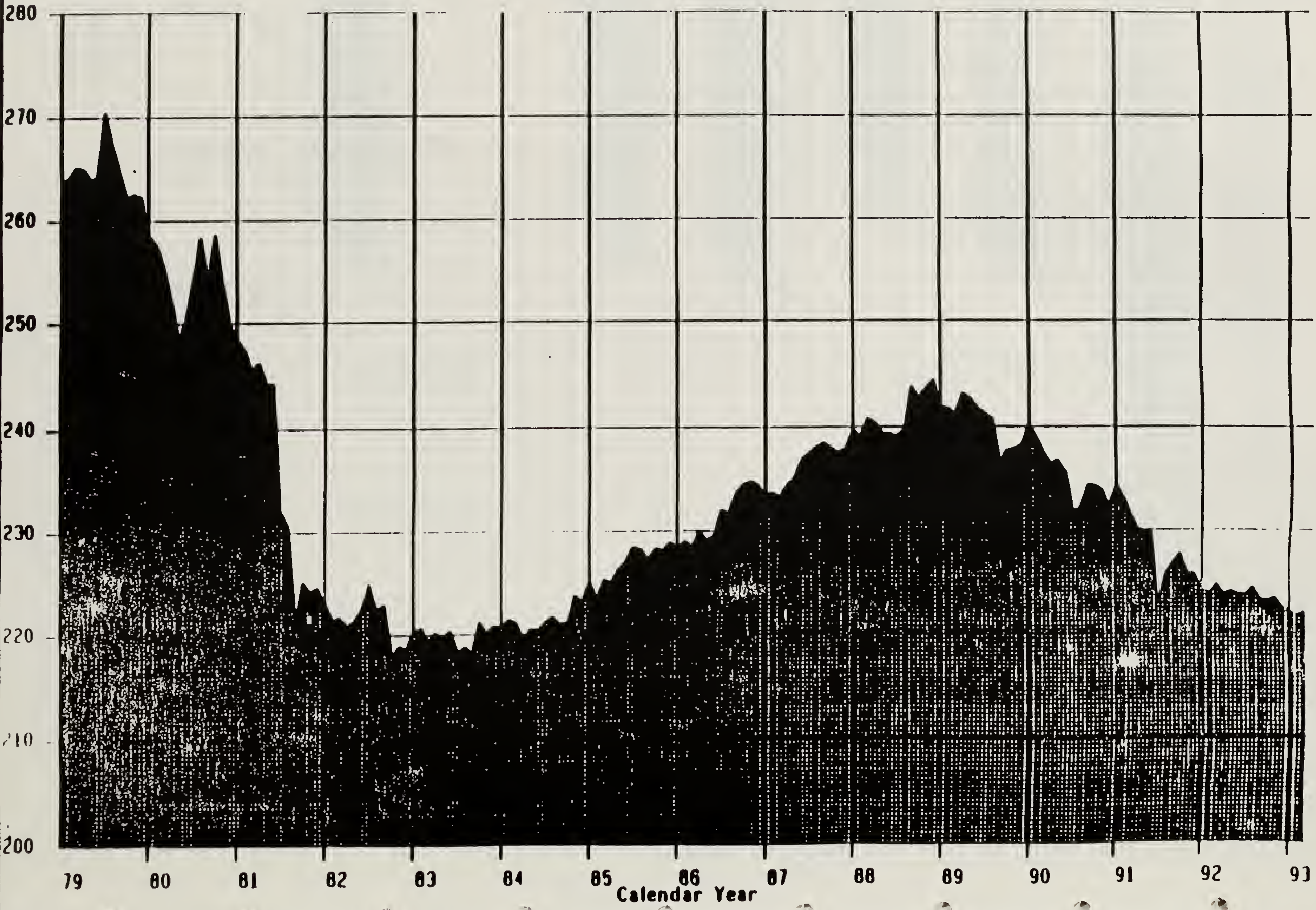


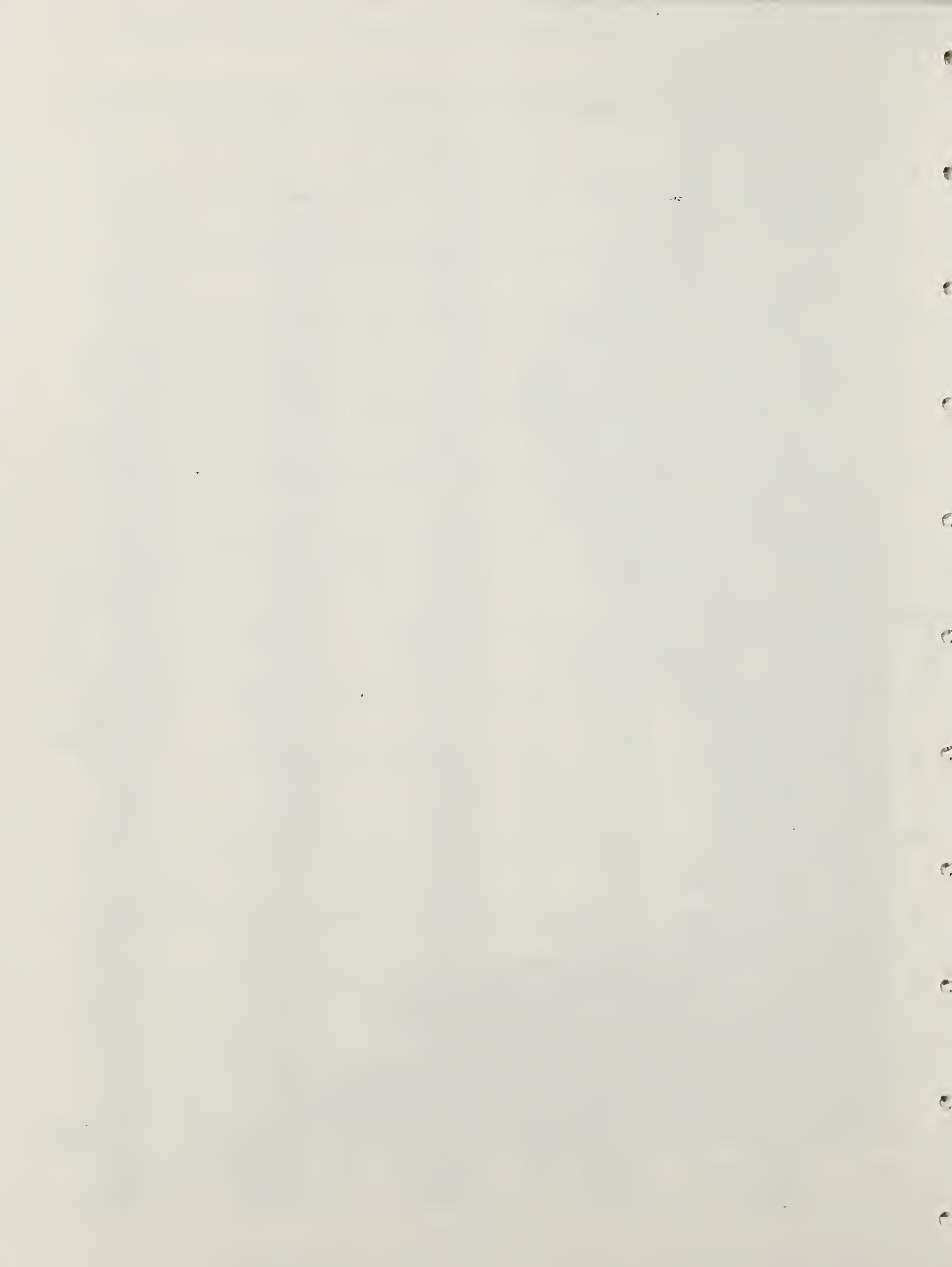
Figure 11



Appendix Table 1

CITIES AND TOWNS CATEGORIZED BY RESOLUTION AID AS A PERCENT OF TOTAL REVENUE

I High Aid	II	III Medium Aid	IV	V Low Aid
Abington	Agawam	Amherst	Acton	Alford
Acushnet	Amesbury	Ashland	Adams	Ashburnham
Attleboro	Arlington	Avon	Andover	Ashby
Ayer	Athol	Berlin	Bedford	Ashfield
Bellingham	Auburn	Bernardston	Belmont	Barnstable
Boston	Belchertown	Bourne	Boxborough	Barre
Bridgewater	Berkley	Brimfield	Boxford	Becket
Brockton	Beverly	Brookline	Boylston	Blackstone
Brookfield	Billerica	Burlington	Buckland	Blandford
Chelsea	Braintree	Cambridge	Carlisle	Bolton
Chicopee	Chelmsford	Canton	Charlemont	Brewster
Clarksburg	Dartmouth	Carver	Charlton	Chatham
Clinton	Dedham	Chester	Cheshire	Chesterfield
Dracut	Douglas	Cohasset	Colrain	Chilmark
East Bridgewater	Easton	Danvers	Concord	Cummington
Easthampton	Everett	Deerfield	Conway	Dennis
Fairhaven	Foxborough	East Longmeadow	Dalton	Dighton
Fall River	Franklin	Framingham	Dudley	Dover
Fitchburg	Grafton	Freetown	Dunstable	East Brookfield
Gardner	Groveland	Gloucester	Duxbury	Eastham
Georgetown	Halifax	Great Barrington	Edgartown	Egremont
Granby	Hampden	Hadley	Erving	Gay Head
Greenfield	Hanover	Hancock	Essex	Gill
Holbrook	Hanson	Harvard	Falmouth	Goshen
Holyoke	Haverhill	Hatfield	Florida	Gosnold
Hull	Holliston	Hawley	Granville	Hardwick
Lancaster	Hopedale	Hingham	Groton	Harwich
Lawrence	Hudson	Holden	Hamilton	Heath
Leicester	Ipswich	Kingston	Hinsdale	Hubbardston
Leominster	Lee	Lakeville	Holland	Leverett
Lowell	Lenox	Lanesborough	Hopkinton	Leyden
Lynn	Ludlow	Littleton	Huntington	Marion
Malden	Lunenburg	Longmeadow	Lexington	Mashpee
Medford	Marlborough	Lynnfield	Lincoln	Mendon
Melrose	Marshfield	Mansfield	Manchester	Millville
Middleborough	Maynard	Milton	Marblehead	Montgomery
Milford	Medfield	Monroe	Mattapoisett	Nantucket
Millbury	Medway	Natick	Middlefield	New Braintree
Monson	Merrimac	New Ashford	Middleton	New Marlborough
Mount Washington	Methuen	Norfolk	Montague	New Salem
New Bedford	Millis	Northborough	Monterey	Oak Bluffs
North Adams	Newburyport	Norwell	Nahant	Oakham
North Brookfield	North Attleborough	Norwood	Needham	Orleans
Northampton	North Reading	Paxton	Newbury	Pelham
Northbridge	Palmer	Pembroke	Newton	Pepperell
Norton	Peabody	Peru	North Andover	Petersham
Orange	Raynham	Plainville	Northfield	Plainfield
Oxford	Salem	Reading	Otis	Rehoboth
Pittsfield	Saugus	Rochester	Phillipston	Rowe
Quincy	Seekonk	Rowley	Plymouth	Royalston
Randolph	Southampton	Salisbury	Plympton	Russell
Revere	Stoneham	Scituate	Princeton	Sandisfield
Rockland	Stoughton	Sharon	Provincetown	Sheffield
Rutland	Templeton	Shelburne	Richmond	Shutesbury
Savoy	Tewksbury	Shrewsbury	Rockport	Southwick
Shirley	Uxbridge	Sterling	Sandwich	Spencer
Somerville	Wakefield	Sudbury	Sherborn	Stockbridge
South Hadley	Wales	Sunderland	Somerset	Tisbury
Southbridge	Walpole	Sutton	Southborough	Townsend
Springfield	Waltham	Swampscott	Stow	Truro
Swansea	Wareham	Topsfield	Sturbridge	Tyringham
Taunton	Warwick	Tyngsborough	Tolland	Upton
Ware	Washington	Wendell	Wayland	Warren
Webster	Watertown	West Tisbury	Wellesley	Wellfleet
Westfield	West Boylston	Wilbraham	Wenham	West Brookfield
Weymouth	West Bridgewater	Williamsburg	West Newbury	West Stockbridge
Whitman	West Springfield	Williamstown	Westborough	Westminster
Winchendon	Westford	Wilmington	Westhampton	Weston
Winthrop	Westport	Windsor	Westwood	Whately
Worcester	Woburn	Wrentham	Winchester	Worthington
				Yarmouth



THE POLITICS OF DEPENDENCY

Dianne Wilkerson
Massachusetts Senate

One need not stretch the imagination to identify similar characteristics shared by chronically dependent or healthy communities. Chronically dependent communities share a commonality in their heavy reliance on state aid. My observation comes from the viewpoint of one who represents in the state Senate one of the most chronically dependent communities in Massachusetts, the City of Boston. While some hypothesize that if local officials managed their budgets more effectively in this tight money market, the budgetary situation could improve, more may be needed than to manage more effectively. Other issues affect the conditions of communities which make them chronically dependent.

Measures Of Budgetary Pressure

If we look at the four measures used to determine the degree of budgetary pressure on cities and towns -- **free cash, short term debt, capital outlays** as a share of total revenue and **bond rating** -- and apply them to a chronically dependent community and a healthier community, some stark differences will be apparent.

Free Cash

For the last 3 years, Boston has had no **free cash**. To the extent that free cash represents unrestricted reserves available to be spent at the discretion of the city or town, the lack of free cash means there are absolutely no discretionary monies available to the City of Boston.

Short term debt represents amounts borrowed in the short term market to pay bills by cities and towns. If short term debt increases at the end of a year, it indicates increased fiscal burdens for which there are not free cash on hand to meet. The projections are clear then that for the City of Boston, with no free cash, its short term debt will be higher.

The smaller amount that **capital outlays** represent as a share of total revenue tend to indicate cities or towns facing budgetary pressure. When budgets are tight, capital outlays tend to be the first or easiest to cutback. Capital outlays can be looked at as the infrastructure or "bricks and mortar" monies. Capital outlay monies are easy to forego and are simply not spent in tough times. Chronically dependent communities are spending all available monies on maintaining and sometime increasing services such as those provided by police and fire. Once upon a time, school spending was considered almost a given, even in tough budgetary times. Increased school spending was considered an investment in the future. In more and more cities and towns across the Commonwealth, we are seeing municipalities, city councils and selectmen turning away attempts not only to increase school budgets but simply to maintain what was once considered basic school needs. We have witnessed many schools in the cities and towns doubling class sizes, going without new books or other critical supplies, dropping major curriculum components while some school boards are seriously discussing ending their school year early due to financial burdens and an unwillingness of residents to appropriate more money.

The **bond rating** is probably the more difficult of the four measures about which to draw conclusions because it is very possible to have high bond ratings, representing a positive outlook, and still have less than positive fiscal or budgetary conditions in a city or town. Both the Commonwealth and the City of Boston, for example, have enjoyed positive bond ratings for the

last two years. Yet most economists would not be bullish on the Commonwealth or the city if the massive loss of jobs and steadily increasing unemployment rates are any indication or measure of fiscal soundness.

One of the dilemmas faced in pinpointing the cause of chronic dependency by some communities is the proverbial "chicken or the egg" query. Is unemployment, poor public schools and escalating crime the cause or effect of chronically dependent communities? All of the above characteristics are associated with chronically dependent communities. There is another characteristic to add to the list of those shared by of chronically dependent communities -- extraordinary amounts of tax exempt property.

It is not merely a coincidence that Boston, Worcester, Cambridge and Brockton have tax exempt property representing 51 percent, 28 percent, 45 percent, and 18 percent respectively, while towns like Weston and Brookline have tax exempt property representing 14 percent and 4 percent respectively. The high percentage of tax exempt property in chronically dependent communities leave few options to communities seeking to raise tax revenue through local property taxes. One can deduce that one characteristic of chronically dependent communities is high percentages of tax exempt properties while healthier communities tend to have lower percentages of tax exempt properties.

The ability of Massachusetts cities and towns to raise tax revenue on taxable property is restricted by Proposition 2½. While cities and towns can vote to override 2½, relatively few have done so in the last 10 years. A few cities have passed overrides but urban centers like Boston have not had success getting voters to override Proposition 2½. Boston has never proposed such an override. There is little reason to think that, even if proposed, an override

would be successful in Boston. Wealthier communities like Milton, which had passed overrides in 1988, 1989 and 1990 could not pass an override in 1993. Some of this can be attributed to a general mood of taxpaying voters that they have reached their limit in the amount of taxes they are willing to pay even if it means better schools or more firefighters. For some it can be explained away by the notion that the voting populace is older, have no school-age children and simply are not willing to pay for someone elses children to be educated. There is much less of the sense that "we are all in this together," as there once was. For some wealthier communities with school age children, the voting populace can afford to send their children to private school and therefore see no need to 'pay twice'. Moveover, because wealthier communities also tend to believe that the kind of crime that occurs in urban areas does not happen where they live, there is not the constant desire to increase police force capacity -- a goal which often is accomplished only by increasing taxes or by making major cuts in other areas.

Whatever the rationale, the point is clear. Cities and towns, relying heavily on state aid, having stretched their budgets to the limit, can look only to the voters for relief. And as a general rule, the voters are opting not to foot an increased bill. Which brings us to the discussion of voters.

Voting Patterns and its Connection to Dependency

The poorer and therefore more chronically dependent communities tend to have unusually low voter turnout patterns. Low voter turnout, in turn, tends to result in poor delivery of services, no obligation to return jobs for votes, high unemployment rates and thereby, higher dependence on government services. The community gets to the next voting cycle, and when asked to vote, does not see the benefit of voting because they saw no measurable change for the

better after the last time they voted.

Service delivery was poor, unemployment was high and the community is sucked into the cycle of chronic dependency. For some time, there has been an association made between low voter turnout and race and class. (I.e., people of color and poor people do not vote.) The association has some merit, but it does not tell the whole story. Communities in Boston with traditionally high voter turnout, such as West Roxbury and South Boston, have at least one thing in common. Both communities, each of which average a 60 - 70 percent voter turnout in local as well as national elections, have equally high municipal employment rates. More than 60 percent of the residents of West Roxbury and South Boston are on the city or state payroll. The percentage in Roxbury and Dorchester is a little over 20 percent of municipal employment. The direct delivery of services (i.e., trash collection, fire and police) in West Roxbury and South Boston tend to be good.

One could thus conclude that there is a direct correlation between voter participation and delivery of services. Communities of color on occasion have voted in large numbers, but this has been an exception. The importance of voting regularly, and not just every once in a while when you see a candidate you like, has not been a part of the ongoing voter educational process by those charged with the responsibility for doing so. As a result, voters tend to vote on an emotional basis and not necessarily based on a belief that the candidate can effectuate change. Because nearly every candidate of color on the city and state level has gone into a legislative body where (s)he is in the district minority, it is often hard to effectuate real change unless you can forge coalitions with different people. To the extent that this is something that can only work

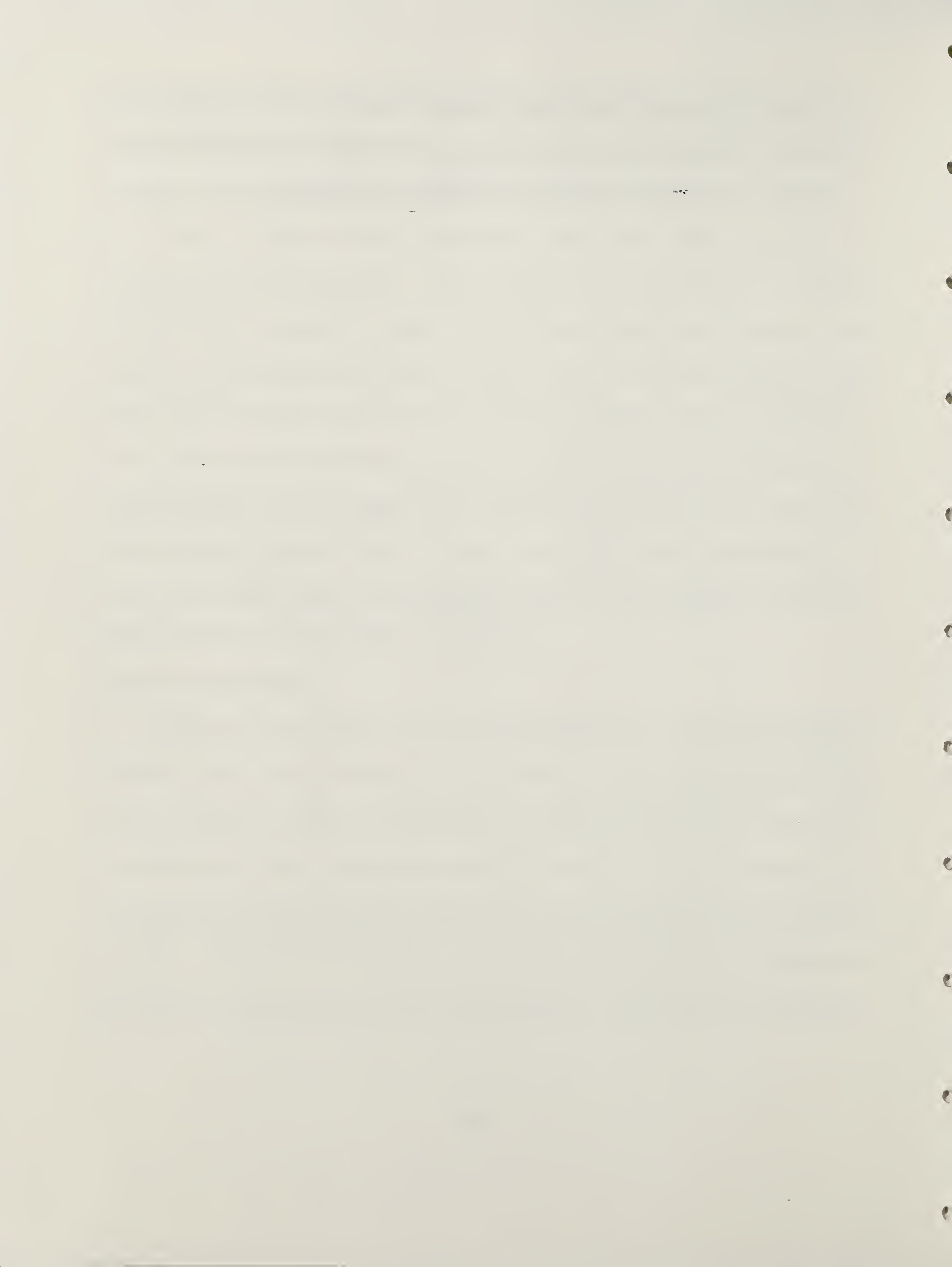
when you have the will to make it work on both sides, there is little successful history of forging successful coalitions. The will has not always existed on the side of the majority even when politicians representing communities of color attempted coalition building.

There are strikingly similar voting patterns between some healthy communities and chronically dependent communities. You will often find low voter turnout in wealthy communities because wealthy communities do not readily see the need to vote for services or jobs since they can afford them even if they do not vote. Again within the City of Boston, voting patterns of the chronically dependent sections of the city (Roxbury, Mattapan, Dorchester, Mission Hill) are more closely aligned with the voting patterns of the Back Bay and Beacon Hill (healthier sections of the community) than with the blue collar sections of the city like West Roxbury, Brighton and South Boston. Further, voting patterns with chronically dependent sections of the City of Boston are more closely aligned with voting patterns of such affluent suburbs as Weston or Milton (healthier communities).

Summary and Conclusion

High levels of tax exempt properties will almost always indicate a chronically dependent community. This analysis also suggests a direct correlation between voting patterns, voting turnout and delivery of services and employment. It suggests that the delivery of services in some healthy communities or even healthy sections of some cities is due to the knowledge among the voting populace that there is a direct correlation between voting and employment and delivery of services. Those healthy communities receive services superior to chronically dependent communities not because they are white, but because they vote. To the extent that communities

of color and poor communities which are chronically dependent learn over time to vote in large numbers consistently, voting can be used as a means to transform some of the chronically dependent communities into healthy or at least healthier communities.



CHOOSING YOUR PARENTS WELL: STRUCTURE, COMPETENCE AND CORRUPTION IN COPING WITH MUNICIPAL FISCAL STRESS

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In the 1950 film, For Heaven's Sake, an angel assists two heavenly but overdue children in their search for suitable parents. With some farcical tribulation, angels Clifton Webb and Edmund Gwenn prevail upon Robert Cummings and Joan Bennett to become parents. As befitting a story with a happy ending, the parents to be are sound of mind and pocketbook. If all children could so choose, presumably most parents would be charming and prosperous. A cautionary tale for those who would cope well with fiscal stress: at the start of such a struggle, choose, if you can, a prosperous economic base upon which to fight your battle.

For our present purposes the outstanding question is this: as the popular blues singer Peggy Lee once asked, "Is that all there is?" A quick look at the bond ratings of Massachusetts cities and towns might indicate a positive answer. In 1992 few of the older and poorer former industrial centers of the Commonwealth had a high credit rating; and some were without a bond rating. Among these cities, Chelsea, with high rates of poverty and an eroding traditional industrial base, was in fiscal receivership, its formally democratic processes suspended. Of the towns with the highest credit ratings in the Commonwealth, the majority were the residential communities of the affluent.

Apart from credit ratings, the quasi-official opinions of investment advisors, it is a fact that among the cities and towns of Massachusetts those who entered the decade of the 1980s

relatively poor left it that way, even as they struggled ever harder to pay their bills. This despite a quite remarkable period of full employment on a statewide basis and what appeared, amidst talk of booms and miracles, to present the hope for shared abundance.

Our question amounts to this: is there a meaningful politics of coping with fiscal stress? If being poor determines that you will certainly be bankrupt and/or in receivership, the answer is "no"; for where there is no discretion, there are no meaningful politics. In order to understand both the limits and possibilities of the political process, that is, the zone of human discretion and choice, we must first understand the structural context within which those political choices are made.

We will travel, then, down a narrowing funnel, from the changing structure of the Massachusetts economy to the path through the 1980s made by a small panel of cities. For this group of cities we will examine their performance on a number of relevant social and economic indicators from 1980-1990. Finally we will see the scope of choice presented in two places in that time period: Chelsea, which all but went bankrupt, and Worcester, which managed, with some difficulty, to keep its fiscal house in order. And at the end we'll revisit Edmund Gwenn and Peggy Lee.

Structural Change in Massachusetts

Massachusetts is completing a long-term process of deindustrialization. The process began, in the Great Depression, with the onset of decline in the state's older economic base of employment in the shoe, paper, textile and shipbuilding industries.[1] Although job losses in these industries were offset in the postwar period by gains in "newer" industries such as aircraft engines and electronics, manufacturing employment in Massachusetts declined from 716,000 in

1950 to 578,000 in 1975.[2] The unemployment rate reached 12.3 percent in 1975.

Deindustrialization was masked by the spurt in manufacturing employment produced by high technology growth in the late 1970s.[3] Job growth in high tech and defense more than offset the decline in traditional manufacturing employment, so that between 1975 and 1980, manufacturing employment in the state grew from 578,000 to 675,000.[4] By 1986 Massachusetts was enjoying an unemployment rate in 1986 of 3.7 percent, significantly below the nationwide average of 5.3%. "Full employment" had arrived.

However, high technology growth and manufacturing employment peaked in the early 1980s and was exhausted by 1985.[5] After 1984, manufacturing employment in the state once more began a steady decline as a result of plant closings and layoffs. Although the state gained 164,200 jobs between 1984 and 1988, the manufacturing sector lost 86,517 jobs over the same period. Whereas manufacturing employment in the state had stood at 672,227 in 1984, by late 1989 it had been reduced to 565,000.

By March 1990, the state jobless rate rose above the national rate of unemployment for the first time in over a decade. At the end of the boom, a very different Massachusetts emerged.

The process of economic re-structuring had produced dramatic growth in the service sector. While the net job loss in manufacturing between 1980 and 1990 was 153,000, some 493,000 non-manufacturing jobs were created in that period. Seventy-one percent of these non-manufacturing jobs were in relatively low-skilled, low-paid service sector employment categories such as wholesale and retail trade.[6] By 1990 manufacturing ranked third behind services and wholesale and retail trade in private sector employment in the state (Table 1), with but twenty percent of private sector employment, down from over thirty-three per cent in 1970, and over

forty percent in 1950.[7]

There are significant wage differentials among different sectors in the state's economy. In 1988, a manufacturing job in Massachusetts paid an average annual wage of $29,397 compared to $22,633 for services and $17,917 for wholesale and retail trade.[8] These structural changes have particular relevance for the urban economy of the Commonwealth.

The "boom" of the mid-eighties was widely attributed to industrial success. Many analyses focussed on high technology and the industrial policies of the Dukakis Administrations as the sources of this success, but labor organizations and community activists dependent on traditional industry were concerned about plant closings and lay-offs.[9] In reality, outmigration and slow labor force growth were responsible for the Commonwealth's very low unemployment rate. Wages rose as unemployment fell, but the bulk of the job production was in areas other than manufacturing.

Indeed, a re-examination of the wage data for manufacturing has produced a surprising result. By the late 1980s Massachusetts hourly wages jumped from a position below the national average in the 1970s to a position considerably above it. If, however, national wages are corrected for national inflation, and Massachusetts wages are corrected for the Boston CPI, the catch-up in wages did not occur until the rapidly deflationary period of the early 1990s.[10] Apparently, the deindustrialization process and the price increases surrounding the boom (particularly in housing) constrained the purchasing power of manufacturing workers even in the midst of low unemployment. Figure 1 portrays these data.[11]

The structural shift from manufacturing to services and the overall decline in manufacturing have had a major impact on state government. On the one hand, state revenues

declined as the economy slowed down. The rate of state revenue growth decreased from 15.4 per cent in 1985 to 6.3 percent in 1986.[12] In 1988 the state reported a revenue shortfall of $361 million. After over a decade of revenue growth, revenues did not grow at all in 1990. As unemployment grew and many new jobs paid lower wages, upward pressure continued on the state government's social expenditures.

Structural Change and the Urban Context

The structural shift in Massachusetts has steadily weakened the role of traditional industry in the state's economy. While the change increased the importance of high technology to the state, the global economy made places like Boston important nodes in the command and control of capital. Thus, Boston's employment patterns in the 1980s showed relative growth in the FIRE (Finance, Insurance, and Real Estate) complex of employment. Boston reached very low levels of unemployment in the mid-eighties, and poverty levels dropped.[13]

With the exception of Boston, urban Massachusetts still bears the stamp of the manufacturing concentration of the industrial age. In 1980 Massachusetts was about as manufacturing intensive as the nation, but its cities were considerably more so. In Table 2, we see the proportion of the labor forces employed in manufacturing in a selected group of cities.

For most of these cities (Lowell was the temporary exception), the short-lived expansion of manufacturing in the eighties was not particularly helpful. These are places of traditional, not high tech, concentration, where wages failed to keep pace with the cost-of-living index. The decline in real wages hurt their inhabitants, and the subsequent weakening of the economy did so as well. In unemployment, poverty, median income, per-capita income, and education, these cities left the eighties even further behind statewide averages than when they entered the decade.

See Tables 3-8 for these data.

Other than Chelsea, none of these cities is in receivership. But Chelsea is not the poorest of these cities (Table 4). It is not the city with highest proportion of inhabitants who speak Spanish (nor, as a corollary, with the highest proportion of immigrants from inside or outside the state (Table 3). Nor does Chelsea have the lowest family median or per capita income (Table 5). With Holyoke and Lawrence, however, Chelsea is near the bottom on most of these indicators, and Holyoke's fiscal situation has also been deeply troubled.

By contrast with the rest of the urban panel, Worcester improved its median income position relative to the state. While the city's poverty rate increased, it did so less acutely than the rest of the urban panel, and is considerably lower, at 15 percent, than Chelsea at 24 percent. The situation was similar for unemployment.

Apart from starting less poor, Worcester had another structural advantage. Although not as far from Boston as its civic leaders would like, Worcester is a city of 170,000, the largest city between Boston and Albany and between Hartford and Quebec. It thus plays a small but significant role as a subregional node in the global system of command and control of information and capital. One indicator of this is the proportion of its adult residents with a college degree: 21 percent compared to Chelsea's 12 percent. The gritty town at the heart of Commonwealth has six colleges and universities, as well as other two-year institutions of further education.

By contrast, Chelsea has but 28,000 souls, with a very different demographic and educational profile, part of Boston's metropolitan division of labor, but not a part of that which prospered in the 1980s. Overshadowed by the central-place functions of Boston and not participating in the FIRE employment complex, Chelsea remains a center of the region's

immigrant working class and traditional industry. In 1980, it had exactly those things which the Commonwealth was losing or devaluing by 1990: traditional industry, low-skill labor, and older housing, much of which lacked the architectural detail or waterfront views that fed the condominium market in Boston during the same decade.

Thus Chelsea had accumulated a long list of strikes against it. If one of our panel were to become a casualty, on the basis of the 1980-1990 objective data, we would have chosen Chelsea or Holyoke or Lawrence. When we turn to an examination of specific political histories, we will see even more clearly, perhaps, why one and not the others was destined for the worst-case scenario.

Fiscal Politics in Chelsea and Worcester

The fiscal stresses on Worcester and Chelsea throughout the 1980s were created by factors largely outside of either city's direct control. Apart from the large structural forces we have already mentioned, the decade opened with the passage of Proposition 2 1/2 and from then on, the rhythm of local aid moved with the tides of state revenues. These shifts in local aid, in turn, which were not under city control, grew immensely more important as a proportion of revenue. At 31 percent of local revenue in 1991, local aid was 50 percent higher than it had been when Proposition 2 1/2 went into effect in 1981.

The real problem for Massachusetts cities and towns was that their fixed costs were rising faster than the inflation rate and faster than the tax levy increases which Proposition 2 1/2 allowed. Energy prices, pensions, unemployment compensation, workers' compensation, and health insurance for municipal employees became increasingly costly, while for most cities and towns, local revenues were increasingly constrained.

The task of the remainder of this paper is to look at how the political leadership in each city responded to the stresses produced by those factors: the choices made or ducked, the character of the debate over priorities and strategies.

Scripting the Fiscal Drama:

Two Tragicomedies in Three Acts

The scripts for these municipal dramas roughly corresponded to the chronology of important milestones identified above. Act I covered the first few years of reaction to and implementation of Proposition 2 1/2. In this period, local administrators and legislators decried or lobbied for prospective cuts, although overall fiscal impacts were muted after 1982 by an influx of state aid. As the expansion of the era took hold, a burst of real estate development and rising property assessments expanded each city's tax base and seemed a harbinger, however temporary, of long-term recovery.

Act II opened with a bleaker backdrop as the state's financial collapse began to bleed local aid out of the system while the federal contribution to localities dwindled. The real estate boom slowed and then stalled, freezing local tax bases, while less cash from the state was available to buffer the effects of Proposition 2 1/2 and the loss of federal revenue sharing. In addition, both cities faced increased borrowing and higher wage settlements with public employee unions, as well as skyrocketing pension, health insurance, and workers' compensation costs. Act II closed at the end of the decade with Chelsea slouching toward receivership, while Worcester faced warnings about its solvency and undertook charter reform.

We are now in the Third Act: in a long slow climb back, chastened public managers face insecure and cynical voters, neither very optimistic about government and constructive change.

Budget Building in Massachusetts

Before 2 1/2 passed, a familiar annual drama had unfolded in most Massachusetts municipalities: supplemental budgets were routinely introduced months into the fiscal year while the tax rate was routinely raised to cover deficits left at its end -- practices that helped fuel the property tax revolt.[14]

The pre-2 1/2 budgetary scenario outlined above responded to a number of confounding features of Massachusetts budget-building practices, features which remain unreformed by tax limitation. For one thing, municipal budgets are set before the state's contributions to cities and towns are known. These are the so-called "cherry-sheet" figures, and while governors and legislative leaders like to announce what they will be early in the budget cycle, the exact numbers are not official until the state's budget is passed by the Legislature and signed by the governor. Thus, built into every municipal budget is a degree of uncertainty as to the actual amount of revenue derived which will flow from the state in a given year.

Added to this revenue uncertainty is the fact that city budgets are often passed before public employee contract negotiations are complete. Moreover, a municipality's actual financial position as it enters the new fiscal year on July 1 is unknown until well after June 30, when the local auditor adds up the final bottom line on revenue and spending for the previous fiscal year. Before 2 1/2, the tax rate was then adjusted -- usually upward -- to reflect whatever difference had emerged between the city's actual income and its outstanding bills or other debt. The crucial difference after Proposition 2 1/2 was that the tax rate could no longer be increased without heroic efforts. Instead, the new regime forced both Worcester and Chelsea, along with 10 other cities, to reduce their tax bills by millions of dollars a year in the first years after passage of the

law.

There were also two other important but lower-profile features of 2 1/2 which administrators welcomed: the end of binding arbitration in municipal employee contract disputes and the end of fiscal autonomy for school committees. Under binding arbitration, contract negotiations with public employee unions in the 1970s often had ended with retroactive raises which were expensive for the city. Proposition 2 1/2 ended that practice, and, at the same time, city halls gained control over previously independent school budgets.

After Proposition 2 1/2, in order to raise their own local revenues, cities and towns had either to expand their tax bases with new development or to pump up the assessed values of the tax base they already had -- or, if possible, both. In the meantime, many municipalities, including Chelsea and Worcester, were temporarily protected by millions of dollar in increased state aid while Massachusetts had growing tax revenues to share in the mid-1980s. When this revenue flow receded, however, each city had to face the facts of its own tax base.

The Worcester Case

The 1980s -- and the first few years of reaction to Proposition 2 1/2 -- opened with a strong central figure dominating Worcester's political landscape and orchestrating the city's fiscal strategy: Francis J. McGrath, the near-legendary city manager of Worcester for 34 years. McGrath was succeeded mid-decade by his more cautious and less charismatic assistant city manager William J. Mulford.

Mulford and the City Council enjoyed several years of budget surpluses in the mid-eighties, as real estate development and higher property assessments expanded local revenues. But during Mulford's tenure, the city faced increased borrowing and higher wage settlements

with public employee unions, as well as skyrocketing pension, health-insurance and unemployment compensation costs. As costs rose, the flow of both development and state aid began to falter. The 1980s closed with a series of charter-reform campaigns which resulted in the direct election of a mayor -- still a weak, ceremonial post -- and district representation on the city council.

The charter changes left the city manager's role intact. But Mulford himself has left that office. A critical report on the city's financial management by a business task force provides an agenda for the new city manager.

The immediate effect of Proposition 2 1/2 in Worcester was to remove $6.3 million from the fiscal 1982 tax levy, and for the first three years of Proposition 2 1/2 implementation, Worcester laid off teachers and other city workers, closed schools, and cut back on services. The city was late in producing its budgets, and had to appeal to the state legislature for extensions of its budgetary deadlines.

The dominant figure in the city's budgetary management and development policy, City Manager McGrath would begin the budget cycle by proposing what one city councilor called "a budget of doom," threatening massive layoffs and service cutbacks.[15] Yawning million-dollar gaps would appear in the current fiscal year, in Blue Cross/Blue Shield premium payments or deficits in other accounts such as unemployment compensation or fire department overtime.

In fact, McGrath's financial-management techniques were compared to a magician's, for he was known for his last-minute rescues in finding budget balancing funds in previously overlooked sources. He would suddenly find, in unexpended accounts or unanticipated state aid, the cash needed to balance the books. This became known as McGrath's annual performance

pulling rabbits out of a hat.[16] As one city councilor told a Worcester daily in March 1983, when a $2-million deficit appeared on the horizon,

> The manager is a very sharp politician...I have seen this same thing occur in the past. He tells us that a large budget deficit exists a couple of months before the fiscal year ends, then he implements a plan that none of us understand[s]. A couple of weeks before the year is over, the manager then tells us that the deficit has been wiped out and he is then made out to be a hero for saving the city.[17]

Asked what he was doing to prepare for the next budget, McGrath replied, "I had the rabbit dry-cleaned."[18] There were editorial suspicions that McGrath hid his rabbits in the State House, whence local aid would suddenly appear, or in vacant staff positions held over in the budget with money set aside for them despite a hiring freeze -- a flexible contingency account which McGrath could track without public scrutiny.

In the fiscal 1982 budget proposal, McGrath introduced the "offset-receipts" account for Worcester City Hospital, his device for taking the hospital's operations off the tax-levy budget and declaring it self-supporting. The city was still obligated to cover the hospital's deficits, but these costs did not show up as part of the city manager's script for the upcoming fiscal season. The *Gazette* called it "an ingenious holding action,"[19] and Mulford later extended the same practice (under a number of different accounting names) to other municipal facilities which could be supported by charges and user fees: a city-run nursing home, a public golf course, the municipal airport, and water and sewer operations. To some observers, these "enterprise" or "special" accounts were deceptive, masking the true magnitude of municipal spending and its overall increase over the decade, despite the decreasing property tax levy.

However, even including the special accounts, while current dollar expenditures did increase from 1980-1985, according to a 1986 analysis by the Worcester Municipal Research

Bureau, inflation-adjusted figures showed that in constant dollars, total municipal spending declined.[20]

Fiscal 1985 marked the first year that McGrath did not couch the budget process in terms of meeting tax levy cuts and predicting more layoffs. Proposition 2 1/2 mandates required the tax bill to drop another $6.5 million, but the completion of property revaluation set a new, and higher, benchmark for the city's tax base. This milestone reversed the downward pressure on the city's tax levy, allowing the assessor to raise taxes 2.5 percent annually on the new total valuation. McGrath even proposed an 8 percent increase in spending in the last budget he submitted before retirement.

McGrath's retirement marked the end of an era. He had been a powerful broker for the city, and his mastery of the city's finances made his ability to pull million-dollar rabbits out of hats seem a valuable but mysterious asset. Most observers agree, however, that McGrath did not sit at the apex of a well-oiled, smooth-running political machine which his successor could inherit. Unlike some imagined Richard J. Daley, Francis McGrath could not leave William J. Mulford, the new city manager, an army of patronage workers and disciplined political cadre.

Mulford's tenure opened with three flush years of surpluses, credited both to more aggressive tax collection and reduced borrowing, as well as growth in the local economy. In 1987, the city's bond rating was upgraded to an A. Moreover, the sheer volume of state aid buffered Worcester and other cities as federal revenue sharing was withdrawn in 1986. The speaker of the Massachusetts House of Representatives George Keverian was quoted in the *Gazette* saying the state could restore the lost funds -- $2 million in Worcester's case -- "because we are awash in money."[21] Indeed, by 1986, Worcester had traded its reliance on the property

tax for dependence on local aid from Beacon Hill, which now constituted more than half of municipal income. In 1987, while proposing Worcester's first budget over $200 million, Mulford cheerfully described the city as "a creature of the state."[22]

Meanwhile, conservative city councilor Arthur Chase grumbled that with the enterprise and other special accounts included, the city would be spending closer to $260 million, while the Municipal Research Bureau cautioned the city against assuming that the cash stream from the State House would continue to grow.[23] But the boom mentality prevailed. Although the city's $70.1 million tax levy could only be raised by $1.8 million under Proposition 2 1/2, the city anticipated an additional $2.2 million in taxes on new construction, "thanks to the building boom that has swept the city in recent years."[24] Growth -- particularly downtown development focused on the Centrum and a bundle of dormant urban-renewal parcels -- would be the key to Worcester's fiscal strategy.

Development That Didn't Happen

Unbeknownst to Worcester's political leadership, the Commonwealth's real estate boom offered only a limited window of opportunity. A plan for a Convention Center/hotel complex adjacent to the Centrum did not garner sufficient or timely political support in the city or on Beacon Hill. The magnificent but devastated Union Station was not successfully restored. A large parcel of urban renewal land went undeveloped. As the recession of the late eighties struck, and aggressive mall development took place at Worcester's periphery, the downtown Galleria fell into decay. Although there are serious development projects for all of these right now, the lesson of the mid-eighties is rigorous --opportunity leaves more quickly than it first appears.

The initial public hint of trouble emerged in August 1987, when Mulford revealed that he was working with the Bank of Boston, the city's financial advisor, to reduce a $10 million shortfall projected for fiscal 1989. After the previous three years of surpluses, potential deficits were reported in February 1988, as local aid was being squeezed by shrinking state revenues. An editorial in the *Gazette* comparing Mulford to McGrath flagged the changing circumstances:

> Worcester City Manager William Mulford's predecessor was famous for his fiscal "hat trick." Just as a major deficit seemed inevitable, he would reach into his top hat and pull out the rabbit -- some surprise source of revenue.
>
> Mulford does not practice that kind of magic. His trick has been to finish each fiscal year during his tenure in the black and with healthy surpluses. That may not be in the cards this year, however.[25]

The proposed budget for fiscal 1989 came in $5.4 million less than the previous year, with only eight new jobs. The City Council cut the Manager's request for an assistant city manager for economic development, complaining that he had not responded to repeated calls for re-organizing the city's planning and development offices. When a $3-million surplus appeared at the end of fiscal 1988, Mayor Jordan Levy drew a comparison between Mulford and his predecessor, saying that the city manager "lowballs anticipated revenue numbers all the time, and consistently...has budgeted for positions each year that aren't filled every year, and you end up with a surplus."[26]

Coping with Fiscal Stress

But by September, the surpluses had been absorbed to balance the budget, and by December, the environment had changed dramatically. Under Proposition 2 1/2 limits, the tax levy could go up only $2 million, while new construction was down. State aid -- which supported more than half the budget during the preceding three years -- was crumbling under the weight of the state's own financial crisis. Levy predicted the worst financial problems for the

city since the advent of 2 1/2. Mulford even asked for a voluntary 2 to 3 percent discount from the city's vendors.

By fiscal 1990, Worcester was facing a $10 million shortfall even though the city had seen its local aid more than double since fiscal 1980, peaking in fiscal 1989 at over $101 million. Those funds had been a bulwark against the property tax drain over the decade: in fiscal 1980, local aid represented 33 percent of the city's general funds (and 23 percent of total revenues) while property taxes generated a full 51 percent of general funds (and 36 percent of total revenue). By fiscal 1990, those numbers were reversed: property taxes accounted for 40 percent of general funds (and 26 percent of all revenues), while local aid provided 49 percent of general funds (and 32 percent of all revenues). The city's fees and charges had almost doubled, including water and sewer charges. So, too, had the enterprise and other special accounts, including Worcester City Hospital, although regular cash transfusions from the city had been necessary for the hospital and other facilities.

Without federal revenue sharing, the total amount of federal aid at the end of the decade was almost exactly the same amount provided from all federal sources at the beginning, $25.5 million in FY80 as compared with $24.8 million in FY90.

Adjusted for inflation, the latter figure represents a significant net decline --as much as **$18 million** less purchasing power in 1990 dollars.[27] FY80 saw a $1.4 million surplus, FY90 a $9.2 million deficit, as revenues climbed 56 percent but expenditures overtook them at 62 percent. While not as dramatic a downturn as Chelsea's, Worcester's fiscal imbalance was widening.

The Chelsea Case

Chelsea's fall into receivership has been painfully public, a caricature come to life. By 1991, the last mayor to preside over the city's declining fortunes was desperately **asking** the state legislature to release City Hall from the burdens of governance, "I beg of you," pleaded Mayor John Brennan, "don't open the gates of heaven and let us in, but for God's sake, please open the gates of hell and let us out."[28] In retrospect, Chelsea's fall seems inevitable, almost willful, for hindsight is always superior to other powers of observation. Our claim is that Chelsea was a casualty, although not-entirely-innocent, of external forces and self-inflicted wounds.

Afflicted with a venal political culture resting on a flawed city charter, by de-industrialization, white flight, and a booming drug trade, in Chelsea the democratic process collapsed. Mismanagement, political failure, and outright corruption combined with an eroding economic base to make Chelsea a city without the franchise.

Chelsea's two square miles face the Boston skyline but the city was largely bypassed during the real estate boom of the 1980s. Close enough to Boston to serve as one of its *de facto* working class neighborhoods, Chelsea is too close to garner the central place functions which the idea of "city" evokes.

Once a booming factory town where immigrants from both western and eastern Europe found jobs and built labor unions, it lost a full 25 percent of its already dwindling manufacturing base in the 1970s, and many of the departing industries left contaminated, virtually undevelopable land behind. At the same time, Latino and Asian immigrants were beginning to crowd into an aging housing stock.

Other old industrial cities in Massachusetts -- Holyoke, Brockton, Lawrence, Lowell -- have confronted similar circumstances: Chelsea neither invented political corruption in Massachusetts nor suffered alone with a diminishing manufacturing base and shifting demographics. But it was no surprise that Chelsea was the first to tumble, since it was the smallest and among the poorest of the Commonwealth's cities. State officials weighing receivership in 1991 calculated Chelsea's median household income at $9728, the lowest of any city or town in the Boston metropolitan area and reflecting what it thought was the highest poverty rate of any municipality in Massachusetts.[29]

While the statewide infant mortality rate retreated during the 1980s, Chelsea's more than doubled.[30] The high school dropout rate -- three years into the Boston University takeover of the Chelsea public schools -- was stubbornly lodged above 50 percent, and students ranked near the bottom on basic skills test scores statewide.[31] More than 70 percent of the city's housing stock had been built before 1940, and only 28 percent was owner-occupied; more than 86 percent were multi-family units.[32]

Demographic change has been dramatic. Of the 28,000 residents located in the 1990 census, the Latino population was estimated at just over 9000, or 31 percent of the total -- up 221 percent since 1980.[33] The city's future is foreshadowed in the 1990 census figures, showing that over 60 percent of the population under age 18 is non-white or of Spanish origin. Meanwhile, according to the 1990 census, the city's non-Hispanic white population declined 20 percent over the decade, to 59 percent of the total, or just under 17,000.

Some observers have attributed the city's lack of public investment -- particularly in the schools, virtually untouched since a 1955 report recommended their complete rehabilitation --

to simple racism, directed at newer non-white residents dependent on local services. But the schools were not the only neglected public infrastructure. When Chelsea's first capital budget was drafted in 1987 -- almost 15 years after the city's second catastrophic fire cleared over 100 acres of industrial and residential land -- the fire department was still using a ticker-tape dispatch system built in the 1930s.

The story of Chelsea's mounting budgetary woes cannot be told without reference to the city's 1911 charter. This document, even with its amendments, served not so much to separate powers as to diffuse and confuse them for over 80 years. Founded in 1737 and incorporated in 1857, the city had rewritten the original charter in the wake of the 1908 fire. At that time the governor appointed a panel of Yankee businessmen, unequivocally named the Board of Control, to manage recovery from the devastating blaze. The board produced a maddeningly vague and inconsistent charter -- presumably a conscious effort to prevent any one ethnic group from dominating municipal government in a city which had become a polyglot immigrant port of entry. The result was structural stalemate, in which the mayor and the aldermen could point to separate sections of the charter which appeared to charge each of them respectively with the authority for hiring and firing as well as administrative and fiscal decision-making.[34]

Much of Chelsea's political energy has been expended on fruitless political contention. The McCormack Institute paper by Hendrickson and Beard argues persuasively that frustration with petty battles and grand-standing in City Hall left a vacuum taken up by increasingly weak candidates for electoral positions, leading to correspondingly weak appointments to the key municipal offices.[35] Lines of authority had also been clouded by a plethora of boards and agencies with competing mandates, particularly in land use planning and economic development.

In addition, as a 1986 management study noted, Chelsea's fierce local pride and insularity produced a "historical unwillingness to employ individuals in key positions from outside the city."[36] City departments were fiefdoms, often controlled for years by individuals with no professional training, sometimes protected by Civil Service rules, running on a mix of idiosyncracy and what one reporter called "institutionalized incompetence"[37] with myriad opportunities for illegal cash transactions to smooth service delivery. Even without active corruption, however, these practices were often careless and expensive.

For example, according to one former receivership official, payables were not always accounted for. When an outstanding bill for about $50 came to light, an apparently minor item for the new financial managers, someone on the receivership staff asked the apparently innocent question, "Are there any more like that?" Indeed, there turned out to be $2 million of payables lost in the system, literally stuffed in desk drawers throughout City Hall.

In 1981, Chelsea voters embraced Proposition 2 1/2 by a two-to-one margin, despite evidence that the city would be "acutely vulnerable to the restrictions of Proposition 2 1/2" because of its aging housing stock and narrow overall tax base.[38] This was both a vote of no-confidence in the City Hall gang and a protest against the city's tax rate. At $242 per $1000 of valuation in 1977, it was the second-highest in the state and perceived as one of the spurs driving the middle class out of the city. In the 1970s, Chelsea had experienced an outmigration of an estimated 5500 taxpaying refugees to the suburbs.[39] Thus the local newspaper applauded tax relief:

> Proposition 2 1/2 should result in a tremendous decrease in our tax rate in Chelsea which will prevent the flight from our City of the good and solid citizens which are the foundation of a good and solid community.[40]

The city's tax rate did drop precipitously: in fiscal 1983, after revaluation, the residential property rate was pegged at $20.30 and the combined commercial, industrial, and personal property rate at $43.60. These numbers declined steadily through the rest of the decade. Of course, when the city's property value was reassessed, tax bills also declined, but far less dramatically than the rate itself. Nonetheless, Chelsea voters never supported any of three attempted overrides of Proposition 2 1/2 tax limits.

Even in April 1991, on the brink of bankruptcy, when this "relief from tax relief" could have netted the city an estimated $15 million in additional revenues, the last override went down to a resounding three-to-one defeat.

Proposition 2 1/2 imposed automatic 15 percent-a-year tax cuts on Chelsea, as it did on other cities whose tax levy exceeded the referendum's mandated levels. Chelsea's tax levy limit would have been $4.4 million in fiscal 1981, rather than the $14.5 million the city collected. Together with the lost excise tax revenues, this would have represented a $10.5 million collapse in income. Instead, Chelsea was among the communities facing involuntary 15 percent annual reductions in their tax levies until property revaluation set a new floor on the tax base. By fiscal 1984, after re-assessment, Chelsea's tax levy was cut by 40 percent, to about $8 million. As in other cities in Massachusetts, Chelsea was protected from this fiscal blow by the state: local aid made up for most of the city's revenue loss, averaging more than $1 million-a-year increase between FY83 and FY86. Nonetheless, the signals were clear: Chelsea's fate depended on expanding the tax base. The alternative was to confront a close-to-50 percent drop in tax revenues which could then increase by only 2.5 percent every year. With Chelsea's narrow tax base, the fiscal future depended on either exploiting long-fallow development sites or dependence

on state transfusions.

The Development Question: Why Not?

As we examine Chelsea's troubled past, a 1989 consultant's report provides perspective on the issue of Chelsea's financial management in the years after Proposition 2 1/2. Looking back at the previous decade, the report by Touche Ross & Co. noted that even if the city had implemented **all** the cost-saving recommendations from **all** the consultants hired for financial management advice through the 1980s, the resulting impact on the city's fiscal condition would have been relatively small, as compared with the potential income from new development.[41] The implication of the Touche Ross view is this: whatever the ethical dimensions of corruption-as-theft, the major basis of Chelsea's fiscal collapse is to be found in its industrial and real estate stagnation.

Corruption as a fiscal issue -- always sensational -- has its major relevance in development. The issue is not what they stole but what Chelsea's public officials prevented from being built. So let us begin with the city's development record.

In the late 1970s, Chelsea made aggressive efforts to use state and federal development funds for what some anticipated would be Chelsea's renaissance. Nevertheless, many of Chelsea's development opportunities were slow to proceed, and some faltered altogether. Unfinished sections of several urban renewal projects dot Chelsea's landscape.

The Chelsea Naval Hospital was closed by the federal government in 1973, and the city proposed using the surrounding 88 acres for over 1200 housing units as well as a marina, a park, and light industry.[42] The Admiral Hill development, at the fringe of the Chelsea Naval Hospital site, stands unfinished. So, too, is the industrial park (with its promised 2500 jobs) and shopping

mall built in the fire zone from the 1973 conflagration, and a parcel long set aside for housing, some for residents displaced by the 1973 disaster.[43]

Less happened in the 1980s than city officials hoped or expected. Even at the height of the Boston boom, Chelsea's derelict waterfront remained a patchwork of oil tank farms and former industrial sites, most of which had been left with severe contamination from untreated hazardous wastes. Prospective developers of Chelsea projects faced a complex and sometimes contradictory legal and regulatory environment.

Most of the waterfront, for example, was suspended between state protection as a "designated port area" strictly for maritime uses, while local zoning specifically outlawed those activities, sparking a number of long-running and bitter lawsuits. Meanwhile, even within the city's own borders, land use decisions were divided among a dizzying array of local boards and authorities, some with competing mandates and jurisdictions.

Chelsea's receivership staff, as city officials before them, tout Chelsea's access to Logan International Airport, to central Boston, and to the academic and medical complexes in Cambridge and Boston as locational advantages. However, without a subway or ferry link across the harbor, Chelsea's access to Boston depends on the congested Tobin Bridge or upon a circuitous truck route through Everett, Somerville, and Charlestown -- a deterrent to residential development. Moreover, the city's first-ever capital budget in 1987 identified between $9 million and $40 million in deferred maintenance, repairs, and replacement projects.

Coping with Fiscal Stress

Chelsea's main budget drama can be divided into two acts and four mayors, all of whom were indicted. Act I featured Joel Pressman and James Mitchell, denying the extent of the city's

troubles. Act II featured Thomas Nolan and John Brennan, both sounding alarmed about the city's mounting financial crisis, but unable to mobilize support for drastic cuts and unwilling to lead major reforms.

Joel Pressman's eight years in office bridged the city's urban-renewal efforts in the late 1970s and the first years of Proposition 2 1/2 in the early 1980s. Although he had been a supporter of the referendum question, Pressman realized that its implementation would cause immediate pain.[44] Just before Christmas 1980, he released a "worst-case" preliminary budget proposal cutting 28 percent of the fiscal 1981 budget, already at its halfway point, and calendar 1981 opened in an atmosphere of fiscal panic. There were over 100 teacher layoffs, and the mayor, distributing pink slips in City Hall, told the firefighters that any pay raises would result in layoffs in their ranks as well.

In the fiscal 1981 budget, brought before the aldermen in February, Pressman proposed a 15 percent cut in every department, but eventually including more layoffs of City Hall workers than police officers. In March, Moody's Investor Service announced that 37 Massachusetts cities and towns, Chelsea among them, would lose their bond ratings in the wake of 2 1/2, and in July the city's credit rating was officially dropped to "below investment grade." Symbolic of the new austerity was the cancellation of Independence Day celebrations -- the ward parties and fireworks traditionally underwritten by the city.

In mid-July, however, extra state aid softened the impact of the city's first-year $2.5-million loss in property and excise tax revenues, feeding local optimism that 2 1/2's impacts on Chelsea would be less grave than feared. The end-of-the-year editorial in the relentlessly boosterish *Chelsea Record* anticipated that "1982 could well be the year when 'Chelsea will be

discovered' by hundreds and then thousands of people from Boston -- young professional people -- who will add so much to this community." And while Proposition 2 1/2 forced Chelsea to reduce its property-tax levy for fiscal 1982, all but $11,000 of the city's net revenue loss was later replaced by $2.6 million in local aid, a pattern repeated in fiscal 1983.

In 1984, combative former alderman James Mitchell succeeded Pressman as mayor. Mitchell's term was marked by public confrontations with other city officials, prolonged absences from City Hall, and dramatic re-entries into the public eye. Mitchell narrowly missed being recalled in a special election in 1985. The new mayor asked the Massachusetts Municipal Association to review the city's finances, but then failed to appear either at a School Committee hearing on its fiscal 1985 budget or, after his own budget had been proposed in May, at the aldermen's budget hearing. The recall committee was formed after Mitchell was reported to have sunned himself in the backyard instead of attending the Chelsea High School graduation in June. After a vituperative campaign on both sides, the recall committee's petitions were found to be short by 45 signatures. When Mitchell later testified against the receivership bill at the September 1991 hearings on Beacon Hill, one legislator told him, "If there is any convincing testimony today as to why there should be a receiver in Chelsea, it is yours."[45]

As of fiscal 1984, local aid constituted the single largest source of revenue to the city, and the state would continue to bail out the city after Mitchell's departure.[46] His successor, Thomas Nolan, successfully solicited an interest-free loan from the Legislature to cover an outstanding $1.5 million deficit inherited from Mitchell as well as an anticipated $3.5 million shortfall the following year. As a condition of the loan, however, the state demanded the installation of a Finance Control Board to approve annual budgets and appropriations.

After Mitchell's antics, almost any replacement would have been welcomed. But Nolan proved problematic in his own right: he was fined twice by the State Ethics Commission during his one term in office -- first for appointing his brother to the Chelsea Housing Authority, then for altering the date of a captain's exam to the advantage of a particular group of firefighters. Nonetheless as he left office, succeeded by John "Butchie" Brennan, a former alderman and bartender, the *Record* credited Nolan, with "return[ing] dignity to City Hall." While issuing ominous warnings about the city's deteriorating financial condition, the *Record* praised Nolan for being "able to forestall the 'day of reckoning.'"[47]

The day was not long forestalled. By the 1989 election season, the city's name had become a suburban epithet. A candidate for the Woburn City Council pledged to keep his hometown from becoming "the Chelsea of the North."[48]

The city's public schools -- a system with the lowest SAT scores and highest dropout rate in the state -- were given over to Boston University for a 10-year experiment in emergency education management.[49] The state's $5-million loan was exhausted, and the deficit was climbing.

As 1990 began, life in Chelsea went on with the regularity of Ecclesiastes. In tune with the season, the Chairman of the Traffic Commission was reinstated for a thirty-fifth term; the Board of Aldermen, "for the fifth time in 20 years," voted to demolish a building on Washington Avenue. Mayor Brennan formally retired Eric, the police dog.[50]

But something was clearly giving way. State aid had increased from $5.8 million in fiscal 1981, supporting a third of Chelsea's expenditures, to over $20 million in fiscal 1991, representing a full 45 percent of the city's operating budget. Still, Chelsea's deficit approached

$10 million. Mayor Brennan had to trudge up to Beacon Hill in September 1991 to face the day of reckoning, but Mitchell and others railed against what they called "political deceivership."[51] Before the next election, Chelsea voters had lost the franchise, and fiscal disaster had summoned the receiver.

The Corruption Question:

Does corruption explain the different fates of Chelsea and Worcester?

Both journalistic and academic accounts of Chelsea's decline and fall have documented the extensive corruption larded through that city's political system. They have a simple moral: "Corruption sucked the heart and soul from Chelsea as its citizens accepted payoff, ripoff, and screwoff as part of the culture." Thus ran the subtitle of a 1992 *Boston Magazine* profile of the city.[52] The McCormack Institute's Edmund Beard attributes the city's collapse to "municipal racketeering," the attrition of "petty but pervasive corruption" abetted by the structural defects of the city charter.

The city's civic excesses were not the sole source of its fiscal problems. But the depth of the corrupt practices and privileges which marked Chelsea's public sector means that corruption is entwined with less sensational issues of mismanagement and political failure. Ultimately, the sheer magnitude of corruption embedded in Chelsea's political culture accounts for the crucial fact that sets Chelsea apart from every other city in Massachusetts: state takeover of local government -- a law-enforcement strategy rather than an economic strategy for recovery.

Petty or grand in scale, corruption creates a drain on local resources: when city workers fill up their private cars at municipal pumps, or water commission members hook up their swimming pools to city water meters, public money flows into private hands and away from the

common weal. Similarly, if a friend of the mayor gets a sweetheart deal on an urban renewal parcel and then cannot finish -- or even start -- the project, the city loses revenues it otherwise might have seen.

Former Massachusetts Deputy Secretary for Administration and Finance Eric Kriss prices Chelsea's "corruption premium" at a full 50 percent. That is, it was twice as expensive to do city business than it would have been otherwise; or put another way, there was a dollar in opportunity cost for every dollar's worth of opportunities lost.[53]

Kriss was the Weld administration official who wrote the August 1991 *Statement of Findings* describing a $10 million "structural deficit" in the city and recommending receivership; the document is silent on the issue of corruption, presumably because indictments which were in process when it was written were not yet handed down in the federal or state cases which were then in process. Kriss now maintains that because "everything was on tilt" in Chelsea, the three elements of mismanagement, political failure, and corruption "can't be disaggregated:"

> Why was there mismanagement? There was mismanagement because you were told to hire someone's nephew. Why did you hire someone's nephew? Because you were told to. What was the reason you were told to hire someone's nephew? Because there was corruption in the system.[54]

Kriss includes in this complex what he calls the "predatory" contracts with public employee unions, which in his view extracted "tens of millions of dollars over several decades."

One former receivership official, however, draws the relevant distinction between **corruption** on the one hand and political or managerial **weakness** on the other: between cops running an illegal video-poker racket in the local bars on the one hand, and firefighters winning unusual benefits from collective bargaining negotiations with the city.

Certainly, the firefighters had favorable conditions. These perfectly legal contract provisions included unlimited sick days and generous minimum manning provisions. In this mutually reinforcing system, one firefighter calling in sick means another firefighter gets overtime, costing the city an extra eight to nine hundred thousand dollars in overtime out of a $2.5-million fire department budget. This same receivership official said that although he came to City Hall skeptical about the unions, he came to feel that, in search of votes from the influential unions and their networks in the community, Chelsea's mayors were equally responsible for the contracts they signed and that the unions had an "intelligent response" to an atmosphere of managerial ineptitude and political opportunism.

However, as previously noted, the Touche Ross Report argues that even Chelsea's fiscal sloppiness, which included myriad opportunities for corrupt practices, was a smaller fraction of its revenue shortfall than its failure to attract new investment.

In this perspective, corruption takes its larger toll from opportunities foregone, from investment lost rather than from revenue stolen.

Corruption as a Barrier to Development

The next question is therefore how important a role political corruption played in either expanding or limiting development in each city.

Chelsea's failure to capitalize on the downtown Boston development boom in the 1980s has occasionally been ascribed to the greed of both local politicians and officials standing between developers and their building permits with outstretched palms. With four mayors now facing indictments on charges related to payoffs or kickbacks on development projects, it is public knowledge that development rights at the Naval Hospital and other publicly-owned sites were

awarded to political favorites.[55] But politically favored and sometimes tainted developers often proved unable to deliver on their development packages, in some cases lingering through deadline extensions and lawsuits while their projects languished, never entering the tax rolls.

A major example of a Chelsea deal gone awry is the Anheuser-Busch regional distribution facility, suddenly abandoned after the foundation had already been poured, moving to a Medford site amid rumors of extortion attempts by city officials.[56]

Comparing Worcester and Chelsea

Corruption was not the only barrier to real estate development and tax base expansion in Chelsea. There are important elements of bad judgment, contradictory public policy, missed opportunities, and fragmented decision-making. These hold for Worcester as well.

In both cities, local boosters overestimated the amount of development each city could attract and underestimated what would be required to make development happen. Worcester's leaders overestimated the attractive capacity of the Centrum and empty lots now wait further investment.

Chelsea expected its golden goose to be its five miles of waterfront against the scenic backdrop of the Boston skyline. This proved overly optimistic given the real backdrop of Chelsea's geography and architecture.

One final question is whether the bond rating in either city was related to corruption, as a barometer of the relative weights of political integrity, managerial competence, and political will in the marketplace.

Before Chelsea lost its bond rating in 1981, it had carried a relatively low level of debt from municipal bonds. Worcester carried a heavier burden of debt service but regained its "A"

rating in the mid-Eighties. Bond ratings are a both a very simple measure of market confidence, and at the same time they leave much room for interpretation.[57] Observers offer a number of competing explanations for market confidence.

One theory, perhaps apocryphal, asserts that Chelsea could not sell bonds because the city was so corrupt that bribes didn't work. In this version of financial history, the crooks had no honor, so their clients were afraid to do business with them. Alternatively, dishonesty and power were so democratically distributed in Chelsea that corrupt officials could not deliver promised favors in the first place.

Another alternative, proposed by Kriss, is that Chelsea did not go to the bond market because that financial act would have required too much public disclosure of the municipality's fiscal condition.

A third idea, also consistent with the facts, is that the city did not use bonds to fund capital improvements, because, unlike Worcester, it just did not invest in significant capital improvements, neglecting its infrastructure almost entirely. This fiscal practice, one current member of the receivership staff suggests, would be consistent with the city's peculiar brand of political corruption: instead of recognizing that the way to make a lot of money at the public till is to build a $10 million school for $15 million and to pocket the difference, Chelsea city employees at various levels extracted "penny-ante" payoffs in exchange for rendering or withholding service delivery.

The 1989 Touche Ross report contains apparently damning evidence: in a chart of 21 separate recommended actions from three different consultants over the previous four years, Touche Ross found ten on which no action had ever been taken, partial or half-hearted responses

to another five, and only six which had been implemented, including two required as conditions of the emergency state loan in 1986.

A former receivership staff member notes that there was a powerful logic to the city's *status quo*. Not "fixing" the city meant that there were bottlenecks to be overcome, skeletons to be hidden, an internal market for permits, for information, for silence.

In the end, there was a political and an economic corruption premium for doing business in Chelsea. Chelsea's fiscal problems were exacerbated by corruption; their solution was made difficult by a city charter which allowed incompetence; they were created by structural misfortune; they may be solved by economic growth and competent government. But finally, this story does not come without a moral. On the brink of bankruptcy in April, 1991, the last Chelsea override was defeated three-to-one.

> **In a democratic society, competent government requires public confidence. Voters <u>allow</u> officials to "Do The Right Thing." If a widespread -- and in this case -- deserved, perception of corruption prevents the endowment of this fund of confidence, even prudent actions of government will be resisted by the people.**

By comparison, Worcester may not be a success, but it seems to have suffered a lesser set of evils. With a structural advantage over other peripheral urban centers, of which Chelsea is emblematic, and relatively untainted by corruption, perhaps the worst that can be said about Worcester is that it suffered, in its insularity, from a deficit of foresight and energy in prosecuting its development agenda.

Worcester today is trying to correct some of its past errors. Recovery will not be swift, but it very likely will proceed without the institutional supervision into which Chelsea has been placed.

Is That All There Is?

Edmund Gwenn was the angel assigned to close support of Clifton Webb in *For Heaven's Sake*. As the executive of Divine Good Will, Gwenn challenges us to believe that men and women may do good in the public realm. It may seem a leap of faith after so much evidence to the contrary. Like Peggy Lee, the sultry singer who asks whether after love, is there anything but disappointment, we might ask, are cities doomed in their pursuit of fiscal stability? Will the bad guys always win? Is the structural disadvantage of urban areas all there is?

Our answer is *NO*. Political leaders may be venal or honest; they may be strong or weak; they may have foresight or only hindsight. But these make a difference. Not the difference which politicians claim; not so much as partisan contention would make it seem. But officials **can** make a big enough difference to preserve or to lose democratic government. And that, indeed, may be all there is.

TABLE 1
MASSACHUSETTS PRIVATE SECTOR EMPLOYMENT
1970 - 1990
[in thousands]

						PER CENT CHANGE	
YEAR SECTOR	1970	1975	1980	1985	1990	1985-1990	1970-1990
CONSTRUCTION	97.7	74.2	77.4	109.4	99.9	-8.7%	2.3%
MANUFACTURING	648.2	577.8	673.3	649.7	520.5	-19.9%	-19.7%
TRANSPORT & PUBLIC UTILITIES	127.1	113.7	121.6	125.4	128.9	2.8%	1.4%
WHOLESALE AND RETAIL TRADE	492.6	511.5	576.6	684.1	701.2	2.5%	42.3%
FIRE	127.1	135.8	159.0	188.1	214.6	14.1%	68.8%
SERVICES	440.6	494.7	634.5	786.5	917.9	16.7%	108.3%
TOTAL	1933.3	1907.7	2242.4	2543.2	2583.0	1.6%	33.6%

TABLE 2
MANUFACTURING EMPLOYMENT IN SELECTED MASSACHUSETTS CITIES, 1980

CITY	1980 PERCENT MANUFACTURING EMPLOYMENT
BOSTON	14.3
BROCKTON	25.5
CHELSEA	25.7
CHICOPEE	39.8
FALL RIVER	47.4
HOLYOKE	31.3
LAWRENCE	46.5
LOWELL	41.6
SPRINGFIELD	28.2
WORCESTER	27.2
MASSACHUSETTS	26

TABLE 3		SELECTED MASSACHUSETTS CITIES			
		POPULATION AND		SPANISH ORIGIN	
		1990	1980	1990	1980
		POPULATION		SPANISH ORIGIN	
				PERCENT	
BOSTON		574,283	562,994	10.8	6.5
BROCKTON		92,788	95,172	6.3	2.1
CHELSEA		28,710	25,431	31.4	14.2
CHICOPEE		56,632	55,112	3.6	1.0
FALL RIVER		92,703	92,574	1.7	2.5
HOLYOKE		43,704	44,678	23.4	13.7
LAWRENCE		70,207	63,175	41.6	16.3
LOWELL		103,439	92,418	10.1	4.9
SPRINGFIELD		156,983	152,319	16.9	9.1
WORCESTER		169,759	161,799	9.6	8.3
MASSACHUSETTS		6,016,425	5,737,037	4.8	2.5

TABLE 4		SELECTED CITIES			
		PERCENT PERSONS		MAURB.WK1	
		IN POVERTY 1980-1990			
		1980	1990	MA,1990=	MA,1980=
				100	100
CHICOPEE		8.8	9.8	118	92
BROCKTON		12.6	13.6	164	131
FALL RIVER		14.8	14.3	172	154
WORCESTER		14.4	15.3	184	150
LOWELL		13.5	18	217	141
BOSTON		20.2	18.7	225	210
SPRINGFIELD		17.8	20.1	242	185
CHELSEA		21.4	24.1	290	223
HOLYOKE		19.3	25.7	310	201
LAWRENCE		19.3	27.5	331	201
MASSACHUSETTS		9.6	8.3	100	100
			AVERAGE	225	169
	POVERTY	CONCENTRATION INCREASE			
		URBAN PANEL		34%	
		CHELSEA		30%	
		WORCESTER		23%	

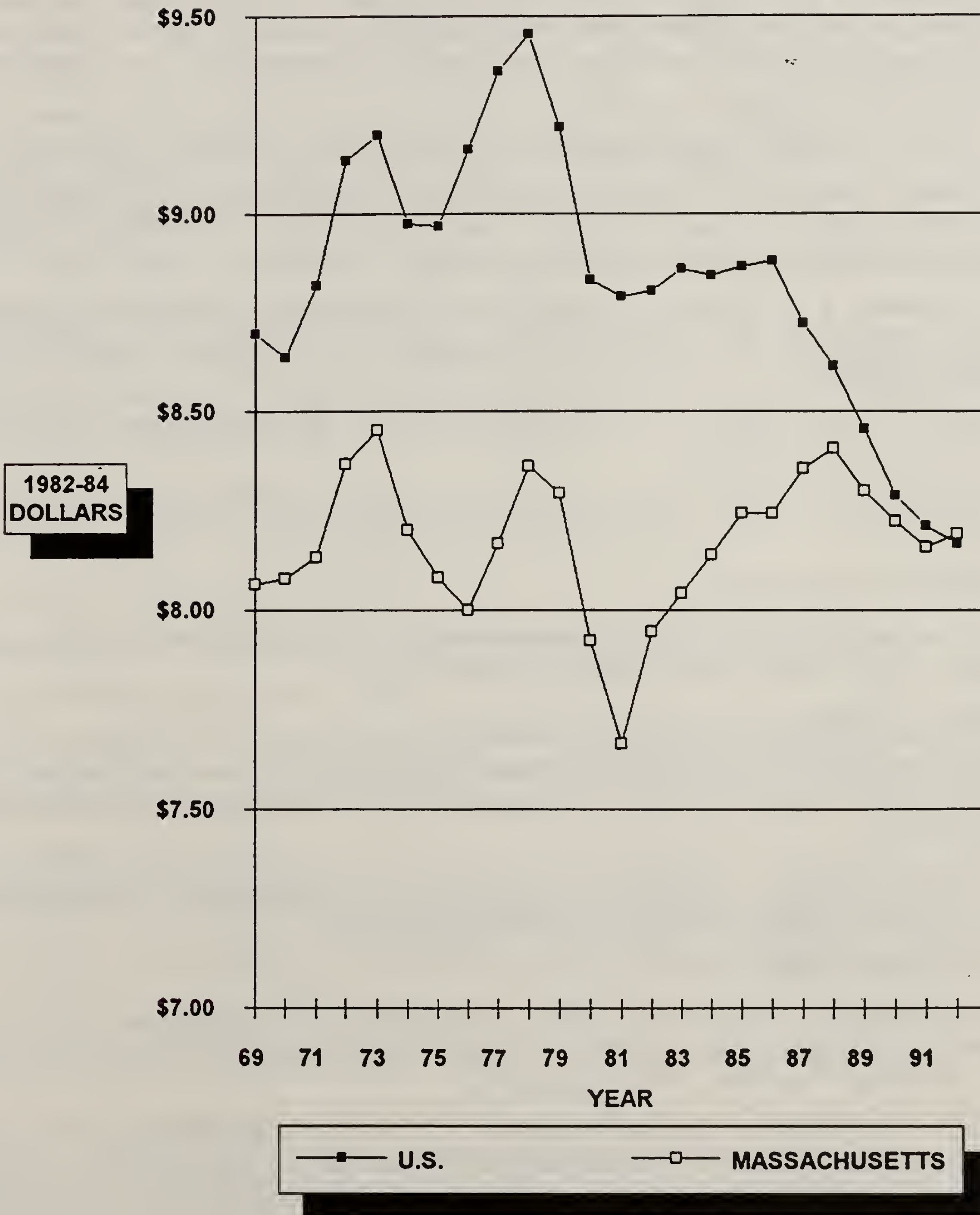
TABLE 5	MEDIAN FAMILY INCOME			(Ranked by 1990 income)				
	IN NOMINAL AND 1982-84 DOLLARS							
	(CPI INDEX =		0.824	1.307	1980	1990	1990	1980
	1980	1990	1980	1990	Rank	Rank	MA=100	ma=100
MASSACHUSETTS	$21,166	$44,367	$25,687	$33,946			100	100
BROCKTON	$18,606	$38,544	$22,580	$29,490	2	1	87	88
WORCESTER	$18,120	$36,261	$21,990	$27,744	3	2	82	86
CHICOPEE	$18,901	$35,560	$22,938	$27,207	1	3	80	89
LOWELL	$17,942	$35,138	$21,774	$26,884	4	4	79	85
BOSTON	$16,062	$34,377	$19,493	$26,302	7	5	77	76
SPRINGFIELD	$16,607	$30,824	$20,154	$23,584	6	6	69	78
HOLYOKE	$16,854	$29,366	$20,454	$22,468	5	7	66	80
CHELSEA	$14,481	$29,039	$17,574	$22,218	10	8	65	68
FALL RIVER	$14,810	$28,972	$17,973	$22,167	9	9	65	70
LAWRENCE	$15,457	$26,398	$18,758	$20,197	8	10	59	73
					Urban Panel			
					Average ratio (%)		73.1	79.3
MA,1980=					Rate of income loss relative to state			
100					Panel		-7.8%	
34					Chelsea		-4.3%	
38					Worcester		-4.5%	

TABLE 6	PERCENT 25 YRS OR MORE			
SELECTED CITIES	WITH COLLEGE DEGREE			
			MA,1990=	MA,1980=
	1980	1990	100	100
FALL RIVER	6.7%	8.4%	31	34
LAWRENCE	7.6%	9.7%	36	38
CHICOPEE	8.1%	10.4%	38	41
CHELSEA	7.1%	12.0%	44	36
BROCKTON	9.8%	12.9%	47	49
SPRINGFIELD	11.8%	15.0%	55	59
HOLYOKE	10.4%	15.2%	56	52
LOWELL	10.4%	15.5%	57	52
WORCESTER	14.8%	21.1%	78	74
BOSTON	20.3%	30.0%	110	102
MASSACHUSETTS	20.0%	27.2%	100	100
		AVERAGE	55	54

TABLE 7		UNEMPLOYMENT 1980-1990			
		SELELCTED MASSACHUSETTS CITIES			
		1980	1990	1980	1990
		PERCENT UNEMPLOYED		MA UNEMPLOYED PERCENT =100	
BOSTON		6.1	8.3	122.0	123.9
BROCKTON		7.2	9.2	144.0	137.3
CHELSEA		7.8	12.1	156.0	180.6
CHICOPEE		5.7	6.1	114.0	91.0
FALL RIVER		7.6	10	152.0	149.3
HOLYOKE		7	10.1	140.0	150.7
LAWRENCE		7	15	140.0	223.9
LOWELL		4.8	10.7	96.0	159.7
SPRINGFIELD		7.2	9.4	144.0	140.3
WORCESTER		5.6	8.3	112.0	123.9
MASSACHUSETTS		5	6.7	100.0	100.0
		URBAN PANEL		132.0	148.1
	CHANGE IN RELATIVE JOBLESS CONCENTRATION				
				CHELSEA	15.8%
				WORCESTER	10.6%
				URBAN PANEL	12.2%

TABLE 8		PER CAPITA INCOME, SELECTED CITIES					
		INCOME/CAPITA		IN 1982-84 $		% OF MA	
		1980	1990	1980	1990	1980	1990
BOSTON		$6,555	$15,581	$7,955	$11,921	87.9	90.5
BROCKTON		$6,132	$13,455	$7,442	$10,295	82.2	78.1
CHELSEA		$5,389	$11,559	$6,540	$8,844	72.3	67.1
CHICOPEE		$6,378	$13,525	$7,740	$10,348	85.5	78.5
FALL RIVER		$5,197	$10,966	$6,307	$8,390	69.7	63.7
HOLYOKE		$6,137	$11,088	$7,448	$8,484	82.3	64.4
LAWRENCE		$5,485	$9,686	$6,657	$7,411	73.5	56.2
LOWELL		$6,016	$12,701	$7,301	$9,718	80.7	73.7
SPRINGFIELD		$5,819	$11,584	$7,062	$8,863	78.0	67.3
WORCESTER		$6,443	$13,393	$7,819	$10,247	86.4	77.8
MASSACHUSETTS		$7,458	$17,224	$9,051	$13,178	100.0	100.0

REAL WAGES IN MANUFACTURING, U.S. AND MASSACHUSETTS: 1969-1992



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10. For example, in June 1993, Massachusetts hourly wages for manufacturing production workers ($12.29) were 4.86% above U.S. wages ($11.72). *New England Economic Indicators,* August, 1993.

11. Source for Figure 1: Calculated by the author from New England Economic Indicators data stored at the New England Electronic Economic Data Center.

12. Muehlmann, 1987: 11.

13. Paul Osterman, "Gains from Growth? The Impact of Full Employment on Poverty in Boston," in Christopher Jencks and Paul E. Peterson, eds., *The Urban Underclass* (Washington, D.C., Brookings Institution, 1991) pp. 122-134.

14. After 2 1/2, property taxes were limited to 2.5 percent of the cash value of the local tax base, and could only climb 2.5 percent per year; in addition, 2.5 percent of the value of new development could be added to the tax levy. The new rule also required communities exceeding the 2.5 percent limit -- a roster including both Worcester and Chelsea -- to roll back their tax levy 15 percent a year until they met the mandated limit. To establish the "full and fair" cash value of the local tax base (compared to the spectrum of valuations, often outdated, which had inflated or appeared to inflate residential tax rates), cities and towns were required to go through

the dry but important process of property revaluation, in order to set new tax rates based on 100 percent value of these reassessments. In addition, motor-vehicle excise taxes -- another highly-visible local revenue source -- were cut back to the same level, $25 per $1000 of value; for example, Worcester's dropped from the $66 rate then in force, more than a 100 percent reduction.

15. *Gazette,* April 10, 1982; the quote is from councilor Paul Leahy.

16. E.g., *Gazette,* "The Newest Rabbit," unsigned editorial, July 16, 1982.

17. *Sunday Telegram,* March 13, 1983.

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21. *Gazette*, January 17, 1986.

22. *Telegram*, May 5, 1987.

23. Schaeffer, *op cit.*, p. 1 and *passim.*

24. *Sunday Telegram,* May 3, 1987.

25. *Gazette* "Beyond Our Means," unsigned editorial, March 24, 1988.

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27. This calculation uses the increase in the **Boston** CPI (68.3%) to calculate what a constant dollar effort would have been in 1990 in **Worcester**. Certainly Worcester's cost of living is less than Boston's -- but the rate of increase was probably similar.

28. (*Boston Globe*, 9/8/91).

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30. *Chelsea Record*, January 18, 1989.

31. *Chelsea Record,* March 29,1989.

32. Owner occupancy figure from 1990 Census of Population and Housing, General Summary volume, published 1992. Other figures from Fred Habib, "Why Chelsea Went Into Receivership," University of Massachusetts, McCormack Institute, unpublished paper, May, 1993 and various issues of Chelsea Record. It should be noted that newspaper and other sources written before publication of the 1990 census data (beginning in the Spring of 1992) report somewhat different levels of e.g., poverty and home ownership then that published in the census. Without detailed investigation we assume that these stem from estimates made prior to the availability of the Census.

33. Calculated from the 1980 and 1990 Census. The true number of what the Census calls Spanish origin residents is likely to be much higher -- since large numbers of Eastern Massachusetts immigrants are undocumented residents from Central America.

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36. KS Associates, *Management Study for the City of Chelsea*, Final Report, July 1986.

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41. Touche Ross & Co., *Investigation of Methods By Which the City of Chelsea Might Encourage Economic Development and Increase Its Revenue Generation*, May 1989). Emphasis ours.

42. JGA Planners/Architects, *A New Direction: Recommended Plan for the Re-use of the Naval Hospital, Chelsea, Massachusetts (Final Report: Volume 1)*, September 1, 1974.

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48. *Chelsea Record*, November 1, 1989.

49. *Cheslea Record* August 30, 1989.

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51. Citation for Mitchell and others, in September 1990 'railing' against 'political deceivership' as Mitchell testifies on Beacon Hill.

52. Flynn, *op cit.*, p.82.

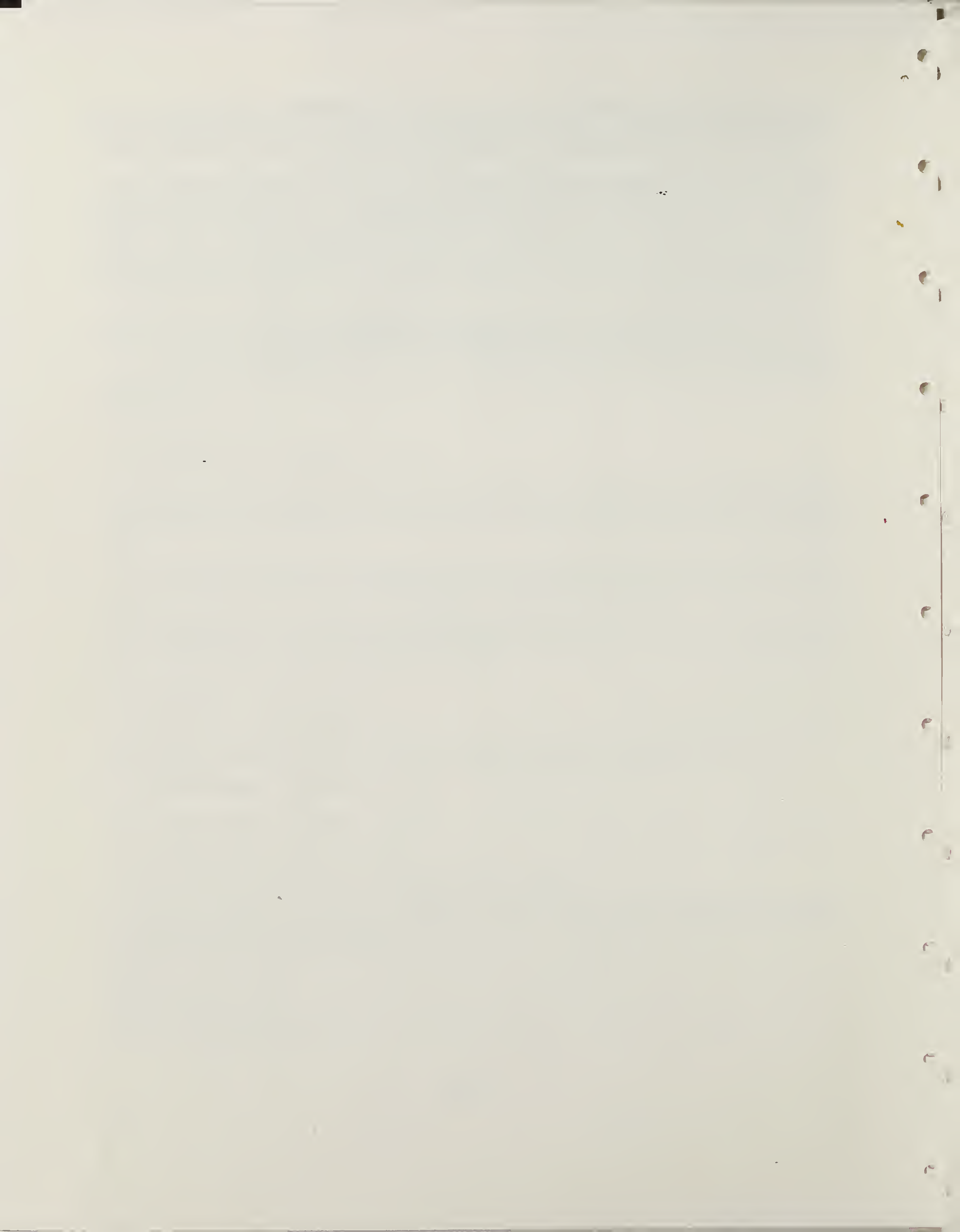
53. 9/29/93 interview.

54. Kriss, 9/29/93 interview.

55. See various *Boston Globe* 1993 articles by Matthew Brelis, May 1, 15, 18, June 1, 2. In the *Herald* see articles by Shelly Murphy and Jonathan Wells on March 26, and May 8; by Ralph Ranalli on May 18 and June 2; no byline on September 28.

56. The company has never commented publicly on its ultimate location decision. Flynn, *op cit*, p. 119 quotes Mayor Brennan saying he believes the rumor. In 1981, a series of stories in the *Chelsea Record* followed the course of Anheuser-Busch seeking additional industrial revenue bonds and getting approval for a railroad siding from the Board of Aldermen. Then, in 1984, CRA designated another developer (Anthony Cassano, later charged with making payoffs to Mitchell) for the site.

57. Prof. Ross is indebted to Jeff Apfel of Tucker Anthony for an introduction to bond ratings. Mr. Apfel is innocent of Prof. Ross's speculations about bond ratings for Chelsea.



LOCAL AID -- A NEW POLICY DIRECTION

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Massachusetts has made a sharp shift, almost an about-face, in local aid policy. Unlike the ongoing concern about revenue needs and funding policy -- the preoccupation with how much local aid there will be and how it will be parceled out -- the change in direction has had little attention or discussion. It may be more important in its implications for the future of the state-local relationship than either of the more familiar issues of funding and distribution policies.

The state has turned away from a policy of revenue sharing that had as its principal objective the provision of a revenue stream for local governments; by and large, that local aid policy was indifferent to what the local aid dollar bought. In contrast, the new policy uses money to attain particular programmatic outcomes or in response to particular circumstances or events. The new local aid policy, as embodied in the school finance reform just enacted as well as in other, smaller initiatives, shifts the focus from local revenue to local spending.

History

The old policy evolved over more than a century and reached its fullest flower in the 1980s following the adoption of Proposition 2 1/2. "Revenue sharing" in perhaps its purest form began when the state first went into the taxation business in a fairly major way. The state tax on corporations adopted in the second half of the nineteenth century and the state personal income tax adopted in 1916 both replaced earlier local property taxes on intangibles. Until the 1960s,

some part of the revenues of those state taxes was returned to the cities and towns.

Initially the aim was for the state to serve as tax collector and send the funds to the municipality in which the corporation was located or the individual owner of intangible property (bank deposits, shares of stock, etc.) resided. In other words, the distribution aimed at a return to the place of collection. Ultimately record keeping requirements became too complex. Almost as soon as the state adopted a personal income tax, the distribution method was changed from one which endeavored to return to the cities and towns the amounts they would have received under the old method of taxing intangible property to a distribution in proportion to each municipality's share of the state's total real and tangible personal property tax wealth. To the extent that the value of real property in a community differed from the intangible wealth of its corporate and individual residents, the new method accomplished some redistribution of taxes, mostly from towns where wealthy individuals lived to places with concentrations of commerce or industry.

Revenue sharing was, until the 1940s, a two-way street. The state not only returned some of its broad based taxes to local government; it annually levied a state tax on each local government -- again in proportion to local tax wealth. Indeed, local property taxes supported state activities long before money began to move in the other direction -- from the state treasury to local governments.

In both cases -- the state tax on local governments and the state taxes distributed to local governments -- the sole intention was to provide revenue. The state tax was originally used to raise whatever was needed each year to balance state expenditures. The distribution of state

collected taxes replaced revenues that were formerly available to local governments.

There was a small exception to this distribution of state taxes that dates to nearly the beginning of the income tax. In 1919, an amount of the income tax otherwise owing cities and towns was to be used to reimburse a portion of teachers' salaries. To qualify for the reimbursement, the city or town had to conform to the salary scale set by state law. But for the next thirty years, state money with strings attached was little more than a footnote to the story of state-local fiscal relations.

The years following the second world war marked a major innovation in the state's fiscal relationship with its cities and towns. In the late 1940s the Commonwealth acknowledged a broader fiscal responsibility for public education. New programs of school aid were adopted. The largest provided funds for the operation of schools; another provided for state participation in the capital costs of school construction. The program of operating aid was financed from the local share of the personal income tax and it reversed the old distribution policy: instead of distributing aid in direct proportion to wealth, the school funds were allocated in inverse proportion to local tax wealth. For the first time, state policy aimed at equalizing local resources; the redistribution of taxes from "rich" to "poor" was a primary objective of the aid formulas. It has been a driving force behind most of the steps to increase state support for local governments ever since.

Although the goal of state aid policy shifted from a kind of return to source to equalizing aid, this was still a revenue sharing policy. Its objective was to ensure that adequate funds for schools were available to all cities and towns. The state dollars were paid into the local treasury and while they were calculated in a way that measured an ability to support schools, they

were neither earmarked for schools nor was their receipt conditioned on any particular local action or behavior.

Local financial needs continued to exert pressure for some kind of action by state government. Beginning in the late 1950s and finally culminating in 1966 with the adoption of a sales tax, two interests converged to support more state assistance for local government: a broad coalition of groups concerned with education and others concerned with easing the heavy burden of the property tax. This kind of coalition which embodied inherently contradictory goals was characteristic of most campaigns for more local aid until the local property tax limit became law in 1980.

The new sales tax was enacted to support a new school aid program. The school program was substantially more generous than the postwar formula. It reimbursed a percentage of school spending, but the percentage varied in inverse proportion to local tax wealth. In other words, it followed an equalizing policy that had been established twenty years earlier. The new funds were not earmarked; like its predecessor, it was a program of state revenue sharing.

In 1967, the first year of the new program, 60 cents of every dollar of local aid was school or general purpose aid that was received as local revenue. Most of the rest was for a large collection of special programs; in many cases those aid programs reimbursed a share of local spending. By 1970, nearly 70 percent of all local aid was school or general purpose revenue sharing money.

The trend continued. Ten years later, in 1980 (with still another new school formula enacted in 1978 to replace the 1966 plan) general school and non-school revenue sharing funds equaled over 75 percent of all local aid. Underlying the specific formulas for distribution was

the idea of equalizing resources. The share of the local aid dollar that supported special programs or activities continued to decline. Total state support increased dramatically in the 1970s, by more than 250 percent, even though the share of the state budget allocated to support of local governments actually declined: from 22.5 percent in 1970 to 21.2 percent in 1980. The aim of state support during the decade increasingly focused on replacement of property taxes, i.e., local tax relief.

Local Aid and Proposition 2 1/2 in the 1980s

What happened in the 1980s after the local tax limit was adopted has been described by so many as a rescue mission, that it must be true. The state came to the rescue of its local governments and more or less tried to "make up for" the loss of access to local taxes. Local aid increased from $1.3 billion in the first year of the decade to nearly $3.0 billion by its close -- 133 percent. In 1989, 24 cents of every state budget dollar went to the cause.

The emphasis throughout the years following imposition of the tax limit was on revenue sharing aid. By 1989, 80 cents of each local aid dollar was a revenue sharing dollar. With commendable alacrity, state policymakers responded to the vastly different rules of municipal finance imposed by Prop 2 1/2 and developed a distribution method, first used in 1985, that did more than try to equalize local resources. After all, differences in local tax wealth were substantially less relevant once 2 1/2 put a limit on increases in the total tax levy in property rich and poor places alike.

The 1985 formula measured all local revenue resources and local cost requirements as determined by each municipality's particular characteristics: school population, population density, road miles, age of housing, low income population and employment. The difference,

if any, between available revenues and predicted costs was the gap that the aid formula addressed. This new, more ambitious revenue sharing formula was also equalizing -- aiming at evening out disparities in resources, but defining resource needs in terms of local circumstances that influence service costs.

The main thread of local aid history is that aid has been structured principally as a source of local revenue with no strings attached. And for the second half of this century the distribution of funds has increasingly adhered to a policy of equalization.

It may seem disappointing, therefore, that very substantial fiscal disparities still exist among local governments. The explanation for our imperfect success in equalizing resources lies in the political constraints on local aid policy. From the first equalizing school formula in 1946 through all the permutations of school and non-school aid in the intervening years, there has never been any significant redistribution of existing state support. Each new program accepts -- or "grandfathers" -- the base amount of state aid; only each year's new aid advances the goal of greater equalization. These annual increments have rarely amounted to more five percent of the base -- or as much as two percent of total local revenue. Not only is it extremely unusual to take money away from a city or town (unless all lose aid), it is also deemed important to ensure that each year each community gets a little more -- whether or not an objective method of distribution would provide more. As a result, annual amounts that advance the cause of equalization shrink even more. So progress on the path toward inter-municipal equity has been so slow as to sometimes seem imperceptible.

Centralization of Government and Local Aid

Before we leave the 1980s and our history of state-local fiscal relations, there are other common threads to trace. Most important -- and most often forgotten in local aid discussions -- is what one might call in-kind local aid. These are the transfers from municipal government to state government of entire areas of activity. When the service moves, the costs associated with it disappear from municipal account ledgers.

Most often, the efficiency of central administration is the prime reason for state assumption of an activity. One of the best examples was one of the first: the teachers' retirement system established in 1913. Seldom are the advantages of a state run system more obvious: uniform benefits, statewide eligibility and portability of service credits. The state also pays the bill; a nice example of a fully funded state mandate. The current annual cost of teachers' pensions is about $370 million.

Assistance to the poor, initially an exclusively local responsibility, became a shared financial responsibility during the Depression, with both state and federal government participation. Finally, in 1968, the state assumed the local cost as well as operational responsibility for all welfare programs (including a new program of health care for the poor called Medicaid). At the time of the state takeover, cities and towns were paying approximately 25 percent of the welfare bill. Today welfare spending has reached $4.4 billion; the current value of the 1968 state assumption stands at $1.1 billion.

Little by little, county costs, once wholly supported by local governments, have been transferred to the state budget. In 1978, as a part of a restructuring of the judicial system -- administrative efficiency again -- cities and towns ceased to pay for district courts -- 80 percent

of the judicial budget. Later, in the 1980s, a move to consolidate all corrections activities into a single state system caused a still incomplete transfer of costs from local governments to the Commonwealth. In 1994 the former county court system will cost the Commonwealth $250 million; in addition the state's contribution to county correctional programs will be $188 million, for a state total of well over $400 million for county expenses.

In other areas where the state has assumed costs once paid locally, the impetus has been more explicitly a fiscal one. The MBTA operating deficit is a dramatic example. In 1965 when the MBTA replaced the MTA (Metropolitan Transit Authority), the state was making no contribution to the annual operating deficit of the T; member cities and towns paid the whole bill. At the time Prop 2 1/2 took effect, the state was picking up half the deficit ($86 million in 1981). The tax limit included a 2.5 percent limit on charges to local governments, including assessments for the transit authority's operating costs. As a result, the state's share has increased significantly. In 1994, 70 percent -- $301 million -- of that deficit is a state charge. (In 1966 the state increased its commitment to capital costs at the T from $3 to $4.5 million. The idea, at the time, was that improved public transit was a high state priority and required state support. Now the state meets 90 percent of the system's capital costs; its 1994 contribution to MBTA debt service is $176 million.)

State and metropolitan parks and recreation areas offer another, smaller example of state assumption of a local cost purely as a local aid measure. In 1985 the state began to pay for state and MDC parks which had been operated by state agencies although their costs were assessed on cities and towns. Local governments have been spared subsequent increases in the cost of operating the facilities -- only a few million dollars.

We have identified $2.2 billion in the current state budget in costs that once were paid by cities and towns. The centralization at the state level of welfare programs, the court system, the corrections system, and financing for most public transit services has been a trend whose effect on the state-local fiscal balance can hardly be overstated. Currently, these activities include most of the major state "budget busters", expenses which increase at rates in excess of normal rates of revenue growth: Medicaid, the transit authority, corrections, even pensions.

This indirect form of aid also has had a distributional impact, not necessarily consistent in its effect. State assumption of public assistance was highly equalizing: poor people are more likely to live in property poor municipalities; the heaviest burden of the T fell on the inner cities of the district, not necessarily the poorest but those with the heaviest expenditure demands. On the other hand, the transfer to the state budget of services once provided by counties had an opposite impact on local finances. County costs are assessed (as once the state tax was) in direct proportion to property wealth within the county.

State funding of activities once provided and paid for locally may also be considered a kind of revenue sharing -- a shift to financing with broad based state taxes and away from payment by 351 local revenue streams.

One last observation about the history of state-local fiscal relations that may help in understanding the outlook for the future: when economic conditions deteriorate and state revenues fall or when other factors exert pressure on state finances, state commitments to local aid have not been kept. There is more than one example from each of the last three decades of laws that defined a share of state revenues or state revenue growth that was to be set aside for local aid. There have been aid formulas which established future funding goals. All these laws

dictating levels of state assistance have either been changed or ignored when the state budget came under pressure on either the spending or the revenue side.

The most recent example was the informal commitment to allocate 40 percent of the annual increase in the three major state taxes to local aid. The commitment, while not a legally binding one, held until the onset of the fiscal crisis -- or until state government acknowledged the fiscal crisis in 1989. In duration, this funding policy lasted longer than most of its predecessors.

The Fiscal Crisis: Local Aid as a Budget Stabilizer

Even though local aid has consistently experienced ups and downs, 1989 marks a really sharp break in state policy toward its political subdivisions. Following a period when support of local government was an acknowledged high state priority, it fell to the bottom of the list. As the state struggled with ongoing deficits, no other set of state programs lost more ground than funds for cities, towns and school districts. Between 1989, the all-time peak year for aid, and 1992, the final year of local aid reductions, direct local aid fell from a leading position as the largest item in the budget: from 24 cents of each 1989 state budget dollar to only 17 cents of that dollar in 1992. Assistance was cut by $600 million, 21 percent, over the three-year period.

It happened because it could. There were many state commitments which had to be met: payments on debt, pensions, federally mandated welfare payments and Medicaid (now the largest item of state spending where once local aid had been). While no state program escaped the budget cuts that occurred during those years, state support for local government made the biggest contribution to achieving a balanced state budget.

The impact on local governments was dramatic. In 1989, at its peak, cities and towns received 30 percent of their revenues from the Commonwealth. In 1992, the final year of cuts, aid was only 21 percent of local income.

Revenue sharing programs took the biggest hit -- again, because that is where the money was: $2.4 billion in 1989 shrank to $1.8 billion in 1992 -- by more than $600 million, a loss of one of every four dollars.

The cuts also had a distributional impact -- but not the one that had been the guiding principle of state aid policy for decades. While state dollars accounted for 30 percent of local revenues in 1989, the policy of equalization meant that at the extremes, some larger, poorer municipalities got more than 50 percent of their revenues from the Commonwealth while the most property rich relied on the state for as little as 10 percent of their income.

To maintain a policy of equalization when aid was being cut would have required reductions that were proportional to total revenue in each of the state's political subdivisions. State officials initially proposed to reduce revenue sharing funds in a way that accommodated the equalizing goal. But largely as a result of pressure from the municipalities themselves, that proposal was rejected. Most of the reduction in state aid was a proportional one -- cuts were taken in proportion to aid rather than to revenues. When the cuts were over, revenue disparities among Massachusetts cities and towns had increased. In good times, apparently, the community can tolerate a policy that redistributes public wealth to benefit its less well-off members. Not so when times are tough. The Attachment A Table illustrates the heavier impact of state budget cuts on poorer cities and towns.

This review of the history of local aid policy has been painted with a very broad brush. It omits a lot of fairly contentious debate and some important, painful, even some embarrassing episodes. One example: on the eve of the fiscal crisis, a Task Force headed by John Hamill made a modest but comprehensive proposal for financing local government that included a revenue sharing component. That proposal occasionally receives retrospective compliments, but found no support, state or local, at the time it was issued. Meanwhile, a revenue sharing proposal that asked the impossible -- a huge increase in the local share of state taxes -- appeared on the state ballot under municipal sponsorship, was enthusiastically endorsed by the voters -- and disappeared in the ensuing budget crisis, never to surface again.

Nevertheless, the underlying story line is here: there has been a steadily increasing reliance on state generated revenue to support local budgets, accompanied by a growing role for state government in performing as well as paying for activities that had been local responsibilities. Much of this finance policy has been implemented with the intention of leveling the municipal playing field; that is, distributed according to relative need. Local aid policy has shown little interest in how cities and towns spent their money -- either state or local dollars.

The Present

This story ended in 1989. With the restoration of relative stability at the state level, it was possible last year to make some increase in state support for local government. Over the past two years, total local aid has increased by $381 million, or 16 percent. That goes a long way toward restoring the $600 million reduction in support that occurred between 1989 and 1992.

But the policy driving the increase could hardly be more different than what we have known before. Revenue sharing has been abandoned, except for a commitment -- informal but

probably a commitment to count on -- to maintain existing levels of support. Public education has taken its place as a state priority. A key characteristic of the new policy is accountability. The earlier posture of indifference to how state dollars are spent has been replaced by explicit requirements to spend accompanied by performance standards to which schools will be held as a condition of state support.

This school finance plan could be considered as the fifth such major effort in fifty years: in 1948, 1966 and 1978 new general school aid formulas were enacted, each equalizing, each increasing the level of state financial support, each trying to correct perceived flaws in the preceding plan. None of them required a level of expenditure by local schools. In 1984 a school reform proposal took a different, more targeted tack and established a clutch of 13 special grant programs designed to advance particular state goals in education -- such as professional development, higher teacher salaries, early childhood programs, basic skills, greater community involvement. The largest program was directed to the poorest schools and aimed at equalizing disparities in spending. All of them were earmarked to be spent for whichever goal they targeted. Funding for most of them disappeared after 1989, however. The grants to low spending districts were level funded. These new state aid programs supplemented rather than replaced the state's general revenue sharing aid.

The 1993 school plan takes a very different tack. Its goals are broad, rather than targeted, and it applies to all schools. The aid formula is far more complex than earlier plans. It establishes a minimum level of spending for each district by calculating an adequate school budget for that district. The spending level, called the foundation budget, is to be achieved over a period of years. It defines the amounts that local governments must contribute to the school

budget and requires all but the highest spending districts to maintain that effort while accommodating the cost of inflation. Like its predecessors, it is an equalizing plan, providing more state aid to poorer districts. The plan also commits the state to annual increases in funding for the next seven years that total $1.1 billion in current (1993) dollars. The additional aid must be spent on schools.

In 1989, 80 cents of every state dollar was available to local governments as general revenue. When local aid cuts had ended in 1992, with most of the reductions taken from these general distributions, revenue sharing funds had fallen to 72 cents of the local aid dollar. In the blink of an eye, or rather with the stroke of a pen, nearly $1.5 billion of local aid for 1994 is allocated to school support. Only 30 percent of aid is unrestricted.

Schools account for 42 percent of total local spending. However, in larger communities with broader service demands, schools are a smaller share of the municipal budget and a bigger share in small towns; for example, 35 percent in places with a population of 50,000 or more versus 50 percent where population is 10,000 or less. Thus, the share of the municipal ledger that moves out of local control varies substantially. (One must include both sides of the ledger. The new plan defines required revenues as well as required spending.)

It is wrong, of course, to think that 42 percent of local spending is no longer under local control. How the school budget is allocated continues to be the school committee's responsibility. It is only the budget total and the required local contribution that is determined by the new formula. The accountability built into the education bill derives from the non-financial changes in practice. The state will set standards for curricula, for graduation, for student performance. There are sanctions for schools and districts whose

spending requirements -- a denial by the state of tax rate approval.

Nevertheless, this is not local aid as we have known it. It is instead a program that provides funding -- state and local -- for a program of public education, administered locally but according to state established standards. In this sense, there is a historic parallel: public welfare, in which the services were governed by state standards, provided with state support, but delivered locally. However, the two activities -- income support for the poor and the public schools -- are by their nature so different that the welfare outcome, full state assumption of the program, is hard even to imagine any application to education.

Local aid policy as articulated by state officials and implemented by the new education law is fairly straightforward (however difficult the details may seem): education is a state priority; the state will make a substantial financial commitment, but local schools will be held responsible for attaining state set goals.

But if schools are the policy priority, there remains almost $1 billion dollars of local aid -- 35 percent of the 1994 total -- that is not for education. What is the state's policy in respect to non-school local aid? Since nearly 60 percent of local spending is not for schools, this question is of some importance. The answer here is less obvious although clearly the old revenue sharing policy is not a significant part of it. Since 1992 there has been a $43 million increase in lottery distribution. However, the non-school revenue sharing amount, $826 million in 1994, is still 23 percent below 1990 funding levels and 30 percent below the amounts distributed in 1989 before the cuts began. The current year's new money -- $20 million -- is called stabilization aid and is in a separate account. It is hard to think of a reason for making this distinction unless the state wishes to emphasize that it is state policy to respond to particular

needs and this year, municipal "stabilization" is one such need. Should we conclude that in another year it may not be necessary to repeat this $20 million distribution?

Indeed, the modest changes in non-school aid have responded to particular needs and may be thought of as small-scale examples of targeted support for local programs in contrast to school finance, a large-scale version. Examples include the $7 million reimbursement for state owned land -- initiated by representatives of small rural towns with very limited revenues. This year a $5 million grant for community policing benefits Boston and a few other larger cities and is a response to growing public safety problems in urban centers. Another $5 million fully funds another special purpose aid for police salaries.

Sharp increases in water and sewer rates in the MWRA district as well as in other parts of the state have resulted in heavy pressures for relief for ratepayers. In this year's budget, $30 million is available to apply to debt service for MWRA and other federally mandated projects. This special purpose aid is aimed at ratepayers; it will not affect municipal budgets and probably should not be included in a discussion of local aid. However, it seems typical of the state's current response to local fiscal pressures. A final example of a proposed targeted, kind of assistance was the recommendation from the Governor for state funds to help with last year's extraordinary expenses for snow removal. This proposal was not adopted, however.

One might define the new municipal aid policy in this way: the state will maintain existing local aid programs. In addition, it will respond with help for special problems if those problems can be documented (and if the cost is not too high). It is even possible to understand the Chelsea receivership as consistent with such a policy -- a state response to a special local problem, which happened to be insolvency. The distributional impact of new municipal aid is

not a criterion applied to such special purpose programs.

Taken altogether the state's posture might be characterized as giving pride of place to public education with a secondary role reserved for "squeaky wheel aid."

The Future

If we close our eyes to the lessons of history, we can look ahead a few years and project the cost and impact on the state's cities and towns of this new local aid policy.

School aid: assuming a modest three percent inflation rate for the period and following the funding commitment made under the new formula, state school aid will increase by 162 percent over the next seven years. The annual rate of increase, 10.9 percent this year, will peak next year at 13.5 percent and decline in the subsequent years to 10.0 percent in 2000. Under these assumptions, new dollars will be $193 million in 1995, increasing to $255 million in 2000 and totaling $1.45 billion over the period.

Other local aid: in 1994 non-school local aid increased by three percent, about the rate of inflation. If this same rate of increase is applied for the next several years, municipal aid will increase by $40 to $45 million each year. In constant dollars, of course, an increase that just matches inflation is no increase at all.

Total local aid -- school and non-school -- would increase by 8.5 percent in 1995 and at a slightly declining rate thereafter to 7.5 percent in 2000 using these assumptions.

There are two questions here: first, can the Commonwealth afford a major cost that increases at a rate well in excess of current or forecasted revenue growth? State tax growth has hovered around five percent for the past three years. Our MTF revenue forecast calls for taxes to increase 5.0 percent in the current year; 3.5 percent in 1995. The official forecast is slightly

more optimistic: 6.3 percent in 1994; 5.0 percent in 1995. The answer to the question of affordability is clear: maintaining this commitment to increase school aid by at least 10 percent a year for another six years can only be done at the expense of cuts in other state activities.

Second, if municipal aid increases only at the rate of inflation, should the state continue to respond to specific needs (e.g., inner city street crime) or should the municipal revenue sharing account be the vehicle for future increases so that all cities and towns are more or less held harmless? If there were some assurance that targeted aid hit the right targets, then the flexibility of this sort of ad hoc response may be the best one when funds are severely limited. If, on the other hand, the policy is pursued in a purely opportunistic fashion without an objective review of where the fiscal pressure is greatest, then clearly the revenue sharing alternative in which all communities share is preferable.

If the school finance law and the policy change it reflects is considered in some historical context, with eyes open rather than closed, there are warning flags flying.

First, the new law transfers control of education policy from local school committees and regional districts to the state Board of Education. This is a move that is counter to our culture in Massachusetts where the tradition of local governance by lay boards is strong and well established. In 1965, a reorganization plan gave state education authorities substantial standard-setting authority. It is only a slight exaggeration to say that mandatory kindergarten has been the principal outcome of that grant of power. Local resistance to state-imposed standards led to a self-imposed restraint. The state Department of Education assumes its new responsibilities with a smaller budget and one-third the staff it had in 1989. The 1994 budget provides some additional resources, but the task of implementing the new law is daunting and unprecedented.

Second, popular support for the reform plan is narrower than it might be. Undertaken with sponsorship by the state's executive and legislative leadership supported by a coalition of business leaders, the plan evolved in a "top down" direction with the active participation of only a few school advocacy groups. There was and perhaps still is little understanding of the plan locally. Municipal officials, concerned about their own budgets, their limited resources and the new demands the plan imposed on those resources, opposed it. On the eve of enactment, a segment of business support fractured and dissenting views surfaced both within the administration and among some legislative leaders.

Finally, the fiscal climate is not favorable for a major new investment in schools or any other public program. The state's economy is fragile, tax performance relatively weak and unlikely to become robust in the immediate future. There is no appetite at either the state or local level for higher taxes. And, of course, there is no comfort to be found in earlier experiments in establishing guarantees of future funding for school or any other kind of local aid.

But there are also factors that argue for the policy's success. Foremost among them is the absence of any alternative proposal for a local aid policy. This new school finance plan emerged whole and into a vacuum. Certainly, there are different and differing views on education policy but, since the end of revenue sharing, there has been no proposal from state leaders or, more surprisingly, from local governments themselves for a coherent plan of state-local fiscal relationships. Local officials -- school and municipal -- have been able to articulate a need for funds, but the only vehicle advanced to meet the need is the one that was enacted.

Second, the fiscal climate may be an advantage rather than a liability. We are used to hard times and limited resources. We have an executive that has welcomed the task of managing with less and a legislature that has a proven record of reallocating funds among competing public programs. Most earlier commitments to funding for local aid came during periods of growth and relative prosperity, when promises were easier to make. No one in a position of responsibility undertook this commitment to education reform without knowing that it will require redistribution of state funds.

Prior objectives of local aid programs -- and the support for them -- were frequently in conflict and contradictory. There has commonly been a goal and expectation of more or better services as well as the goal and expectation of local tax relief. This time, there is no such internal contradiction. The objective here is improvement in public education; the means to that objective requires more support -- state and local. And the plan includes -- a novelty in Massachusetts local aid policy -- explicit requirements for performance as well as sanctions for failure.

The state's decision to shift into a new fiscal relationship with its local governments may not have been taken consciously -- at least not by all the parties at interest. The threat to its success may lie as much in this lack of understanding as in outright opposition to some or all of its details. Once embarked upon a new experiment, it seems reasonable to give it a fair trial. At the same time it is appropriate to reconsider and adjust municipal non-school aid programs. The current policy -- maintenance of effort with bandaids applied to blisters -- offers little or no real revenue growth for local governments. There is a message for municipal officials in the accountability that is an integral part of the education plan. If revenue sharing is no longer a

local aid policy that state officials endorse with any enthusiasm, then aid that is tied to the attainment of some standard of municipal service or performance merits their serious consideration.

Local Aid -- a New Policy Direction: Attachment A

Changes in local government revenues: 1989 - 1993

(constant dollars)

Quintile	Per capita property value	Percent change in Tax levy	Fees	total loc.rev.	Aid	Aid loss as % of tot. rev.	Aid as % of 1993 revenue	% change in total revenue
1. Over	$98,400	13.6	19.9	10.1	(37.6)	(3.8)	10.7	5.0
2.	$75,785-$98,400	13.3	20.8	10.8	(35.5)	(6.3)	18.2	2.4
3.	$61,677-$75,784	11.5	20.2	10.1	(33.9)	(8.0)	23.5	(0.2)
4.	$51,315-$61,676	12.2	13.2	8.0	(31.2)	(9.5)	29.4	(3.5)
5.	$26,378-$51,314	12.6	26.9	10.8	(20.4)	(9.6)	45.4	(3.4)
Boston:	$56,049	14.5	(1.9)	9.0	(33.4)	(13.2)	36.9	(6.6)
Total (349 cities and towns)	$62,654	12.9	16.4	10.0	(27.9)	(8.5)	30.1	(1.4)

The table re-sorts and updates to 1993 the changes reported by Kind of Community in Local Government Revenue: The Big Squeeze, Massachusetts Taxpayers Foundation, June 1993.

Cities and towns are grouped according to property tax wealth. This is a stark illustration of the impact of local aid cuts taken largely in proportion to revenue sharing aid, even after the increase of $185 million in school aid in 1993. The reduction in state support had more than twice the impact on the poorest municipalities than it had on the wealthiest 20 percent of cities and towns. Despite a relatively consistent effort to increase their own local revenues -- close to 10 percent across the board -- the poorest sixty percent of the state's communities saw a constant dollar decline in revenues over the four year period because of local aid reductions.

The second to last column is also a good illustration of the results of four decades of equalizing local aid programs. State support has heavily favored property poor local governments.

CAN A STATE GOVERNMENT BREAK THE VICIOUS CYCLES OF ECONOMIC DETERIORATION?

Frank T. Keefe
Keefe Associates, Inc.

Let me begin with two quotes:

> ...the main problems facing this city today - the loss of its middle class, white and African-American alike; the mediocrity and worse of its schools; the appalling incidence of violent crime among young people in Dorchester, Roxbury, and Mattapan; the ascendance of the bad-job service over the good-job manufacturing economy - are beyond the power of the next Mayor of Boston to solve or even mitigate. As those who were raised here know with aching poignancy, Boston's best days are behind it.

That's from a recent article by Jack Beatty in The Boston Globe (August 20, 1993). Now this from the Economist in August, 1991.

> Despite the hype and the rehabilitation of its old mills, Lowell remains a working-class town. The biggest store on its main shopping street is a Woolworth's; the outskirts of the Town are a mess of ugly housing projects and untidy suburbs. Once you have admired the mills and read the moving history of the 19th century mill girls and the immigrants that replaced them, there is not much to do. Indeed, a visitor to Lowell who was familiar with the mill towns of Yorkshire's West Riding, stuffed with their Marks and Spencers and their Sainsbury's...might well feel that in terms of the quality of life this bit of the New World had little to teach the Old.

That hurts! Has the twenty-plus years of hard work, good planning, public/private collaboration and massive investment by federal and state agencies as well as thousands of private businesses come to naught?

And yet a quick and simple answer to the question put to me by this conference will sound equally negative and nihilistic.

A state government cannot on its own break the vicious cycles of economic deterioration.

However, one of the critical lessons I have learned these past twenty years is that - most of the time - things are never quite as bad - or as good - as they appear.

Assessments of the urban condition after a recession and during persistent economic uncertainty tend to emphasize the weaknesses that discourage us and slow us down, but also miss the strengths that we enjoy and that will serve us in good stead as we attempt to hasten our state's revitalization.

A state government can never master its economic fate. A state economy is so much a local manifestation of intricate forces flowing across a national and international plain. Economic cycles, inflation and long-term secular trends across the nation are beyond the capacity of state government to influence. Natural advantages and disadvantages, such as climate, geographic location, and natural resources cannot be altered by state decision-makers. The Federal Government exercises the most significant policy options over money supply, interest rates, taxes, and public works programs and oversees regulatory powers for such things as energy prices and environmental standards. The Federal Reserve Board, the federal budget, the Defense Department and policy initiatives in health care, job training and welfare reform can - singly - influence the economic prospects of Massachusetts more than just about anything a state government could do.

And yet, I believe, a state government can initiate and implement protective policies that - over time - can enhance the ability of its communities to get through bad economic times <u>less painfully.</u>

In spite of the gloom and doom in the quotations with which I began, Massachusetts is today far better positioned economically as it emerges from the national recession than it was in the mid-70's as it struggled to pull itself out of a far worse recession.

I recently had an opportunity to talk with a group of graduate students in a seminar on urban policy. The students were in the final stages of preparing an in-depth analysis of a specific city in Massachusetts, mainly the city in which they had grown up. To check my own positive intuitions that we have made progress over these last twenty years and that hope for the future was justified, I asked the students about their own impressions of their cities. While noting the widespread anxiety about the future, the universal conclusion of the group was that their cities were better places today than they were twenty years ago - to live, work and relax in, and simply just to look at.

Obviously, conclusions such as these are less than rigorous and analytical. But who can deny them? Look at the facts:

- After decades of decline, population in the state's urban centers went up in the 80's:

POPULATION

	Boston	Lowell	Fall River	Worcester	Springfield
1970	735,190	94,239	96,898	176,572	163,905
1980	562,994	92,418	92,574	161,799	152,319
1990	574,283	103,439	92,703	169,759	156,983

- Massachusetts cities, like all municipalities, have suffered dramatic job losses in the last few years, but during the 80's they participated fully - and in some cases - disproportionately in the dramatic expansion of employment, contrary to earlier and national trends. Urban unemployment rates during the 80's were often at or below statewide averages. And minority unemployment rates in Massachusetts (5.2 percent in 1987) were beneath the national unemployment rate.

UNEMPLOYMENT 1982 - 1992

	STATE AVERAGE	BOSTON	LOWELL	FALL RIVER	WORCESTER	SPRINGFIELD
1982	7.9%	9.1%	8.8%	12.9%	10.2%	10.1%
1985	3.9%	4.6%	4.6%	7.2%	4.4%	5.6%
1988	3.3%	3.3%	4.3%	6.6%	3.6%	4.2%
1989	4.2%	3.9%	5.7%	7.7%	4.5%	5.3%
1991	9.0%	8.4%	11.5%	15.8%	10.4%	11.2%
1992	8.5%	7.8%	11.7%	13.7%	9.0%	10.9%

- Though still a major blight on our quality of life, especially in poor inner city neighborhoods plagued by nightly drug-turf battles, crime rates in cities and generally across the state have gradually been brought down.
- Housing production was strong in the mid-80's - averaging over 40,000 new units a year statewide! But an emphasis on attractive and affordable new housing also meant that cities shared in this impressive expansion of housing opportunities.

GROWTH OF NEW HOUSING UNITS: 1980 - 1990

Boston	Lowell	Fall River	Worcester	Springfield
7.6%	15.1%	11.3%	13.2%	9.1%

CRIME IN MASSACHUSETTS

	1975	1984-85	1989	1990	1991	1992
BOSTON						
Total	80,530	68,073	70,006	68,057	62,039	56,399
Homicide	133	87	102	143	113	72
Rape	453	532	483	539	486	536
Car Theft	28,219	17,778	16,408	14,513	13,455	11,411
LOWELL						
Total	6,188	6,114	*INFORMATION*			
Homicide	7	4		*NOT REPORTED*		
Rape	42	27			*FOR THESE*	
Car Theft	1,833	1,444				*YEARS*
FALL RIVER						
Total	8,020	5,772	7,192	7,295	5,958	5,548
Homicide	4	1	2	3	4	3
Rape	19	34	42	52	62	72
Car Theft	1,834	816	1,203	1,300	990	826
SPRINGFIELD						
Total	14,257	7,923	12,253	14,648	17,236	15,691
Homicide	2	18	7	13	13	11
Rape	42	106	145	132	146	149
Car Theft	2,532	1,012	1,741	2,890	3,474	3,753
WORCESTER						
Total	19,136	11,701	*INFORMATION*			
Homicide	31	6		*NOT REPORTED*		
Rape	39	109			*FOR THESE*	
Car Theft	7,422	1,193				*YEARS*
STATE						
Total	287,528	254,903	233,480	240,035	232,438	216,958
Homicide	271	190	183	212	207	151
Rape	971	1,646	1,410	1,508	1,428	1,613
Car Theft	78,041	46,981	43,179	44,180	42,019	37,489

- Our cities - with virtually no exceptions - look better than they did twenty years ago. A rich combination of massive rebuilding of urban infrastructure - utility pipes, streets, and public transportation; an expansion and renewal of urban parkland, especially along our harbors and rivers; the emphasis on historic preservation by public agencies and private investors; and the construction of new public and private buildings that aspired to and, for the most part, achieved high standards of design quality - have made our urban places more comfortable to live in and invest in. The image and identity of Boston - the vital core to the New England economy - glistens compared to its 1975 version, with the obvious exceptions of Tremont and Washington Streets. This is impossible to quantify, of course, yet the results are apparent. The most superficial of windshield surveys of road conditions in most urban neighborhoods in Massachusetts would leave a better impression than a similar assessment of the major thoroughfares of New York City.
- And I am willing to venture out on really thin ice and claim that the ethos of the state - and Boston in particular - is so much better than it was twenty years ago. Instead of the endless battles between business and government, highway builders and environmentalists, and the small town, inward looking suspicion and distrust of "them" - outsiders, new arrivals, racial minorities, Catholics, Protestants, and Jews, you name it - far more harmony, understanding, openness, consensus, tolerance, and willingness to cooperate exists today in what are far more diverse and dynamic, and therefore more fragile, communities than they once were. I remember when I first arrived in Lowell, as a planner, I was called a "blow-in" and when I went to Dorchester as a developer I was told to "Go back to Lowell." We are not at nirvana yet, but I think we have come a long

way.

State governments play only a modest role in the expansion and contraction of a state economy, so much so that many commentators have begun to talk in terms of major CityStates across the world competing in a technology and knowledge-driven race for international preeminence. Boston - or more accurately - the economic region stretching from Southern New Hampshire, down through Eastern Massachusetts, and perhaps extending as far as Providence, Rhode Island - is one such CityState playing in this international arena. And yet no governmental entity corresponds to this emerging CityState.

Nonetheless, a state government can enhance the prospects of success in this global dynamic, especially through its long-term investments in education and infrastructure. And a state government can really show its muscle by determining the location of economic growth within its borders. This is an especially critical role in terms of safeguarding environmental quality, revitalizing poorer communities, and addressing fiscal disparities.

Twenty years ago state government was not always a sympathetic partner in the promotion of economic stability in poorer, urban centers. State government, with its own money and the preponderance of federal funds that passed through its agencies for dissemination down to its cities and towns, basically pursued a policy of disinvestment in cities and subsidy for sprawl. Community colleges were built in non-communities, new high schools had to be built on "40 acres of rolling woodland" according to state policy, cornfields were sewered while city systems were neglected, cities outside of Boston had no public transportation systems, elderly housing was built in suburbs while it was most needed back in cities, state parks were purchased and developed in remote areas while city parks grew weeds, property taxes in cities were allowed

to get so high as to create a thick barrier to desperately needed economic growth, and state economic assistance programs - what little existed - facilitated the flight of jobs out of cities into nearby suburbs.

These malign policies have been fundamentally altered, from the Sargent administration's redirection of state transportation policies, through the Dukakis administration's targeted programs to reinforce cities and centers, through the King administration and into the Weld administration.

The conflicting and misguided land use policies of the past have been, for the most part, made coherent and mutually reinforcing, creating at least a level playing field, if not a more than a slight tilt, for urban centers to compete for new economic growth. The numbers from the 80's - as already noted - confirm this.

A vast array of new financing agencies and mechanisms have been created over these twenty years to leverage and promote new business ventures. The list is truly impressive - the Government Land Bank, Massachusetts Capital Resources Corporation, Massachusetts Industrial Finance Agency, Community Development Finance Corporation, Massachusetts Technology Development Corporation, Commercial Area Revitalization District program, the THRIFT Fund, and the new Emerging Technology Fund. These agencies have made a critical difference in fostering the feasibility of many commercial and industrial expansions, especially for Massachusetts high tech firms, through the high-interest rate, recession-laden economy of the early 80's. These agencies, combined with the heavy concentration of venture capital firms in the region, put Massachusetts in a strong competitive position for the future.

And, finally, thanks to Proposition 2 1/2, the property tax is a much reduced burden and

for most of the last decade has not played a prominent and perverse role in locational decisions for new development.

All of this surely puts the state and its municipalities in a stronger position than twenty years ago to confront the challenges of, and exploit the opportunities for, economic growth in the 90's.

In addition, various structural changes in the make-up of our state's economy have increased the strength of our position versus twenty years ago.

As cited in Jim Howell's report for the Boston Redevelopment Authority in November 1990, they are:

- The concentration of knowledge and technology based industries in Greater Boston increased from 22 percent of jobs in 1976 to 30 percent by 1988.
- Between 1970 and 1989 the quality of jobs in Massachusetts has improved dramatically. Professional, technical, and managerial jobs - the highest paying jobs - increased from 24 percent of total jobs in 1970 to 36 percent in 1989, the highest percentage in the nation.
- Over 35 percent of the people in Greater Boston between the ages of 20 and 34 in the late 80's had at least a college education or better, a solid increase over prior years and far better than other metropolitan areas across the United States.

Obviously inditia such as these reflect the overwhelming job opportunities prevalent at the time. But they also underscore the competitive value of the "natural advantages" of Massachusetts - a high concentration of educational and medical institutions, an exciting central city, vast cultural amenities, attractive and historic neighborhoods and suburbs, and easily

accessible recreational opportunities in a diverse and compelling environment. Once we attract this brainpower to Massachusetts' educational institutions and teaching hospitals, these students tend to stay, if there are jobs for them, because Massachusetts is a nice place to live. As Howell states, 25 percent of MIT graduates stay in Massachusetts. Even though these percentages may have dropped in the last few years with the high tech recession and defense cuts, the proven tendency of large numbers of graduates from the region's colleges and graduate schools to want to stay here bodes well for the future. In Massachusetts, as in Hollywood, build it - your research lab or production facility - and they - the skilled workers and technicians - will come- because, for the most part, they are already here!

Thus when the national economy begins to show more robust signs of recovery and growth - sometime soon, we hope - Massachusetts will be well positioned to capture more than its fair share.

And this new growth, through the statutory exemption on the levy limit for new development, will bring partial relief to fiscally stressed communities across Massachusetts.

The importance of new growth to the fiscal capacity of cities and towns to provide essential services cannot be emphasized enough.

The chart below demonstrates this clearly. During the boom years of the mid to late 80's, over 50 percent of the growth in total property taxes was attributable to new real estate development, allowing the increase in property tax rates in most communities to be kept well below 2 1/2 percent from year to year. But as local aid cuts began in Fiscal Year 1990, the contribution to total property tax increases diminished somewhat, as economic growth dwindled and as levy increases were maximized and excess levy capacity was used up. Nonetheless, the

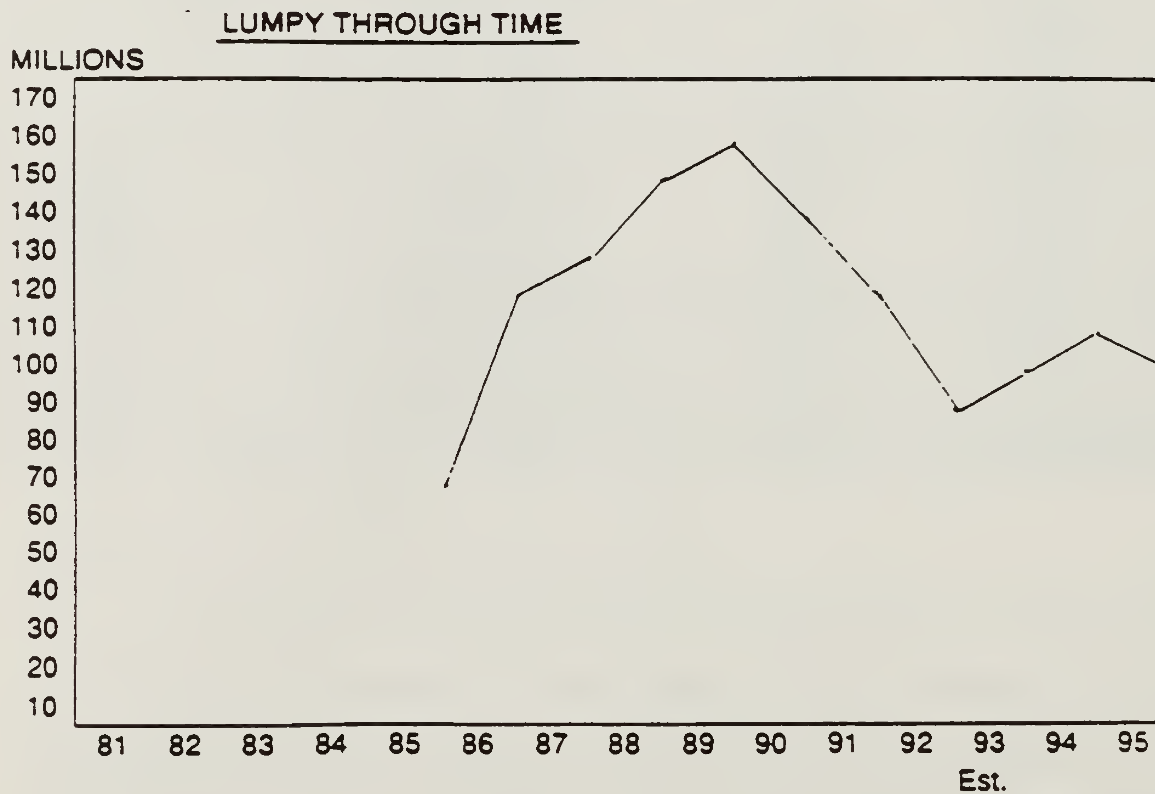
contribution to total property tax increases diminished somewhat, as economic growth dwindled and as levy increases were maximized and excess levy capacity was used up. Nonetheless, the contribution to total property tax revenue expansion attributable to economic growth remained substantial - from 41.2 percent in FY90, with the last vestiges of the boom lingering on, to 35.7 percent in FY91, 34.2 percent in FY92 and 38.6 percent estimated for FY93.

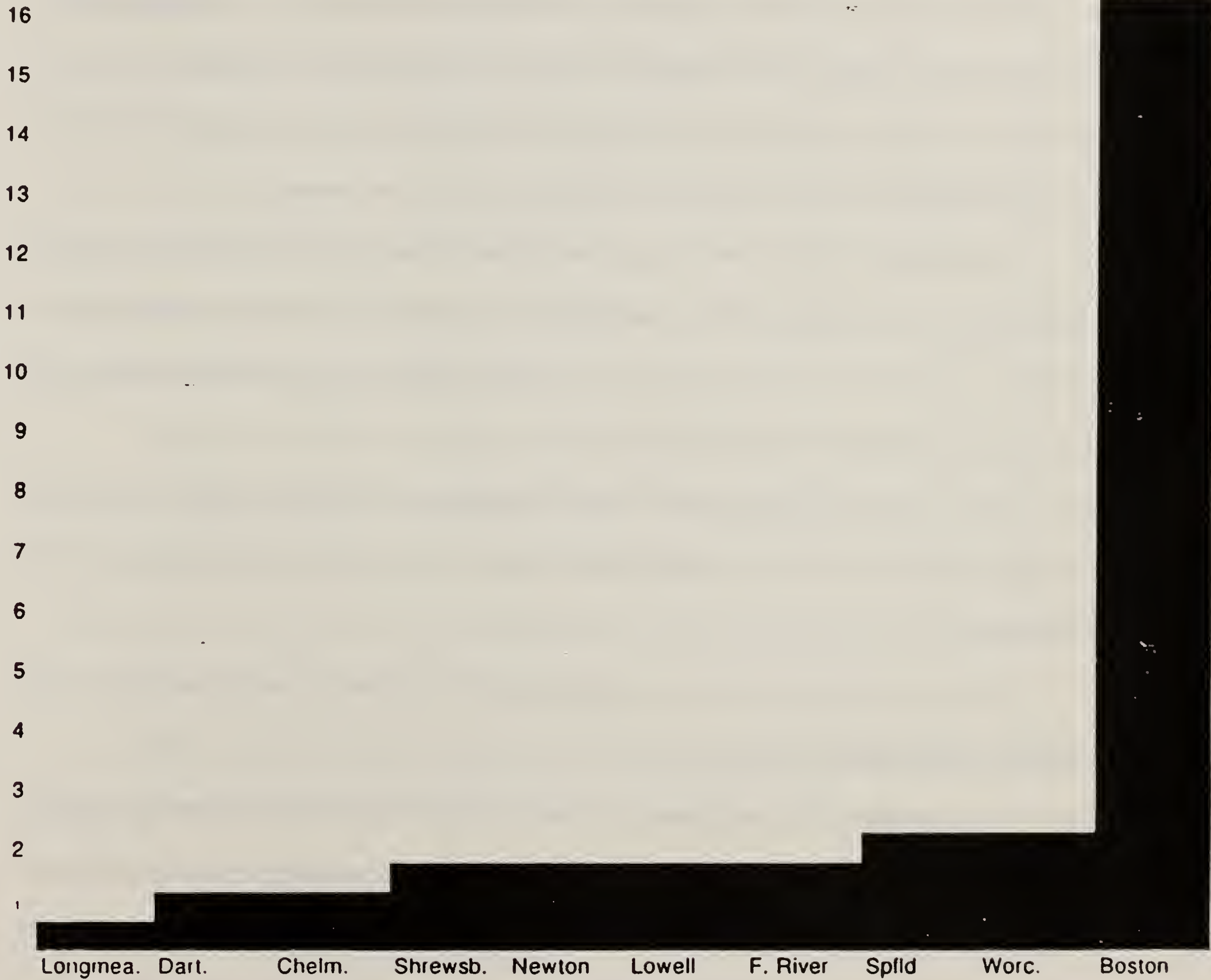
YEAR	PROPERTY TAXES CURRENT DOLLAR (IN MILLIONS)	INCREASE IN TAXES	PERCENT CHANGE	NEW GROWTH PORTION	PERCENT OF NEW TAXES ATTRIBUTABLE TO GROWTH
1981	3,346.8				
1982	3,035.5	(311.3)	-9.3%	-	-
1983	2,959.1	(76.4)	-2.5%	-	-
1984	2,994.9	35.8	1.2%	-	-
1985	3,126.0	131.1	4.4%	74	56.4%
1986	3,309.4	183.4	5.9%	119	64.9%
1987	3,536.3	226.9	6.9%	121	53.3%
1988	3,804.8	268.5	7.6%	149	55.5%
1989	4,122.1	317.3	8.3%	163	51.4%
1990	4,464.6	342.5	8.3%	141	41.2%
1991	4,775.3	310.7	7.0%	111	35.7%
1992	5,017.7	242.4	5.1%	83	34.2%
1993 est	5,248.0	230.4	4.6%	89	38.6%

Thus economic growth is a vital source of the fiscal wherewithal to provide decent local services in Massachusetts.

But economic growth alone will never be sufficient to address the needs for essential services in all of our cities and towns.

Two fundamental problems exist. Let me characterize them in economists' jargon - the local fiscal benefits of economic growth are lumpy through time and lumpy across communities, as demonstrated by the following chart.




LUMPY ACROSS COMUNITIES
1989
$27.7M
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
Longmea.
Dart.
Chelm.
Shrewsb.
Newton
Lowell
F. River
Spfld
Worc.
Boston

Through Time

The inevitability of ups and downs in the business cycle means that the local fiscal windfall from new real estate development will fluctuate, a loose stone in the foundation of municipal fiscal stability. If this ingredient in the fiscal good health of our communities is so unreliable, expanding and then contracting by 100% within four-year periods, then it must only be relied upon as a bonus, rather than a mainstay, of local fiscal capacity.

And it is certain, from the vantage point of the real estate industry, that the size of this bonus from new construction will never approach the magnitude of the boom years of the mid-to-late 80's. We will never see that kind of growth again, which may sound strange coming from a real estate developer. But it shouldn't.

Busts in the real estate industry - bankruptcies, defaults, collapsing values, empty or half completed buildings, and rents substantially below what is necessary to cover costs - are no fun for anyone.

Thus, a ratcheting down in our expectations for the fiscal benefits of new real estate development is prudent and warranted.

If growth is erratic - and if state aid is similarly so - the strength of the annual, allowable 2 1/2 percent increases in the levy on existing property is that it is stable, in good times and bad. The problem is that for many - if not most - a 2 1/2 percent increase in the levy is insufficient to keep pace with normal inflation in the costs of municipal services.

To counteract and cushion the impact of the forces of instability in the local fiscal framework - new construction and state aid that both fluctuate with the economy - I would propose two initiatives to reduce the extent of the downside for local governments during tough

economic times.

First, I suggest that we reconsider the idea discussed in the mid-80's that we establish a Stabilization Fund for local government that corresponds to the Stabilization Fund that was created for state government. Any state surplus at the end of each fiscal year in excess of one percent of the prior year's revenue would be divided between two stabilization funds - on a 60/40 basis - one for state government and another for the 351 cities and towns of Massachusetts. A resource such as this would constitute a substantial step in the direction of safeguarding our cities and towns from the uncertainties and fluctuations in local fiscal capacity attributable to volatilities in new construction as well as state aid.

Second, the local budget making process could be changed from an annual to a bi-annual period, on a local option basis. Allowing a city or town to establish a budget for a two year period, using conservative assumptions about tax base growth and local aid, will provide more time to ascertain the reliability of these assumptions as well as to initiate corrective measures in the event they are wrong.

Such a change may not be everyone's cup of tea, but it would be worth experimentation in a few communities to see if it would enhance the management of local budgets and flatten some of the volatility by lengthening the local budget cycle.

Across Communities

As bad as the lumpiness of new real estate construction is over time, far worse is the lumpiness at any given time across different communities. Some communities may fare well with new construction while neighboring communities go begging or make due with crumbs.

If this familiar phenomenon were a reflection merely of relative effort on the part of local officials to attract growth, perhaps we would give it little attention.

But it often has little to do with policy and intention, and much to do with accident. But even if we thought it was always the just fruits of labor, then other concerns should arise:

First, is this pattern of real estate development a sound one from an environmental point of view? What impacts does this development have on the social and cultural fabric of our communities? Is our quality of life preserved or enhanced and is our economic future secured as a region of mutually dependent communities?

Second, are the benefits of this new real estate development in terms of jobs and, especially, property taxes going to those places with the greatest relative need? How does this development pattern affect the comparative balance sheets among communities? Are fiscal disparities in the capacity to deliver a fair bundle of services to equal citizens of our Commonwealth made worse or better?

As the chart shows, Boston - as the biggest city in New England - benefitted solidly from a windfall in new tax capacity attributable to the real estate boom of the 80's. Boston saw its tax receipts expand due to new construction at a pace which came close to its increase in new state aid each year during the 80's and which later, to a sizeable extent, offset for the loss of state aid in the 90's. Most other cities in Massachusetts, on the other hand, did not fare nearly so well. Additional property tax receipts from economic growth, though a much smaller proportion of increases in state aid, nonetheless constituted a significant bonus to smaller cities and towns during the 80's and vitally important relief from the cuts in state aid during the 90's

GROWTH IN PROPERTY TAXES DUE TO GROWTH VERSUS STATE AID INCREASES
($ Thousands)

	BOSTON		LOWELL		FALL RIVER		WORCESTER		SPRINGFIELD	
YEAR	GROWTH	STATE AID	GROWTH	STATE AID	GROWTH	STATE AID	GROWTH	STATE AID	GROWTH	STATE AID
1985	21,600	34,833	1,134	3,958	-	4,452	1,100	8,163	274	10,383
1986	22,300	30,964	1,948	5,243	304	4,599	1,486	6,856	524	7,937
1987	18,100	57,565	1,723	8,451	509	7,957	1,981	11,708	937	22,921
1988	19,700	28,067	1,150	4,471	723	5,798	2,322	6,677	748	12,953
1989	27,700	13,839	1,474	5,163	1,700	5,515	2,959	7,950	2,930	10,619
1990	18,800	(21,044)	1,556	(3,938)	900	(3,113)	3,798	(6,791)	1,060	(6,708)
1991	21,000	(21,073)	780	(969)	565	(2,752)	1,655	(4,743)	1,035	(6,094)
1992	13,800	(70,317)	795	(3,120)	648	(4,138)	1,681	(8,394)	670	(4,543)
1993	26,800	(11,948)	1,187	9,955	311	4,632	1,809	8,245	952	18,964

	NEWTON		CHELMSFORD		DARTMOUTH		SHREWSBURY		LONGMEADOW	
YEAR	GROWTH	STATE AID	GROWTH	STATE AID	GROWTH	STATE AID	GROWTH	STATE AID	GROWTH	STATE AID
1985	1,131	1,013	545	737	333	681	397	400	900	295
1986	1,737	3,057	1,200	599	234	192	534	649	122	284
1987	2,110	1,598	1,100	1,185	354	625	518	785	218	539
1988	1,483	1,086	930	533	370	647	682	548	189	346
1989	1,774	1,663	620	349	449	769	1,741	551	133	187
1990	2,149	(3,137)	560	(1,300)	1,010	(1,052)	697	(948)	209	(680)
1991	806	(782)	479	(571)	502	(870)	692	(458)	234	(289)
1992	1,180	(3,058)	241	(1,280)	431	(750)	313	(712)	230	(464)
1993	1,417	943	170	365	736	734	469	375	127	235

One of the important roles of state government should be to see that some semblance of equity exists among communities in their capacity to deliver essential public services, such as education, recreation, and public safety. State government cannot sit back and relax while property rich communities provide first class schools and safer streets while poor communities make due with tattered text books and traumatized neighborhoods.

To the extent that the pattern of economic growth exacerbates fiscal disparities between rich and poor communities, state government should pay attention and take corrective measures, especially since so much more is at stake in terms of community character and the overall quality of life.

Two principal opportunities for achieving the goal of equalizing fiscal capacity are available, and have been pursued with varying degrees of commitment over the years, though sustained fairly well over the last twenty years with only a few glitches now and then.

First, state aid programs must always be structured to advance the goal of equalization of fiscal capacity among communities. Significant progress was made during the 80's, though not as accelerated as it could have been, due to the political decision to allow all communities to share at least minimally in the growth in new state aid in order to invite early closure on all local aid issues in February, so that Cherry Sheets could be distributed to cities and towns in early March.

The Equal Education Opportunity (EEO) program, the centerpiece of the Education Reform Act of 1985, was an especially equalizing state aid program. Only poor, low school spending districts were eligible.

Unfortunately, additional EEO grants were halted after four years, at the onset of the state fiscal crisis, thereby freezing distributions at slightly less than the prevailing levels.

As the crisis took its harshest grip, general purpose aid to cities and towns was cut substantially. Worse, cuts were made proportionate to the levels of aid. Thus, the greater the amount of aid, the greater the cut. The greater the dependence, the greater the loss, knocking back recent strides toward the goal of equalization.

This year's education reform initiative commits the state to a multi-year infusion of new money into the state's primary and secondary schools, based on a complex, equalizing formula, though as with past programs, less so than possible because of its inclusiveness. Every

community gets a piece of the larger state pie, even if the pie available locally is big enough already.

This initiative deserves support, though two major challenges are apparent already. Will the state during persistent lean times be able to remain true to this sizeable financial commitment? And how long will the balance of municipal government - the police and fire departments, the assessors, the parks department and the planning board - sit tight and go on doing their jobs with little, if any, new state aid to help them out?

This will be interesting to watch, not only as to the answers to these two questions, but also to measure the progress toward equalization in service levels, education and non-education alike, among cities and towns. The stakes here are high. To the extent that poor cities with little or no state aid must maximize fees and local taxes and implement overrides to obtain necessary cash to sustain adequate public safety, sanitation, and other essential services, this approach will be judged inadequate. The property tax barriers to new growth and development will once again be erected around our largest and poorest communities.

The second major opportunity area for state government to lessen fiscal disparities and promote better municipal services across communities is to remain committed to its overall economic development program, while linking it thoroughly to a vision for the optimum locations for this growth, over which state government has significant influence and power.

A Growth Policy Vision that matches new growth to areas that need it most - fiscally, socially, and economically; that avoids sensitive environmental resources and communities which are desperate to protect and preserve their unique character; that maximizes efficient transportation links to and from work and between markets; that capitalizes on existing public

infrastructure and less costly improvements to it; and that acknowledges and affirms the critical role that the City of Boston plays in the New England economy and that the smaller regional city and town centers and neighborhood business districts play in their respective sub-economies - is fundamental to the success of a comprehensive and humane development strategy.

As noted earlier, Massachusetts has done a good job combining and integrating these goals in its development efforts over the last twenty years. But it can always do better. And to stand still invites the risk of losing ground. As much as I wince each time I think of the above quoted assessment of Lowell and disagree with its overall conclusion, I must acknowledge its sad truth as it applies to the lack of retail vitality in our city and town centers.

My sense is that the old policy yearnings are still prevalent, though they need to be brought to the surface, discussed again, revised appropriately, and then locked into an action plan.

Listening to the discussions of groups like 1000 Friends of Massachusetts and Historic Massachusetts, Inc. and reviewing the work of the Cape Cod Commission and the Metropolitan Area Planning Council, I suspect that many of us still grapple with the old land use conundrum - How can Massachusetts change - that is, grow and prosper - while remaining the same - that is familiar to ourselves in image and identity? Do we have to have a big box discount store at every intersection and an endless strip of fast food stores and used car lots between what once were separate and distinct town centers in the name of jobs and local taxes? Or can we find a way to organize ourselves so that we can get new jobs and tax revenues while preserving and enhancing those attributes of our state that make it such an inviting place to live and work? Not only for MIT graduates, but for the rest of us as well.

As I wrote back in the 70's, "villages don't want to be suburbs, suburbs don't want to be cities, and cities don't want to be wastelands."

A thorough-going commitment to the revitalization of our centers - regional, city, town, and neighborhood - serves a host of important goals, including basic economic objectives.

Attracting new business investment to any location is difficult, if not impossible, if the nearby center shows signs of neglect or indifference. The image and identity of an entire community is tied together and summed up for the visitor - and the investor - by the appearance and condition of its center.

A center-oriented growth strategy should be the bed-rock of our entire physical development program. Without it the new centers we propose for industrial and technological development will fail to get off the ground.

Pertinent to this argument is that such a growth policy will tend to steer a fair share, and more, of new development to communities that are fiscally strapped.

To renew and expand the state's commitment to this sometimes explicit, sometimes implicit, growth strategy, the following suggestions are offered:

- We need to expand and strengthen a consensus on a centers-based growth strategy. The participatory growth policy process of the late 70's, involving all cities and towns as well as the regional planning agencies, was a refreshingly simple and cost-effective demonstration of how to make policy from the grass roots up. Massachusetts, with a whole new generation of local leaders and professionals, could benefit by revisiting these fundamental issues pertaining to our physical environment and our future growth and development. More than all the programs and projects that consume most all the time

of our local officials, the "vision thing" is important and could use a timely update.

- Every state program and regulation should be reviewed constantly as to their impacts on a center-oriented growth strategy. An urban development strategy cannot be compartmentalized off to one side of a full development agenda. It must extend from the beginning to the end. The Weld Administration's review of hazardous waste regulations to determine if different thresholds are acceptable for the clean-up of city waste sites is an example of this, comparable to the creation of a special rehabilitation code back in my day. Every state initiative must be subjected to this kind of rigorous evaluation.

- In this vein, the Weld administration is reportedly preparing a proposal for $200 million in new bonding authority for the acquisition and development of open space and parkland. The commitment to a urban and center directed strategy will be tested to the extent that this legislation includes new monies to further the implementation of the Heritage State Parks programs in 12 city and neighborhood centers as well as to expand the City and Town Commons program. These initiatives not only celebrate the unique identity of their respective communities and bring parks back to people, they also trigger private investment all around the revitalized recreation areas.

- All tax incentives and the preponderance of the state's many financing programs should be re-designed so that they serve and re-enforce a "growth centers" based strategy. Since a state can be most effective at charting the direction of new growth and since tax incentives do more to influence the location of growth rather than the stimulation of growth, this kind of geographic targeting makes sense. An argument can be made that since our state's economy straddles state lines, generalized tax incentives are justified to

tip the competitive scales in favor of Massachusetts versus New Hampshire, Rhode Island, or Connecticut. But the more locationally discrete and the bigger the benefit the greater the tug on the site-specific decision makers. Scarce state tax dollars can be saved by eliminating generalized tax expenditures and introducing more generous benefits to specified growth centers. This policy will ensure the mutual reinforcement of fiscal, social, environmental and economic objectives.

- Enterprise Zones have long been talked about, primarily by leaders of the National Republican Party. Consistent with the principles put forward in this paper, they make a great deal of sense. The comprehensive and integrated focusing on specified areas - usually depressed inner-city industrial or mixed-use areas - for special, priority action, including infrastructure investments, tax incentives, and financing assistance - is exactly what a state government can do best with scarce resources.

- The new Emerging Technology Fund, with $15 million in start-up money, is timely and relevant to the anxieties and jitters in the financing markets as they evaluate the space and equipment needs of new technologies, such as biotech. But even if tightly targeted to areas of need, will this $15 million be sufficient to entice and ensure these kinds of expansions in Massachusetts? If this initiative gets off the ground successfully, one low cost way to expand the program dramatically would be to provide the Massachusetts Industrial Finance Agency (MIFA) or the Government Land Bank with much greater mortgage insurance capacity secured by the liquid portions of the PRIM and MASTERS funds, enabling them to earn fees over and above normal yields. To the extent that some of the deals so insured are not successful, the state's General Fund would stand in back

of the two pension funds to make up any losses. Since the General Fund is already in this position with regard to fully funding the total pension obligation of the state, no major change in legal relationships would be necessary. As suggested, this kind of assistance should be carefully targeted.

- Inspired by the dogged persistence and ultimate success of the Massachusetts Taxpayers Foundation over the years on so many issues, I too believe that good ideas should never die. Remember MassBank? Someday, Massachusetts will come to grips with its over-reliance on General Obligation debt and spin off one or more separate vehicles through which to issue use-specific revenue bonds that have no call on the Commonwealth's general operating funds. Obviously, these vehicles need annual revenues to retire their debt, which could come from user fees or new tax revenues, impressed with a trust and pledged exclusively to the repayment of the debt issued. For those who get sick at the thought of new revenues, an existing tax could be cut with the freed-up portion dedicated to the new debt-issuing entity. This is relevant here because such an entity could be created for the benefit of cash-starved cities and towns with low credit ratings that find it impossible or too expensive to incur debt for important local infrastructure or building projects, such as schools. This new form of state aid would be extremely equalizing, promote a center-oriented development strategy, and be counter-cyclical in that construction projects could move forward in bad times and as well as good.
- The idea of consolidated permitting has been around for a long time. Back in the 70's, when I promoted a version of it, the environmental community felt threatened. Today, less trauma is likely to ensue. The Governor - a self-proclaimed "Green" - proposes

some form of streamlined permitting for depressed areas - urban and rural. And 1000 Friends of Massachusetts is in the final drafting stage of a unified permitting process for designated growth centers as part of a larger land use initiative. This all makes great sense. The time to take action is now.

- The proof of the pudding in any urban or growth centers policy is in the manifold of concrete, physical projects - both public and private - that come out of the pipeline. The greatest satisfaction for me in middle age is to cross this state and see so many tangible examples of past collaboration in both my public and private life - Lowell, of course, Charles Square in Cambridge, Northern Essex Community College in downtown Lynn, the downtown Worcester Marriott, the Firehouse Cultural Center in Newburyport, etc. The Weld administration deserves high praise for continuing this commitment even in these tough times, the best examples of which are the Department of Revenue building in Chelsea, the Registry of Motor Vehicles building at Ruggles Center, the new Southwest Corridor Track, the proposed Medical City in Worcester, and the new county courthouse in Government Center, as well as a long over-do stadium and convention center located as near to the heart of downtown Boston's infrastructure as possible. Too bad our federal government is proceeding with its huge land use mistake out on Fan Pier with its new courthouse. Imagine the fiscal and economic benefits if this facility were located between Tremont and Washington Streets in downtown Boston. It would have instantly eliminated the last vestiges of Combat Zone blight and reinforced the market underpinnings for a strong and growing retail presence in and around Downtown Crossing.

Conclusion

I am obviously a believer in progress. I think we have seen its tangible manifestations - physically and economically - in Massachusetts' cities over the last twenty years. This progress has been achieved - I must acknowledge - at the same time that important social indicators - teenage pregnancy, spreading drug use, gang violence, school drop-out rates - have either not improved or become worse. But these social ills should not blind us to our genuine achievements and thwart us from continuing our commitment to the revitalization of older, fiscally strapped communities. A bold, new commitment to a vital partnership between state government and its cities and towns - one founded on the twin goals of an equalizing local aid program and a re-defined and re-dedicated growth policy vision for our cities and centers - will serve and advance our most critical environmental, economic, social, and fiscal aspirations. This kind of commitment is necessary if we are to sustain and increase the pace of progress in the next twenty years.

COMMENTS OF ALDEN S. RAINE
Raine Associates

State development policies cannot ultimately determine the overall level of economic prosperity within our borders. At the margin, however -- and sometimes that margin is rather wide -- state activism in education and training, capital formation, regulatory reform, tourism promotion, encouragement of innovation and exports, and public construction can make a difference in the overall state economic climate.

But state development policies can very much influence the distribution of private investment among regions and communities. Under the banner of "Targets for Opportunity," Massachusetts used this approach in the 1980s for two complementary purposes: to ensure that a fair share of growth and jobs landed in communities with high unemployment and severe fiscal distress; and to encourage the revitalization of city and town centers threatened by unplanned sprawl.

These efforts, even when successful, cannot shield an area from overwhelming forces of change in the national or global economy. The collapse of the market in which Wang Labs sold its 1980s product lines has set Lowell's recovery back visibly and painfully, while the continued loss of manufacturing jobs in Massachusetts has deprived Lower Roxbury of its earlier success in attracting DEC and Stride Rite.

But it is better to have revitalized and lost than never to have revitalized at all. When strong economic growth returns once again to Massachusetts, private decision-makers will find that the Lowells and the Roxburys have modern transportation and environmental infrastructures in place, commercial and industrial sites ready and waiting for occupancy, and local officials who

know how economic development works. Fifteen years ago, that simply could not be said.

What can Massachusetts do to update and reinvigorate its policy of targeting investment to the places that need it most? Let me suggest five steps.

1. Regional Development Strategies. In the 1980s, the Governor's Development Office worked with Cabinet Secretaries, local officials, and local economic leaders to create and implement a growth strategy for each part of Massachusetts. These strategies were specific and action-oriented. They included revitalization plans for the major regional downtowns; specific development plans for regional industrial parks; housing and other improvements for run-down neighborhoods; promotion of key regional industries, including tourism; and the major transportation and environmental infrastructure investments required to tie everything together.

In Choosing to Compete, the Weld Administration proposes to create four regional development centers. They should do so as quickly as possible. They should also make sure that these centers are not merely one-stop assistance centers for businesses (although that function is clearly important), but more broad-based catalysts for regional growth strategies.

2. Regional Infrastructure. Infrastructure development remains one of the best remedies for economic distress -- by creating counter-cyclical construction jobs today and laying the foundation for long-term private investment tomorrow. Infrastructure programs financed by user fees and revenue bonds are especially important.

In fact, Massachusetts has at least four such infrastructure development programs, and all should go forward as aggressively as reasonable financial thinking allows.

- Highway construction -- much of it essential to local and regional development -- is funded by the gas tax. State law even allows the issuance of special obligation bonds

backed by gas tax revenues. The gas tax should not be cut; it should be spent as intended on building and repairing roads.

- Wastewater treatment construction -- much of it in deeply distressed municipalities -- is almost invariably essential to local development. The Massachusetts Clean Water Act of 1989 created a State Revolving Fund to issue revenue bonds and reloan the money to cities and towns, who will repay the loans with user fees. This program has been very slow to start up, in part because its built-in subsidy program for distressed municipalities is funded through GO bonds. We need this work.
- Modernization of the Massachusetts Turnpike and Logan International Airport is funded by tolls in one case, airline and passenger fees in the other. These projects represent hundreds of millions of dollars in construction opportunities in the next few years which make no call on scarce state resources and update essential economic lifelines from the Berkshires to Boston.

3. City Building. The state can make itself a major force in the revitalization of older urban centers by building facilities which might otherwise have been built elsewhere or not at all. The Dukakis Administration made conscious choices to build North Shore Community College in downtown Lynn, Roxbury Community College in the Southwest Corridor, and Registry and Welfare offices in downtown Worcester; to propose the MassMOCA Museum in downtown North Adams; and to sponsor the legislation ensuring a major state agency as "anchor tenant" for Ruggles Center.

The Weld Administration has carried on much of this work, including the construction of the Registry headquarters at Ruggles Center and the state data center in Chelsea. Projects like

this must continue, and two classic city-building programs that have been dormant these past three years should be revived:

- the Urban Heritage Park program, which was meant to "tie everything together" in the centers of more than a dozen historic communities; new Heritage Park funding should be enacted as part of the Governor's proposed Open Space bond issue;
- an updated form of assistance for the creation of private multi-family housing, which in the 1980s reclaimed landmark schools and mills in virtually every city and neighborhood business district.

In Boston, the state needs to see through to completion its role in a critical mass of city-building projects: development in the Southwest Corridor and the long-awaited electric bus system on Washington Street; the rebirth of North and South Stations as transit and commercial hubs; the redevelopment of the South Boston waterfront and the Charlestown Navy Yard; the modernization of the Logan terminals; and the development of a large-scale convention center.

4. Economic Opportunity Areas. This year the Legislature passed an Economic Development Act which included a program of "Economic Opportunity Areas" -- Massachusetts' bi-partisan version of the long-debated enterprise zone idea. This new program provides some timely and attractive incentives for private investment in distressed areas:

- eligibility for Tax Increment Financing, which enables the municipality to float infrastructure development bonds and repay them with the future property tax revenues generated by the ensuing private development;
- an Investment Tax Credit of 5% (rather than the statewide 3%), with a "credit carry-forward" provision that makes the credit even more valuable

- a 10% Investment Tax Credit for renovation of vacant buildings
- blanket eligibility for Foreign Trade Zones.

It is essential that this program be implemented as quickly as possible, starting with the state's creation of the administrative apparatus outlined in the bill. I would also suggest three additional features:

- Create a state program of financial assistance for land assembly and infrastructure development in Economic Opportunity Areas. This program would replace, on a consolidated and more targeted basis, a set of categorical programs which existed in the 1980s: PWED roadway grants from the DPW, CDAG grants and state-aided urban renewal from EOCD, City and Town Common grants from Environmental Affairs, Civic and Convention Facilities and Municipal Parking Garages from A&F. The new program should be based in EOCD, should require substantial local and private matching commitments, and can be blended into the payback stream of tax increment-financed public investments. This program would enable the most distressed municipalities to induce new private development without having to deduct the entire cost of the underlying public improvements from the enhanced local tax base.
- Give Economic Opportunity Areas preferential access to virtually all of the financing programs offered by the state's quasi-public development agencies.
- Remove the provision limiting Economic Opportunity Areas to 20 statewide. In addition to pockets of high unemployment and deep fiscal distress, most of the EOA provisions should also apply to downtown and neighborhood commercial districts, as

well as key regional development sites designated by the Commonwealth. Eligibility for the 5% Investment Tax Credit and the proposed consolidated state infrastructure program, however, should be restricted to a more fiscally-distressed subset of EOA's.

5. A New Executive Office of Economic Development. Cities and towns -- especially those in need of economic and fiscal growth -- should be right in the thick of the state's business expansion activity. It is time to merge the Executive Office of Economic Affairs and the Executive Office of Communities and Development; not for the sake of downsizing, but for the sake of placing under one roof the business expansion mission of EOECA and the community revitalization mission of EOCD.

The 1993 Economic Development Act mandates the coordination of the Economic Opportunity Area program by the two Secretariats, and creates a coordinating council for the quasi-publics. But as a former Development Cabinet Chairman and Secretary of Economic Affairs, I am persuaded that these programs need to be pulled together on a permanent, institutionalized basis, rather than merely coordinated.

THE OUTLOOK FOR MUNICIPAL FISCAL STRESS

Frederick S. Breimyer
State Street Bank

There is no single cause or cure for fiscal stress; indeed, the concept is not well defined. Nor is it even clear that fiscal stress is necessarily "bad." Without fiscal stress, for example, governments may tend to expend resources freely and unwisely. By the same token, fiscal stress may prompt governments to prioritize their operations better and to seek greater efficiencies.

Nevertheless, what follows will adopt a convention that fiscal stress beyond some level is undesirable. It certainly is so for those inside of government who experience the impact of fiscal stress directly; it also may be undesirable for those outside government who depend on a flow of services from government that may be curtailed in quantity or diminished in quality. That is, whatever benefits may accrue from fiscal stress, its disciplining effects on the normal functions of government are likely to be overwhelmed after some point by its deteriorating effects on those functions.

I am not prepared to say what those governmental functions ought to be, other than that they clearly are to be oriented toward providing for both current and future public needs. (They even provide for past needs in the form of debt service.)

For current purposes I am prepared to accept definitions of government's responsibilities in accordance with prevailing practice, while noting that the scope given to government long-term depends crucially on government's efficiencies and effectiveness in using the resources and

powers that society allocates to it.

With regard to government's interaction with the economy, it is clear that each influences the other. Certainly, changes in the economy can make or break a governmental budget, and over time, government's choices can help to make, or most decidedly break, an economy. However, since government's impact on economic conditions is often delayed and diffuse, it is typically easier to recognize the impact of changes in economic conditions on government than government's changes on the economy.

All of this may be taken as a rather elaborate and perhaps unnecessary preamble for an operational definition of "fiscal stress," which may be stated at the minimum as a condition, perhaps temporary, affecting government in which it (government) experiences significant difficulties in meeting its publicly-agreed upon obligations and at the maximum, as a condition of basic financial overextension or over-commitment of government vis-a-vis its available resource base.

The approach adopted here examines the creation and perpetuation of fiscal stress in the Commonwealth of Massachusetts from the standpoint of the performance of the state's economy, especially the economy's recent tendency to constrain revenue growth for government at all levels. It should be recognized, however, that at times such economically imposed constraints may be lifted by increasing taxation or by relying more heavily on debt issuance. At the same time, constraints may be applied or tightened by reducing taxes, such as occurred for municipalities under Proposition 2 1/2, or by changes in financial markets' conditions with regard to the acceptance of new debt.

That said, it is still largely the case that the resources available to state government in Massachusetts and the governments of the cities and towns will be determined by the performance of the underlying economy over time. Any evaluation of the actual performance, in turn, must contend with the radical changes in economic conditions and prospects that occurred during the 1980s into the 1990s, and particularly with regard to the structural factors that primarily determined those changes.

The economic boom of the 1980s was built on a foundation of technological advantage in key industry groups and on the perception that those technological advantages could be maintained or even extended indefinitely. On that basis and during that time, Massachusetts looked approvingly at its economic present and optimistically toward its economic prospects. As one measure of confidence in the economy, those in the state consumed and invested more, thereby borrowing against that future rather than relying exclusively on higher current levels of income in making purchases and investments. For a time, this propensity to borrow further intensified the boom, amplifying it in a way that seemed to make good economic conditions still better.

Massachusetts, of course, was not unique in this respect, for much of the nation in a lesser way participated in debt/leverage undertakings with somewhat similar if smaller effects. The difference in Massachusetts, and in New England more generally, was the size of the boom, its timing--as the boom and the ensuing bust appeared here first--and the absence during the mid-1980s of areas of concentrated sectoral weakness, often referred to elsewhere as "rolling recessions."

The key element throughout the growth period, however, was the technological base in Massachusetts and the products that emanated from it. In high tech manufacturing, products were clustered around the mini-and micro-computers, whereas in defense, products often took the form of advanced propulsion and guidance systems. The region's financial institutions participated as well, capitalizing the higher realized and projected values into the region's fixed asset base for the benefit of their customers as well as themselves.

The subsequent economic collapse was both massive and ironic. The undoing stemmed in large part from developments internal to key individual industries rather than to external causes. For high technology, the irony was that the causal factors that ended an industry's growth were themselves mostly technological. Smaller and less expensive computers in the form of personal computers and data servers eroded the minicomputer market during the 1980s--much as New England's minicomputers at an earlier stage had undercut the market for mainframe computers. For the defense industry, which depended so crucially on the political support that it received at the national level, the irony was that the political environment that originally supported the large military build-up eroded with that build-up as federal budget deficits swelled and an era of international confrontation ended. Concurrently, views within the financial services sector shifted from concerns about maximizing growth opportunities through leveraging toward more cautious appraisals, if not outright apprehensions about the viability of the existing financial structure after October 1987. This shift toward conservatism implied intentional de-leveraging just as New England's rapid growth was drawing to an end for other reasons.

The demise of New England's economic fortunes came as more than a shock: it came with a message. Not only had the economic climate changed, but the change was determined

by factors that were mostly structural and therefore largely non-reversible in nature. While recessions are determined by dynamics within the growth process, these structural changes impinged on that growth process and effectively ended it. As a result, the 1990s quickly became the reality check applied to the hopes and aspirations of the 1980s.

The casualty list, of course, included far more than the growth industries that had dominated the previous decade. Real estate and construction were particularly hit hard, but most sectors, ranging from retailing to business services to state and local governments also felt the impact keenly. The one exception was health services which continued to expand, apparently unaffected by the general economic decline. Yet, the provision of health services, while impervious at that earlier time, is now imperiled as a growth industry by economic and political forces similar to those that directed federal dollars away from defense. In some larger sense, society has found that health services are too expensive for today's budgets, and changes are being imposed on the system accordingly.

For Massachusetts, which has a heavy weighting of high-value, high-cost health care, much as it has had in computer manufacturing and in defense, structural change again will be expensive when measured in jobs. Consequently, the progress made in stabilizing employment in the Commonwealth over the past two years will be tested in the period ahead. Prospects for net job creation from this source will at the minimum be reduced for this year and most of next, and perhaps beyond.

On the fiscal front, this weight on employment growth, combined with low inflation both regionally and nationally, implies that personal income within the state is likely to grow relatively slowly. That, in turn, translates into only modest growth for state revenues, perpetuating fiscal

stress at the state level and limiting the capacity of state government to provide additional financial assistance to Massachusetts cities and towns.

Indeed, owing to past adverse economic conditions, aid to cities and towns has already declined from peak levels. Direct local aid peaked along with the state economy during fiscal 1989 at just under $3.0 billion, and fell by $600 million in fiscal 1992.[1] Growth in indirect local aid somewhat reduced the shortfall; nevertheless, the fiscal stringency experienced at the state level was passed along to the cities and towns and has been only partially alleviated since then.

Cities and towns, in turn, have been faced with depressed economies plus diminished state financial support and the ongoing constraints imposed by Proposition 2 1/2. Proposition 2 1/2 limits annual property taxes levied by cities and towns to the lesser of 2 1/2 percent of fair market value of real estate or a 2 1/2 percent increase over the previous year's levy for existing property. Allowances have been made for new construction and for local overrides of Proposition 2 1/2 levy limits.

The initial effect of Proposition 2 1/2 was to lower property taxes significantly for many cities and towns during the three-year adjustment period from 1981 - 1984, although increases in local aid muted that impact. During the mid-1980s, the economic boom fueled new construction in most cities and towns, broadening their tax bases. While the amount of new construction varied greatly by location, cities and towns in the aggregate were able to live within Proposition 2 1/2 limits during this period and were helped additionally by further increases in state aid. The end of the boom, however, was reflected not only in a lowering of state aid but in a reduction in real estate values and in new construction.

The result was a flood of override initiatives occasioned by the decline in the economy. In fiscal year 1991 alone, for example, 609 override questions were on local ballots, which was more than the cumulative total for the years, 1982 to 1989.[2] As for additions to the levy limit, the peak year was also fiscal year 1991, with a total increase for all cities and towns of $58.5 million. Additions were halved to $31.0 million in fiscal year 1992 and halved again to $16.0 million this past fiscal year.

Reductions in state aid and fewer successful overrides, when combined with draw-downs of stabilization funds in the forms of excess levy limits and free cash, served to foreshadow cutbacks in municipal budgets during fiscal year 1992. In the latest fiscal year, municipal spending rose; however, fiscal pressures remained very high.[3] Those pressures will continue, particularly as many communities are being required to increase their financial contributions to education on a longer-term basis under state educational reform.

Concurrently, the public's evident dissatisfaction with the past performance of the system of public education is accompanied by ongoing worries over safety and personal security. Concern about crime leads the list of public concerns in many areas and is translated into ongoing pressure to avoid additional cutbacks in police and fire protection.

Cutbacks in staffing for essential services have been very substantial to date. From fiscal 1989 through fiscal 1992, for example, the number of public school teachers in the Commonwealth dropped by 6.8 percent even as the number of students rose by 4.7 percent. Emergency aid to education was responsible for employment gains this past fiscal year, but the 2.3 percent gain was only slightly greater than the increase in the number of students.[4] For police and fire departments, staffing reductions have been proportionately larger. As of the first

quarter of this year, staffing for these functions were at their lowest levels in many years, respectively 11.5 percent and 10.8 percent below their peak levels four years earlier.[5]

As a result, the operating credo for municipal governments mostly remains "doing more with less"--or, more accurately, "attempting to do more with less"--as Massachusetts cities and towns face ongoing fiscal pressures amid budgetary realignments. The Massachusetts Taxpayers Foundation calls this "The Big Squeeze" and notes in its handbook of Municipal Financial Data that of the Commonwealth's 351 cities and towns, 292 of them in 1992 were at 99 percent of their Proposition 2 1/2 levy limits.[6] Cities and towns not at their imposed limits typically enjoyed a viable industrial base (such as Marlborough and Norton); were affluent (Cambridge and Orleans); were small and rural (Bolton and Peru); or were very small and rural (Monroe). From the standpoint of population, over 90 percent of Massachusetts residents during 1992 lived in a city or town effectively constrained by Proposition 2 1/2 levy limits.

By contrast, constraints from levy ceilings have been less of a factor, at least to date. The City of Boston is closest to its levy ceiling, a condition which is attributable less to the severity of the decline in real estate valuations on single-family properties in the city than to the composition of its property tax base and the differential tax rates applied to that base. According to Case Shiller Weiss, Incorporated, the 17.5 percent reduction in single-family home prices from peak levels to early 1993 in Boston compares very favorably, for example, with the 55.5 percent drop in Lowell.[7] The Boston Municipal Research Bureau, however, in its report Securing Boston's Financial Health points to the substantial portion of business property valuations in Boston's property tax base and to Boston's heavy imposition of taxes on the business sector.[8] Businesses paid a disproportionate share of tax levies at an effective rate of 4.0 percent of

assessed valuation in fiscal 1993 versus 1.1 percent for residential properties. This relatively heavy reliance on property taxes paid by the business sector clouds the issue of fiscal stability for the City, since any recovery in real estate valuation for commercial and industrial property is likely to lag substantially the recovery in valuations on residential properties. Indeed, the vacancy rate for office space in Boston currently stands at 16.8 percent, which is higher than during the spring.[9] The vacancy rate is apparently still rising as corporate downsizing pushes excess space to relatively high levels. This is particularly difficult for the City of Boston since the lack of new office construction translates into zero additions to the tax base, while the concurrent slow absorption of available office space holds down both rents and property values.

For some cities and towns, superseding Proposition 2 1/2 levy limits has been achieved in the past through overrides, but the extent of the overrides has been limited, especially recently, by voter reluctance to assume new property tax burdens. As a result, future improvements in municipal fiscal conditions depends on some combination of more rapid economic growth, further lowering of inflation, continued restraint on municipal spending, and maintenance of lower interest rates. So far during 1993, sharply lower interest rates have been very beneficial. They saved interest costs on municipal debt while helping to stabilize property values and to promote new construction. But although lower interest rates can facilitate an improvement in economic conditions, they cannot by themselves generate an upswing in the regional economy.

In general, the dominant factor limiting prospects for fiscal improvement is the condition of the economy. High tech and defense-related employment continue to decline and will do so apparently at least until the second-half of this decade. In the past, these structurally-induced declines have been counterbalanced to a considerable degree by increases in health care

employment, but that growth is now ending. Other cyclically sensitive industries are poised for growth, but a sub-par national recovery continues to limit the upswing in employment. Overall, the weakness of cyclical factors and difficulties particular to the labor market continue to weigh on prospects here as elsewhere.

Two elements regarding difficulties in the labor market deserve special attention: job placement and job displacement. Workers expecting to find permanent employment with realistic salaries and benefits have been unable to do so in many cases despite levels of education and experience that at other times would have all but assured them of success. Instead, these workers often find "temporary"employment, which is not so much temporary as second-class, especially in terms of benefits. The diminished status of many entry-level workers appears to be both structural and widespread.

The problem of finding adequate placement is compounded by and in some cases linked to the problem of displacement of older workers, especially in middle management. Corporate career-ending decisions have become common and create higher levels of employee distrust and anxiety. The development is traceable to the diffusion of technology, pressures on growth in corporate earnings, and the ongoing realignment of firms in the global marketplace. The difficulties are particularly intense as the institutional structure has not been designed to accommodate workers so displaced. All of which make challenges for growth over the near-term still greater.

Yet, economic growth is possible and is likely to come, as it often has in Massachusetts history, in the form of new firms, new technologies and new products. Not all technological change is growth-producing, but achieving significant growth without technological change is

hard to imagine.

The problem we face collectively is not that the growth process does not work. Rather, it works in its own way, in its own time and in its own place. In this sense we do not control it; it controls us.

Even when the technological hunt succeeds and the returns are high, timing is uncertain. No one can count on the fruits from this process relieving fiscal stress by, say, 1995. Nor can one suggest that the benefits will be shared widely throughout the Commonwealth, as the R&D processes that produce breakthroughs and create new opportunities are heavily concentrated geographically in eastern Massachusetts and centered in Cambridge.

The open question is how much other areas in the state can participate in the employment growth stimulated by the new technologies. The minicomputer, for example, was successful not only as product but as a producer of jobs because it required many individuals from engineers to hand-assemblers working in many locations. In this sense, it was very much like old-line assembly production work. Moreover, the proprietary architecture embodied in the minicomputer held onto customers and allowed manufacturers to realize high profit margins. This permitted the manufacturing function to be kept here. The new PC products, by contrast, require far fewer individuals, especially in assembly, and have standardized architecture to ensure compatibility and competitiveness with other manufacturers. As a result the monopoly rents have been largely removed from the system. "Smart" capital embodying smart technology lies behind it all.

In many upcoming technologies, the presence of smart capital is a virtual given, and the actual manufacturing processes is secondary in importance and in job creation to the R&D effort.

This serves to limit the leveraging of the new technological base widely in the work force, at least from the standpoint of the supply side.

What does this mean for the cities and towns in Massachusetts? It depends on which cities and towns, but it is clear--or should be clear from the forgoing--that I do not expect a near-term deliverance of many cities and towns from municipal fiscal stress.

The generalized growth processes in the current economy are uncharacteristically weak, while the strong growth possibilities that do exist are narrowly focused and technologically based, favoring only select areas within the state.

As a result, the outlook for most municipalities in the Commonwealth is that fiscal stress will continue. The good news is that in most locations, it is not becoming worse. Even so, the road back to fiscal good health is likely to be long and difficult, and fiscal stress will remain a common condition for many cities and towns for a considerable time to come.

In the end, however, the primary concern is not about money, or even jobs. It is about services--the efficiencies involved in delivering services and the effectiveness and values attached to those services. As has been happening elsewhere in the Commonwealth, the municipal sector is being prodded toward reinventing itself. The fiscal pressures that have emerged are being applied to an institutional structure. That structure, in turn, is attempting to withstand and survive the pressures. But, survival is not necessarily the goal, at least from the standpoint of the broader society. The broader goal is to develop an appropriate response. That bears repeating: the goal is not to preserve the existing institutional structure, but to respond appropriately to existing pressures on institutional structures. If necessity is the mother of invention, then unrelenting fiscal pressures may be a god-mother to institutional change.

Fiscal pressures can be a catalyst for change, but more than a catalyst is needed for change to occur. What is needed is an awareness of what needs to be done, how it can be done, how it can be done still better and how it can be done the best. The challenge before us requires us to rationalize, to prioritize and to anticipate. No one nor anything will deliver us from a difficult economy and from the condition of municipal fiscal stress. We will have to deliver ourselves. We as New Englanders have prided ourselves on being the best in the past, but we need to be still better for the future.

NOTES

1. Massachusetts Department of Revenue data contained in public offering Official Statement for Massachusetts General Obligation Bonds dated May 1, 1993, pages A-28 to A-30.
2. Massachusetts Department of Revenue, City & Town, November 1992, pages 3-7.
3. Massachusetts Department of Revenue, City & Town, August 1992, pages 1-5.
4. Data from Massachusetts Teachers Association. Data on students are based on average daily attendance rather than enrollments.
5. Data from Massachusetts Department of Employment and Training. Data include local employment in police and fire departments.
6. Massachusetts Taxpayers Foundation, "The Big Squeeze," June 1993 and Municipal Financial Data 1993, pages 12-27.
7. Case Shiller Weiss, Inc., Massachusetts Home Price Bulletin, Second Quarter 1993, pages 27 and 78.
8. Boston Municipal Research Bureau, Securing Boston's Financial Health, September 1993, Executive Summary, pages 3 and 4.
9. Hunneman Commercial Company, "Downtown Boston Vacancy Report," Spring 1993. Update from Boston Globe, October 6, 1993.

POLICY OPTIONS FOR FISCALLY STRESSED COMMUNITIES

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This paper consists of three parts: a stipulation of the principal propositions advanced in this conference to date, some elaboration on them from my own perspective, and a primary focus on the policy options that may exist at both the local and state levels in the Commonwealth--both real and imagined.

The Tightening Noose

As to the stipulations, I extract at least four major propositions from the proceedings to date:

☐ in fiscal terms, neither the state nor most localities are out of the woods yet, budgetary contortions, plots, counterplots and revenue sleights of hand to the contrary notwithstanding;

☐ the backlog of postponed and unmet needs is compounded by sizeable new demands now clearly evident in the 1990 census profile;

☐ the capacity to finance the aggregate of essential community facilities and services remains seriously constrained by a slow and still weak economic recovery and artificial policy restraints, most notably Proposition 2 1/2 and the state budget busters previously identified by the McCormack Institute at the University of Massachusetts Boston.

☐ an attitudinal overlay of public cynicism and suspicion explicitly cultivated nationally throughout the eighties in the Reagan-Bush era and intensified in Massachusetts by a series of

scandals, real or alleged, across the Commonwealth. Trust in government in general is at its lowest ebb since Vietnam. Public sector successes are barely acknowledged. Private sector failures, even when greed is accompanied by corruption, as in the trillion dollar savings and loans scandals, are rarely noted.

To elaborate briefly on these propositions:

So far as the continuing mismatch between public needs and public resources are concerned, over the last three years the McCormack Institute has systematically provided early warning signals of trouble ahead. In 1990, the Institute warned that the bloom was off the rose so far as the Massachusetts economic miracle was concerned and that state revenues, with an annual normal increase ranging between 5 and 7 percent, had by 1986 reached 16.7 percent. Overall, the expenditures of the major cost centers had jumped 34 percent, partially concealed by the "good times" of the eighties, which featured double-digit revenue expansion. Again in 1990, the Institute warned that the Commonwealth's fiscal condition was "precarious." It estimated over the next five years that state expenditures would increase by 32 percent while revenues would grow by only 24 percent.

In 1991 the McCormack analysis shifted to the local level and still remained gloomy. Although its citation of the Howell Report gave hope that Boston could participate in world-class economic competition as a high class technological innovator, its judgment about local finances was dreary. Only if the political limitations of Proposition 2 1/2 were amended and additional state revenue were made available, the Institute concluded, would local solvency seem likely.

Finally, this year, in the somewhat indelicately titled "Fiscal Smell Tests" report, the McCormack struck again. Its latest analysis concluded that in the collapse of state finance in the

late eighties,"conditions in fact were worse than people thought" and "they are hardly as favorable today as people think." Specifically, spending on the "budget busters"-- Medicaid, debt service, pensions, MBTA, and group insurance--increased 83 percent overall between 1988 and 1993, with debt service shooting up faster, at 112 percent. Documenting budgetary and accounting sleights of hand and emphasizing the absence of any consistent budgetary strategy which might anticipate public problems and redress budgetary imbalances, the last McCormack report concluded that the Commonwealth faced a structural deficit of at least a billion dollars: "Massachusetts has not yet achieved fiscal structural balance."

Nor do fiscal prospects seem any brighter for cities and towns. In 1991, bolstering the McCormack analysis, the Senate Committee on Post Audit and Oversight report, "Local Government Finance in 1991: The Crisis Continues," also concluded that local governments "are in a precarious fiscal situation." It found the property tax base adversely affected by the drop in housing starts, the number of communities with "excess capacity"--i.e., with the potential or reserve to increase property taxes within the marginal differences between their effective tax rates and the 2½ percent cap--to be down from 250 in 1987 to 151 in 1990, and an overall decrease state-wide of 63 per cent. Further the Committee concluded that voter resistance to overrides was sharply on the rise, with only one-quarter such efforts successful in 1991, in contrast to almost half five years earlier. And state aid to localities was falling after a decade of rapid increase.

When one examines the demand side of the Massachusetts public sector, an already gloomy picture darkens. Northeastern University's Center for Labor Market Studies, in its analysis of the 1990 census shows that the state's total population growth in the 1980s was 4.9

per cent (half the US rate and the lowest in New England). However, the greatest growth in age cohorts was in "children under five" (22 percent), "over 65" (13 percent), and "over 85"(28 percent). These cohort profiles are precisely the ones to place special pressures on schools and health care. Further, net immigration during the last 10 years was entirely non-white, or Hispanic, up 104 percent compared with an overall decline of 0.3 percent. Black, non-Hispanic was up 29 percent; Hispanic and Asian/Pacific Islanders, by 190 percent. A further breakdown of census figures identifies significant immigration from the distinctive cultures of Haiti, the Dominican Republic, other West Indies nations, Africa, Cambodia, and Vietnam. Thus, although the white, non-Hispanic population still accounts for 88 percent of the total, a rising fraction of the school population will come from newcomer families. In education, job training and placement and health care, the spending pressures on the public sector intensify while the supply of public resources remains weak and uneven in distribution.

Finally the drumbeat of cynicism and distrust of government, the ideological rhetoric glorifying the private sector (and if there must be government, let it be at the grassroots) intensifies. So constant is the disparagement, aided and abetted by the media, that the mobilization of resources to achieve effective delivery of public services faces powerful psychic barriers. Given the collective pressures of these constraints, undertaking to forge a realistic strategy of viable policy options is at best a riverboat gamble. At worst, it may be a Sisyphean endeavor.

Policy Mirages

Where genuine fiscal issues arise in a political culture of cultivated cynicism and frequent elections, its leaders are understandably tempted to search for quick fixes.

Ideologically appealing but economically unrealistic public options float like soap bubbles across an agenda sky before they pop in the wind. Three such dreamboats are currently in vogue, attracting serious commentators and public figures as well as finding considerable public support, even if under close scrutiny, they turn out to be illusory.

- Privatization. the siren call of the market place to replace by contracting out the duties of the inert and clumsy public bureaucracies wherever possible, downsizing government at every level and particularly focusing on local education.

- Public entrepreneurship. An option that maintains the existing structures and institutions of government but infuses them with the same spirit of get-up-and-go, practical know-how, and a commitment to productivity that is the secret of American capitalism and generations of success.

- Help from above. A wistful throwback mostly embraced by erstwhile liberals (now populists) to the perceived glory years of The New Frontier and The Great Society, B.D. (before deficits). The great bailout prayer is perhaps the most obvious of the mirages, but nonetheless dangerously addictive, for it distracts our attention from the prime actors who must be engaged.

The perceived benefits of privatization have been paraded for at least a generation when in the 1960s, HUD underwrote a New York City-Rand Corporation demonstration grant and recommended "slippery water" as a major breakthrough in fire fighting. Its philosophical underpinnings go even further back a full three-quarters of a century to the rise of the city manager movement. Its most articulate recent exponent is E.S. Savas, former Assistant Secretary at HUD in the Reagan administration, whose books, Privatizing the Public Sector and Privatization: The Key to Better Government, triggered the latest round of experimentation at

both the state and local levels across the country.[1] Savas' theses were endorsed in 1988 by a Presidential Commission and found perhaps their most influential proponent at the state level in Minnesota's Ted Kolderie. Kolderie's focus is on education and school choice as a surrogate for the market place. His initiatives, which the state adopted in the late 1980s, are aimed at creating competitive markets and assume that parents will take on the attributes of textbook consumers; that is, each American family is assumed to have perfect information about individual schools, unswayed by advertising and reputation. Each will be able, under these assumptions, to match their children's true potential and needs to the school in the best position to respond. By 1990-91, its proponents proudly reported, the Minnesota experiment had enabled 24,000 of the 720,000 eligible students to exercise choice. (One wonders about the income and educational levels of those choosing it.)[2]

An even purer form of teaching through the market place is now underway. Project Edison is the technologically rich, model school now on the drawing board in Nashville, where the former president of Yale, Benno Schmidt, tries his hand with K-12 students. Although Project Edison has run into serious funding problems, as reported in the *New York Times* (August 29, 1993), the project is considering a new focus, to "bail out" urban public schools.

Generally speaking, the claims of privatization are essentially three: substantial savings (Savas estimates that public service delivery costs are 35-95 percent greater than private contracting.); improved product (meeting consumer needs); and rewarding innovation by genuine competitive techniques. Taken together, with the figures of the proponents accepted at face value, one can contemplate a genuine withering away of the state in America--or at least at its lower echelons in the Federal system. Just as the command and control system in the Soviet

Union fell of its own weight, so advocates of privatization believe our citizens ought to be able to expect the same here.

Before we embrace privatization with open arms, however, it may be wise to examine the option more carefully. An obvious beginning is with the accounting system employed, and an obvious focus is between the treatment of operating and capital costs, especially how depreciation allowances on previous investments are handled. The experience of the Pentagon and NASA in cost-overruns and defective products is relevant here; so are the reputed "savings" examples in the JFK Case Studies Series, including asphalt paving in New York City.[3] Savas' estimates and those of James Q. Wilson in Bureaucracy seemed almost as optimistic as the calculations major accounting firms made when they endorsed the cooked accounts of the savings and loans banks in the 1980s. Even if substantial cost differences remain, the important question is "why?"

Here, as one probes one contracting-out case after another, the prime factor is labor costs and the prime difference is due to collective bargaining. Alan K. Campbell made this point persuasively in the Wood's Hole Conference on the City sponsored by the National Research Council in the mid-eighties. As chair of the Civil Service Commission followed by service as a vice-president of the private AA contractor of food services and transportation, Campbell's explanation was deceptively simple. Aa work force was largely non-union or weak union and the use of part-time employees was extensive. Throughout the eighties, as the Federal government increasingly tilted toward management and away from labor in the private sector, public sector unions solidified their position especially at the state and local levels.

Conceptually, of course, the imbalance is an oxymoron. Collective bargaining in the private sector finds its justification in labor's claim for a share in profits gained in competitive markets. In the public sector there are theoretically no profits, only taxes. Thus, especially at the local level, a strong disposition exists on the part of elected officials to separate compensation issues from workplace issues and yield on the latter. Hence, hidden unit costs often rise sharply, or at least, that is how the weight of evidence falls in contemporary labor relations research, and my own experience in the MBTA and the Boston Public Schools confirms this point. So the question arises: does the privatization case rest on greater entrepreneurial efficiency and energy there or because of labor exploitation and inferior product quality? Or should we look for relief in tougher bargaining by public management.

One can be relatively indifferent, in an operations research sort of way, to the process of street cleaning except at blizzard time, but on matters of hiring a cop, a nurse, a health inspector, a teacher, certified quality becomes a genuine concern. Thus, contracting out seems chiefly attractive when the service provided is both routine and competitive (i.e. printing, small supply purchases) or occurs only at great intervals.

If the presumed superiority of private management comes under scrutiny in instances of large expenditures and critical programs, then the matter of public accountability is of increasing concern. Who actually is in charge when a private contractor fails to perform save the hapless political figure whose next election is staring her or him in the face? What recourse does the public contractor have except cancellation of the essential service or judicial action? Unless the contract is exquisitely drawn on behalf of the government (which requires unique professional talent in the contract office), a Hobson's choice prevails.

Hidden costs, work-rule costs, and slippery accountability for non-performance are reasons for hesitating to embrace the doctrine of privatization. A third important matter, however, is that of integrity, which privatization advocates tend to overlook almost entirely. This oversight is strange because the cases of malfeasance, misfeasance, and nonfeasance are everyday, recurrent affairs. The corruptibility of "contracting out" public services brought down the Koch administration in New York City and threatens the Dinkins administration today, with the asbestos school debacle postponing the opening of classes. Aetna stalked local pension boards in Massachusetts with a chosen scout as systematically as it organized its insurance files. The eight years of Secretary Sam Peirce at HUD, where "Robin HUD" was a contractee, damaged that Department's reputation perhaps permanently. One need only read Oliver Twist to be reminded how tempting it is for private contractors to thin out the public gruel. In short, the procurement process is an area of vulnerability even greater than bribery and wrongdoing within the public bureaucracies, where sanctions are more readily available.

One caveat in considering privatization is the importance of distinguishing between the for-profit private company and the not-for-profit organization. The first is essentially concerned with the balance sheet and the latter with empowerment. The problem with community-based organizations historically has been managerial capacities and accountability since the early days of the War on Poverty. Over the last twenty years, however, the not-for-profit sector has matured substantially in program implementation and evaluation, and the disposition to use them in appropriate programs grows.

In summary, the longer one examines the broad case for privatization--let the market do the walking, downsize government as much as possible, follow the contracting-out flag of

Oakwood, California (before Spur Posse)--the more dubious one becomes of both the extent to which this option can be applied and its real savings. At least, given the record of extravagance, greed, and unwarranted expansion in the private sector during the eighties, it seems risky to turn over the public interest to the tender mercies of a bazaar. Private choice theorists have had little to say on this issue of ethical behavior.

Public Entrepreneurship. If the elimination of the public sector seems unwise and unlikely, the next obvious option is to reform it. How?--largely by copycatting the private sector? At least this is the popular counsel of David Osborne and Ted Gaebler, publicly endorsed by Vice-President Gore, Governors William Weld and Pete Wilson and a baker's dozen of news journals and editorial pages. In Osborne and Gaebler's 1992 Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector, the reader is treated to ten "simple principles" in ten chapters and two appendices, which offer a laundry list of reforms adding up in the authors' phrase to an "American perestroika."[4] Some items on the list coincide with those of the privatization movement. Indeed Savas and Kolderie emerge as heroes in the chapters on catalytic, competitive, and customer-driven government and figure prominently in the 36 alternative service-delivery options described in Appendix A. But the authors insist that their larger aim is to transform governmental behavior, for they assert that they "believe deeply in government....civilized society cannot function without effective government....that the people who work in government are not the problem; the systems in which they work are the problem."[5]

With their theoretical gospel taken from Peter Drucker, (and a tip of the hat somewhat curiously to Thomas Kuhn), Reinventing Government endorses successively community empowerment, service-delivery competition, mission-driven organization, performance budgeting,

performance measurement, decentralization, and public-private partnerships. Each chapter is chock full of anecdotal evidence at every level of government from the Lakewood government-by-contract model to St Paul's use of urban development action grants to New York's District 4 East Harlem Schools. Success story follows success story until the reader may wonder how the public view of government remains so tarnished and how the media find so many failures, mistakes and scandals to report. In the end he or she may also wonder how it all adds up--what the aggregate impact of entrepreneurial government is and the extent to which the authors have simply creamed the best in the public sector.

Whatever the shortfalls and sense of clutter Osborne and Gaebler convey, their message has clearly caught on. Hard on the heels of Reinventing Government has come the first report of the National Commission on the State and Local Public Service. This 27-member group, chaired by the former governor of Mississippi, is clearly structured by the "tree-of-wise-owls" recipe of commission building (in contrast to the "Noah's Ark" alternative of two of everybody). The current Secretary of HUD and the deputy and assistant secretaries of HHS close ranks with college professors, foundation executives, other former governors, cabinet officers and editors and columnists. Its report, Hard Truths/Tough Choices presents an agenda for state and local reform which also makes ten major recommendations organized under five themes.[6] There are recommendations for stronger executive leadership, a more lean but responsive government, a higher performance work force, greater citizen involvement and reducing fiscal uncertainty (i.e., capping the cost of Medicaid). Central to the Commission's theme is the enhancement of political executive authority and the enshrinement of the manager as "coach, listener, benchmarker, mentor, and champion." These are attributes of "total quality management"

(TQM) which intrigued Osborne and Gaebler--but which the Commission declined to endorse specifically.

As a compact, well-written, although still largely anecdotal analysis, drawing on six regional hearings, the Commission's first report is likely to be favorably received, and apparently others are likely to follow. For the present, what is most striking is what the commission omits, especially the clear contradiction between civil service reforms and collective bargaining in the public sector. It also fails to acknowledge the increasing cost of judicial oversight via remedial law.

Taking Boston as an example, over the past twenty years, its schools, housing authority, hospitals, and jails have all featured protracted labor negotiations, strikes, and grievance procedures which parallel and often vitiate the effective operation of the civil service law. When every level of management except the very top has its own union, and when contract provisions override personnel manuals, a call for a "higher performance work force" seems more a wish than an objective capable of implementation. Add the fact that in the same twenty years, federal and state courts were key actors in education, housing, prison reform, and harbor cleanup, the consequences of remedial law become another obvious area for cost examination.

One applauds the continued call for managerial reform, even while noting that the very examples Osborne-Gaebler and the Commission refer to suggest that there has been more progress than generally acknowledged in the public sector. But even if the genuine reform becomes a universal aspiration, both state and local governments have to face the stubborn facts that collective bargaining and remedial law are costly and adversarial processes. They generate conflicts not likely to be responsive to touchy-feely schools of management such as TQM. Most

important of all, it is difficult to expect a genuine reduction in the budgetary requirements of the public sector as these processes go on. To the contrary, entrepreneurial leadership, bent on re-inventing government, is far more likely to be expansive, to push out the boundaries of common endeavors rather than contracting them. If our shortfall in Massachusetts exceeds one billion dollars today in state expenditures alone, we are unlikely to balance the books by the pot pourri of exhortations for change and an open commitment to include more and more actors.

Help From Above. The limited potential of privatization and public entrepreneurship established, a third policy option--expecting a Washington bailout--appears even more unrealistic. At least the traditional support in the form of expanded grants-in-aid is not in the cards. The defeat of the Clinton stimulus package early this year sent a clear signal that quick relief, especially to cities, was not on the way. Even the most distressed of all American cities, Los Angeles, has been left hanging out to dry by both the public and the private sectors.

So the fact that Great Society veterans or their pupils have returned in considerable number to staff HHS and HUD may make Washington a more friendly place, but not necessarily a more generous one. The current proposals for cities--empowerment zones, demonstration grants for a select few urban areas--have a ghostly quality about them. One senses that we have heard these songs before.

Accordingly, Alice Rivlin's article of a year ago, before her appointment as deputy director of OMB, "A New Vision of American Federalism" has special pertinence.[7] She argues that the combination of global interdependence, a weak national economy, fiscal stress at all governmental levels, and public disillusionment suggest a new scenario of federalism. In her formulation, the federal government should take responsibility for health care (the current big,

big political fight), and the states should assume a "productivity agenda." That is, they should shoulder prime responsibility for education, housing, infrastructure and economic development. The funds for these programs should be provided by commonly shared corporate income taxes or value added taxes in order to deter interstate competition.

In her usual powerful and persuasive way, Rivlin faces up to reality. The states <u>are</u> key in funding and reforming services. Washington will continue to be preoccupied with the world and the management of the national economy. The Washington battle of the Clinton administration <u>will</u> be health reform. That is the watershed event, on the outcome of which the fiscal future of most states will ultimately turn. But it does not relieve states and localities of the growing demands of the "productivity agenda." It only makes the pressures more manageable.

Policy Reality

When one sifts through the currently fashionable yet non-viable options for relieving fiscal stress, one common denominator appears. With the possible exception of Rivlin's rearrangement of the American federal system--the health- productivity tradeoff--none of the "hot button proposals"involve changes in the <u>structure and boundaries</u> of our governments. The options so far accept the existing institutions and their existing fiscal bases largely as they are. Then they propose downsizing or revitalization or rescue of the same old entities.

Thus, as Rivlin points out, the emphasis falls on the <u>allocation</u> of demands for public goods and not on the possible economies derived from expanding the <u>scale and scope</u> in the production of public goods. No new sources of revenue, no new institutional arrangements, no new constituencies are proposed. The same actors continue to struggle under much the same fiscal constraints. Meanwhile, even the rosiest forecasts about the national health plan put relief

five years away. In this context, reality requires new policy options not as romantic as the mirages, but perhaps more workable.

□ Genuine belt-tightening: Not performance management revisited, but the introduction of a stricter version of pay-as-you-go financing and genuinely professional collective bargaining processes in which the quality of the management team becomes the equivalent to that of labor. Here, a level playing field would apply to mediation and arbitration. Simultaneously, a new legal strategy for public managers would be put in place, challenging the current judicial disposition to decree expensive new programs in areas in which the courts are amateurs.

□ New revenue sources, especially at the local level: End-running Proposition 2 1/2 by adopting the extraction policy analyzed by Altshuler and Gomez-Ibanez, and looking closely at the current Michigan adventure in educational finance.

and

□ In a back-to-the-future spirit of revisiting regional government: new institution-building, last comprehensively recommended in the 1970s, but with major incremental advantages since then.

Genuine Belt Tightening. The McCormack Institute's tough-minded analyses spotlight the most obvious target. It is debt service, up 112 percent since 1988 compared to an average increase by the other "budget busters" of 83 percent.[8] The political temptation to postpone expenditures until after elections is ever-present in a political system of regular periodic elections. The temptation is compounded in the private sector by the profitability of the bond market. Making accurate distinctions between operating and capital costs and resisting a mañana approach to budget balancing is the first prerequisite for coming to terms with the tightening noose of fiscal

stress.

Yet, even if the Commonwealth imposes discipline on borrowing, the productivity agenda remains ours at home. It is the states and localities which have to tackle education, the enhancement of workforce skills, the catch-up in public infrastructure, housing, child care and economic development. This reshuffling of responsibilities, however, does not imply a reduction in public expenditures. On the contrary, substantial increases are probably in the cards, and however effective and efficient public management or private contractors might be, larger budgets seem inevitable.

Over the last twenty years, we have sought to avoid this reality. Candidates for high executive offices have frequently and brashly argued that increases in the productivity of the bureaucracies they oversee will erase the need for new revenue. That claim remains to be demonstrated, whatever the commitment to privatization or public entrepreneurship might be. If we seek to tighten belts in the new context of federalism, we must go beyond resisting the temptation to saddle the next generation with today's programs by piling on our debts. We need to recognize explicitly what advocates of public entrepreneurship have not; namely, that we need to make major adjustments in the collective bargaining process by upgrading managerial capabilities in negotiation and mediation and by modifying, perhaps eliminating, compulsory arbitration. Here real savings are involved in at least three of the "budget busters" directly affected by collective bargaining: pensions, health insurance and the MBTA.

Real savings are also involved in undertaking to modify the intrusion of the courts through remedial law. The sad and unacceptable conditions which have led to court involvement in education, housing, prisons and hospitals are indisputable. So are the violations of constitutional

rights--the fifth and fourteenth amendments. In most cases, the problems signal past policy gridlocks between the executive and legislative branches.

Yet the solutions courts impose, usually upon the advice of experts drawn from the academic world, are not as persuasive as the reasons for judicial intervention. Most frequently judges seem to embrace the latest theories of social reform and direct public managers to implement them even if they are untested and unevaluated. A new, aggressive defense of public institutions, perhaps with a new emphasis on consent decrees, could result in another category of significant savings.[9] For example, in the first seven years of court intervention in the Boston Public Schools, some seventy lawyers were involved in the Federal litigation. The school budget office calculated at that time that the legal fees incurred through 1980 equaled or exceeded the cost of a new innovative program planned for special needs children and mandated by the state judiciary. Even more expensive were the on-going costs mandated for new schools, new staff and other programs the court imposed. Of course, the best current example of massive court-ordered spending is the Boston Harbor cleanup. It is a dramatic example of the consequences of gridlock in the other two branches which lingered for generations until the problem became unmanageable. If the state had bitten the bullet in the regular budgetary process, say, in the 1950s, real money would have been saved then and now.

New Revenue Sources. However dour the prospects appear for new revenue at both the state and local level, the most urgent and visible shortfall lies with the cities and towns. It is brought about by current shaky economic conditions falling with particular vengeance on real estate, obligatory new needs, especially in education, and the policy strait jacket that Proposition 2 1/2 imposed. In fact, observing the fiscal plight of California, in the 15 years since

Proposition 13 began to grind down that state's capacity to govern, it is reasonable to expect that a similar fate awaits Massachusetts.

Given the current executive and legislative standoff on Proposition 2 1/2, however, that constraint is unlikely to fade away. The best strategy may be to devise end runs, avoiding major reliance on the property tax itself. Indeed, last August, Michigan rolled the dice in the most dramatic way--enacting a new law which prohibits real property taxes as the major base of support for local schools. New York is tiptoeing toward similar property tax relief.

A more limited option is the use of property exactions, which Altshuler and Company have just explored. Originally initiated as a regulatory mechanism to control what many communities regard as excessive growth, exaction and impact fees have experienced what sample surveys describe as "prodigious expansion." Especially relevant to our purposes is the fact that in 1985, 82 percent of California localities levied impact fees, but none were found in New England. Only "social exactions" by Boston, linking commercial property authorizations to financing for low- and moderate-income housing and job training were initiated here.

Three comments are in order regarding the exaction option. First, its quantitative potential is still unknown nationwide, although in the last thirty years its use has soared from 10 percent of the country's localities to 90 percent. The current estimate is that the average impact fee is about $12,000 per single-family residence. Second, exactions are feasible only in localities that are growing. They reflect mostly suburban ambivalence as to the costs of unregulated development. They are no answer to the plight of declining areas. Third, their use raises serious questions of equity and efficiency when compared to the alternatives of new taxes and user charges. But in present circumstances and, given New England's comparative neglect of this

strategy, we might consider exactions as "an ingenious local adaptation to anti-tax and anti-growth pressures" and exploit it as much as possible.[10]

So far as the have-nots are concerned, in most instances the depressed cities, state intervention and take over is probably inevitable. But reform of the property tax is highly desirable and may be possible. There are, for example, several factors accounting for the Pittsburgh turnabout saga as it became America's most "livable city" in the 1980s, but a major force was the city's decision to take Henry George's site-value tax plan seriously and to separate the assessment of land and buildings. In most cities, site values are either ignored or lumped together with development. Hence, in declining neighborhoods serious rehabilitation yields higher taxes that exceed rent capabilities. So LULUs (Local Unwanted Land Uses) and TOADS (Temporarily Obsolete Abandoned Derelict Sites) appear to cover 20 percent of the land, while abandonment increases, and the property tax base declines. The Pittsburgh experience and success is an important case that warrants careful examination here.

A third possibility, following the Rivlin strategy but no stranger to policy circles in Massachusetts, is to develop alternative sources of revenue by user charges and other taxes, most notably the local income tax. The last has always been attractive to central cities with large commuter flows, and now may be applicable to Edge City developments, where new commercial locations impact heavily on formerly quiet villages and towns. With due regard to variations in local circumstances, one can structure a series of packages of varying proportions of exaction, property tax reforms and new revenue sources that avoid Chelsea-type state take-overs.

Back to the Future: A Second Look at Geography. There is a final issue, which contemporary proposals for fiscal reform and managerial renewal largely ignore or evade: the

question of geography, of "boundary reform." Although Massachusetts pioneered in building metropolitan institutions a century ago and has made substantial incremental progress since then, direct frontal assaults on our colonial heritage of grassroots governments have fared badly. For half a century, regionalism has been a popular topic in academic circles, but rarely in political ones. The obvious reason, of course, is that old constituencies, both local and state, are necessarily reshuffled and political careers become more unpredictable.

The last wave of major boundary reform proposals came in the 70s, also recession-ridden. Economic and fiscal pressures not dissimilar to today prompted a metropolitan government movement for Boston that was already in place in other urban areas--Miami, Nashville and Toronto. The Greater Boston Chamber of Commerce proposed a "metropolitan model" in 1974. In the same year a young state representative, Charles Flaherty, currently Speaker of the Massachusetts House of Representatives, introduced a bill to "organize regional governments." Republican HUD Secretary George Romney and Republican Governor Frank Sargent jointly established a task force on metropolitan development composed of 23 distinguished citizens, which I was privileged to chair. The Commission reported in 1975, and central to its concerns were the provision of more effective supra-local services especially in water supply, waste disposal, transportation, and housing leading to the governmental need for a new "metropolitan entity."[11]

The Commission's recommendations were limited to the Boston region. It identified separate service districts for major functions, and proposed a metropolitan-wide review authority to coordinate and orchestrate local and state development and investment proposals and, if necessary, to arbitrate between the two levels. The authority was a carefully crafted entity--

METROCOM--built on existing constituencies, with the opportunity for state and local participation. METROCOM was to be composed of 250 representatives of the 101 cities and towns within the area elected by weighted voting. Due deference was given to the state by providing for gubernatorial oversight of METROCOM'S executive staff, and citizen participation was assured. Impact statements for major developmental projects, both state and local, were required to determine their regional significance.

The intervening years have witnessed a quiet but significant piece-by-piece, almost stealthy implementation of some of the key recommendations of the 70s. The most dramatic, of course, has been in the water and sewer area, the Boston Harbor cleanup commitment, court-ordered to be sure and egged on by active federal support. Nonetheless, the new harbor structure is a regional approach, whatever its financial shortcomings may be.

Major changes in the financing of county government have also taken place, although county service delivery systems remain unchanged. The MDC has witnessed consolidation and reorganization. The MBTA, in both revenue production and managerial enhancement, appears to be one of the genuine success stories of the eighties. And its careful attention to financing arrangement is especially noteworthy. In typical old Yankee fashion, as Joseph Slavet is fond of pointing out, substantial fiscal integration in metropolitan affairs has occurred, even if the shells of old structures such as the counties remain.[12]

Outside metropolitan Boston, other regional structures have appeared, most prominently the Cape Cod Commission and the County Charter Commissions. The issue now, both for METROCOM and the other regions of the state, is how explicitly the potential of geographical re-alignment should be addressed.

The political pros and cons seem to boil down to two. Pro--there is an extraordinary opportunity for geographical reform implicit in the Educational Reform Act of 1993. Con--regionalism will require constituency readjustment and realignment that flies in the face of the first obligation of every elected official, to get re-elected.

To elaborate first on the potential. The watershed quality of the 1993 educational reform act contains two basic provisions on which regionalism could be built: choice and charter schools. The first implies parental involvement and perspective which go beyond present school district boundaries. The second offers a specific opportunity to let the new charter schools proceed on a regional basis. This may be the last chance to escape the Milken decision of the Supreme Court which restricted good faith efforts to integrate our schools to central city limits at the exact time when white suburban migration was in full swing.

If regionalism is joined with the new impulse for educational reform, then there is a new agenda for financing education, meeting the clear judicial requirements for equity, and introducing the potential of size and scale to relieve community fiscal stress. Beginning with education, pooling resources becomes the name of the game and expanding the boundary lines, enlarging the size of places is the right way to go. If we can both bring communities together and realize substantial savings, then we can join educational needs with housing needs.

A call for regionalism, of local initiatives to cooperate, may be overly optimistic. If it is not forthcoming, there is a final option--state take over in the management of growth, land use, and the economies of the cities and towns. Growth management by state governments was initially introduced by Professor John DeGrove of Florida Atlantic University when he was secretary for environmental affairs in Florida. It is endorsed here by the Lincoln Land Institute

in Cambridge. It is explicit state policy in Georgia, New Jersey and Washington. As previous panels have testified, occasionally it has been a major strategy in Massachusetts. Its basic feature is that the state review, accept or reverse the land use plans of localities. The leverage is considerable--on land use, on property valuations and on tax revenue. In recent years it has come about mostly because of local intransigence, a stubborn commitment that each locality can go it alone. Faced with the state's new demography, its fiscal dilemma and its new public needs, that philosophy verges on bankruptcy. Unless we prefer to let well-to-do towns pull up drawbridges and poor communities sink in despondency, regionalism both for the central cities and across the state, becomes a number one priority on the public agenda.

Skeptics will ask how the existing political process can tolerate such radical geographical and structural redeployment. Aren't local officials threatened? Aren't the members of the General Court threatened? What kind of suicidal politics is this?

The answer is, at rock bottom, leadership. What a will-o'-the-whisp the concept of leadership has been since classical times. Plato, Aristotle, Hobbes, Locke and Weber all had a shot at it. Now, the answer seems more simple and more provincial. It comes from a conversation in western Massachusetts last spring from a distinguished college president, previously a distinguished speaker of the state House of Representatives. Over lunch I asked David Bartley of Holyoke to define the leadership necessary to bring about the reforms we have been discussing at this conference. "It's simple, at least in the beginning." David Bartley said. "It is the ability to look beyond your immediate constituency and to think of the greater good."

I believe the capacity for exercising this definition of leadership rests here and now in this assembly.

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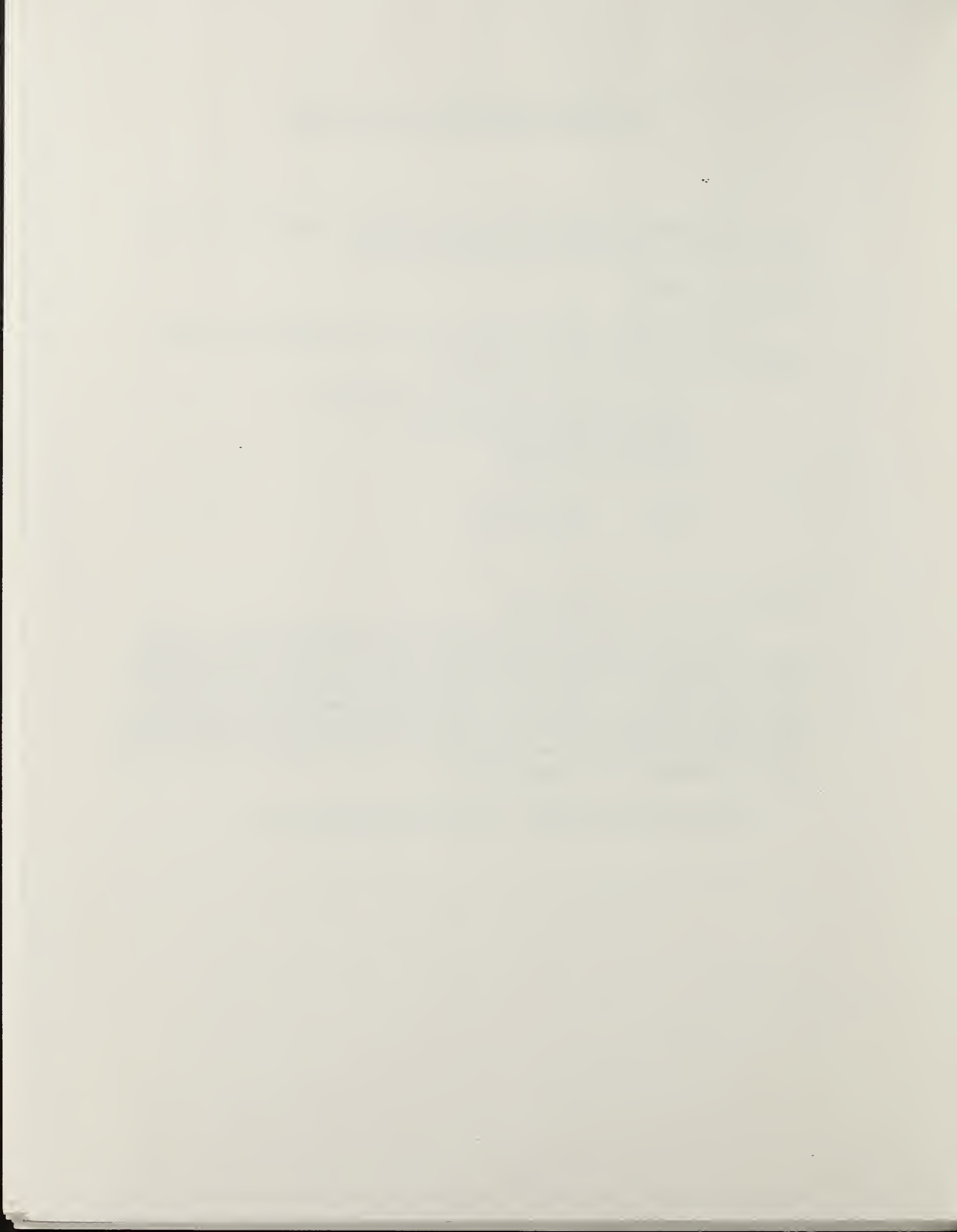

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