

Does Springfield Receive Its Fair Share of Municipal Aid? Implications for Aid Formula Reform in Massachusetts

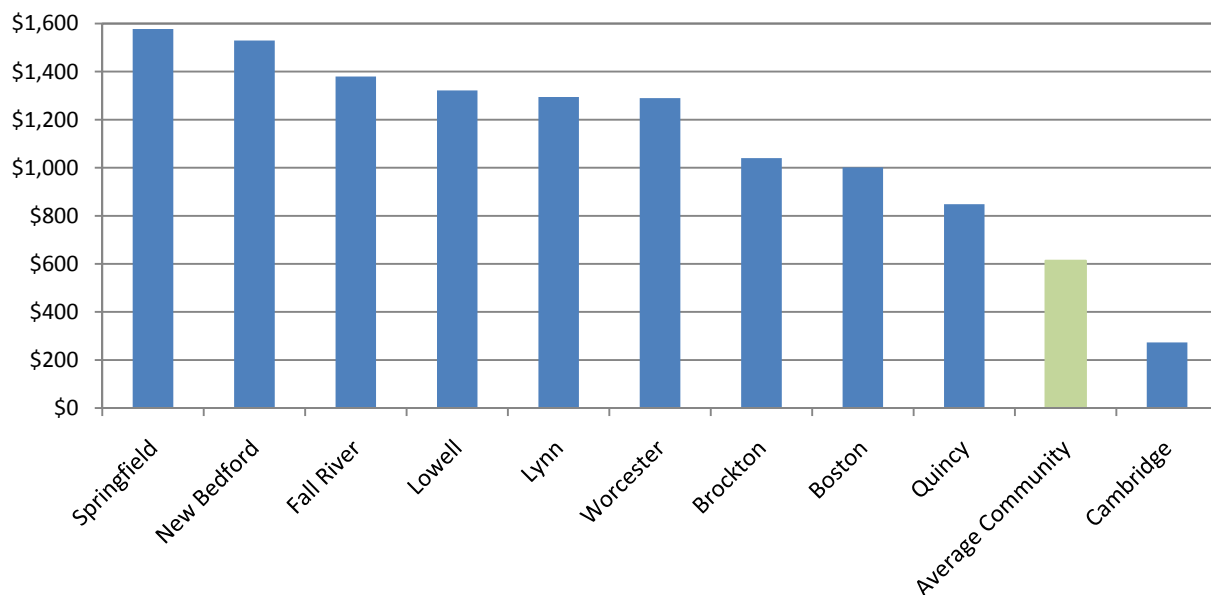
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Executive Summary

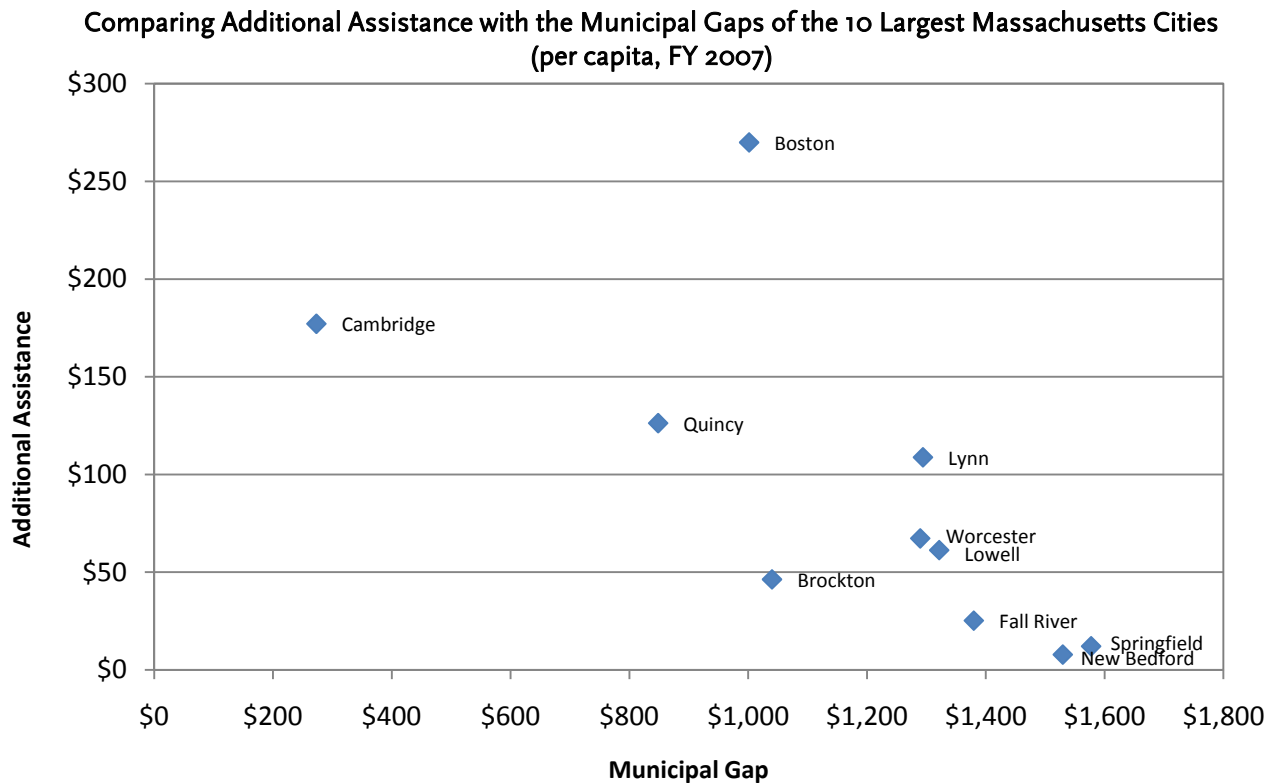
The distribution of unrestricted municipal aid has been a major concern to civic leaders and elected officials of many communities in Massachusetts, including Springfield. For example, the Municipal Finance Task Force concluded in a 2005 report that "revenues through local aid should be provided fairly and the distribution of those resources should be readily understandable." This study by the Boston Fed's New England Public Policy Center examines the distribution of unrestricted municipal aid among Massachusetts cities and towns, with a focus on the 10 largest cities in the state.

The study confirms that **most of the 10 largest cities in Massachusetts are not in good fiscal health and have a great need for municipal aid from the state.** These cities face large gaps between their costs of providing municipal services and their capacity to raise revenues locally, based on local economic and social characteristics that are outside the direct control of local officials. In FY 2007, 6 of the 10 cities (Fall River, Lowell, Lynn, New Bedford, Springfield, and Worcester) ranked in the top 10 highest-gap communities among 351 Massachusetts cities and towns. The per capita gaps of these six cities ranged from \$1,290 to \$1,577—or 2.1 times to 2.6 times the gap of an average Massachusetts community of \$613.

Municipal Gap of the 10 Largest Massachusetts Cities (per capita, FY 2007)



The current system of unrestricted municipal aid, especially the component of Additional Assistance, is not closely related to municipal gaps among the 10 largest cities. The correlation between Additional Assistance and the municipal gap was -0.61 in FY 2007, meaning that cities with larger gaps received substantially less Additional Assistance per capita than cities with smaller gaps. This pattern is the result of deep and uneven aid cuts in the past that distorted the distribution of municipal aid.

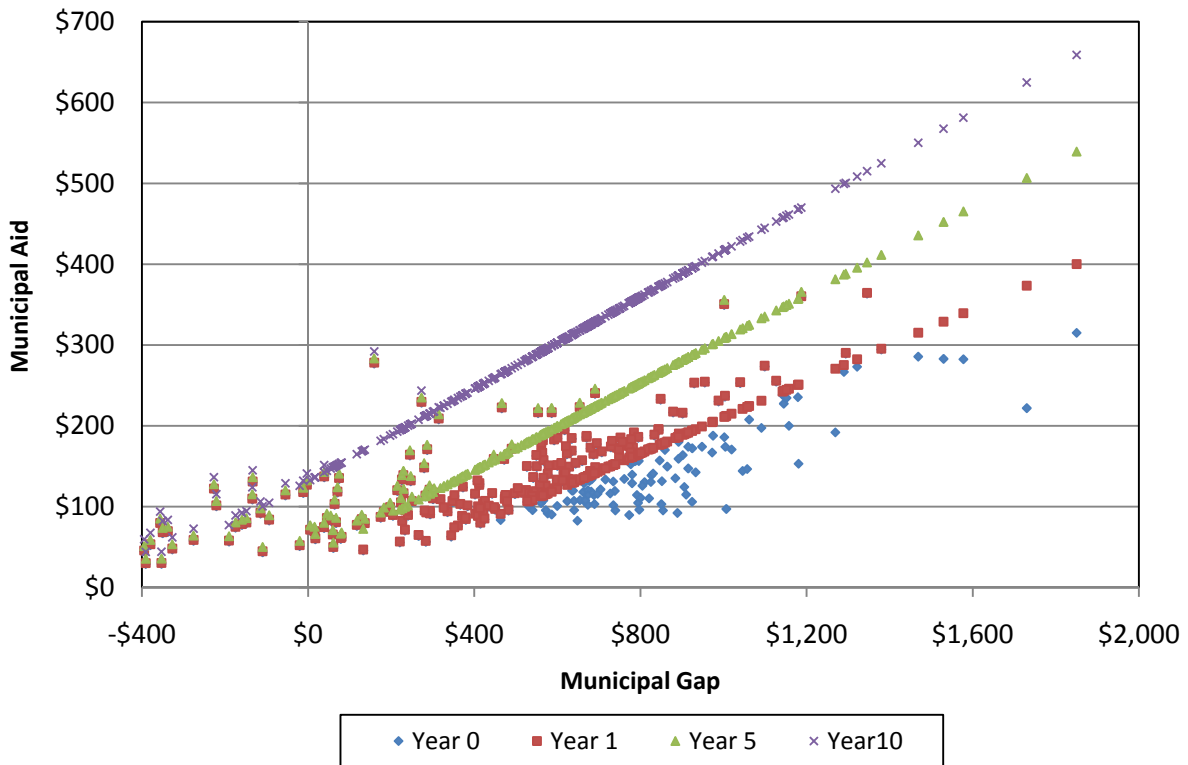


Lottery Aid, the other larger component of unrestricted municipal aid, does bear a closer positive relationship to municipal gap. However, the Lottery Aid formula does not take into account the differentials in municipal costs across communities, and therefore does not compensate communities such as Boston and Cambridge for having substantially higher costs than the average Massachusetts community.

Based on these findings, this study explores alternative methods for distributing unrestricted municipal aid in Massachusetts. It suggests that the state consider holding existing aid harmless to avoid disrupting local budgets, and then using a gap-based formula to distribute incremental aid, with more incremental aid allocated to higher-gap communities.

The simulations show that if the state commits to reasonably large increases in municipal aid, this new approach can be both equalizing and beneficial to a majority of municipalities in the Commonwealth within a relatively short time period. In a scenario where statewide unrestricted municipal aid grows by 6.2 percent per year, after only five years of implementing the new approach, 239 communities—or more than two-thirds of Massachusetts cities and towns—would receive municipal aid amounts in direct proportion to their municipal gaps. After ten years, the municipal aid of 287 communities—or 82 percent of Massachusetts cities and towns—would be distributed directly proportionally to municipal gaps.

**Distribution of Unrestricted Municipal Aid in Massachusetts in One Possible Scenario:
10-Year Simulation Results (per capita)**



This study provides various formula evaluations and policy recommendations that could support efforts to create a more equalizing aid system in Massachusetts.

For the complete study, please visit the New England Public Policy Center’s web site at <http://www.bos.frb.org/economic/neppc/index.htm>.