

September 2011

## A Challenging Time for Local Governments

*Moody's issues negative outlook for U.S. local governments but Boston is better positioned*

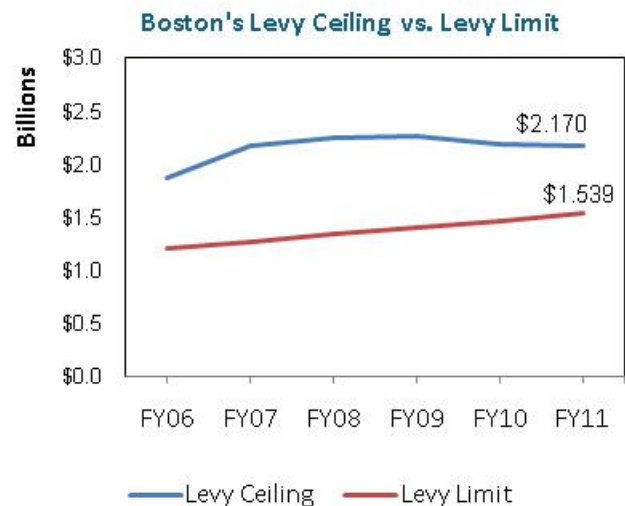
Moody's Investors Service issued a report in September that indicated its outlook for the U.S. local government sector continues to be negative. This outlook, which has been negative since 2009, expresses Moody's expectations for the credit conditions facing local governments over the next 12 to 18 months. Even though Boston will face many of these conditions, the City is highly regarded in the market as a solid investment which should not change over the next few years. Boston's debt fundamentals remain strong. ([July-August Bureau Update](#))

Moody's noted that core local revenues remained pressured as primary sources such as property taxes and state aid continue to face declines. Also, federal budget cuts are expected to reduce state aid to local governments. According to the US Census Bureau, local property tax revenue in the first quarter of 2011 nationwide decreased by 1.7% from the first quarter of 2010 primarily due to a reduction of taxable assessed values.

Boston's taxable property values decreased for the second consecutive year in FY11 but the base property tax levy still increased by 2.5%, which with the increased value from new growth created a total tax levy increase of 5.1%. ([Special Report 11-2](#)) Proposition 2½ does not allow cities and towns to capture the full annual appreciation of value but it also prevents the tax levy from decreasing due to declining taxable values as long as the tax levy is below the 2.5% levy ceiling.

Proposition 2½ creates two separate levy limits. The levy ceiling prohibits the tax levy from exceeding 2.5% of total taxable value. The levy limit prohibits

the tax levy from increasing by more than 2.5% each year plus the levy increase from new growth. As long as the levy limit is below the levy ceiling, a municipality may increase the base levy by 2.5% even if the taxable values decline that year. The graph below shows that Boston's levy ceiling in FY11 was \$2.17B and the levy limit was \$1.54B, a difference of \$630.2M. That spread will enable the City to continue to increase its base levy by 2.5% annually. The levy limit still holds when values grow.



In the last three years from FY08 to FY11, Boston's state aid for operations, less teacher pensions, decreased by \$97.6M or 20%. The expectation for next year is maintaining state aid levels but whether federal cuts would force local aid cuts in FY13 is yet unclear. Boston is not heavily dependent on federal funds for operations but cuts are scheduled even before new reductions are decided. In FY13, Boston will lose the final federal ARRA stimulus dollars of \$10M for school jobs and \$4.3M of COPS funds to support 50 police officers.