

## CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139  
Tel. 498-9011

EXECUTIVE DEPARTMENT  
JAMES L. SULLIVAN  
City Manager

October 27, 1980

To the Honorable, the City Council:

At the City Council meeting on Monday, October 20, 1980, the City Council requested that the City Manager present information on the projected budget impact of Proposition 2½ so that a mock budget hearing can be conducted on Monday, October 27, 1980, at 7:30 P. M.

I am enclosing herewith a copy of an article that I have prepared for the Real Paper to show the impact of Proposition 2½ on the City of Cambridge and on other communities in the Commonwealth. I am also enclosing a copy of the requirements for the first year's reduction on the budget which is scheduled to commence July of 1981. As the figures show, the reduction in tax revenue for the first year of Proposition 2½ requires a reduction of approximately \$14,700,000, and this amount is apportioned between the School Department and the City and reflects substantive cuts in each area.

The School Committee will make the decisions as to what particular programs or personnel will be eliminated, so that the information provided, that the \$6,000,000 to be cut would approximate 334 teachers, is just for the sake of making comparisons. I am certain that the School Department would probably be affecting particular programs which would result in not only the elimination of the personnel but the elimination of the programs themselves.

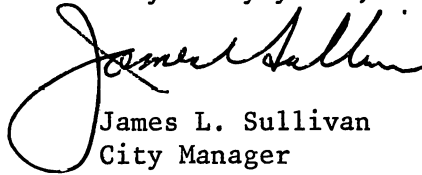
As the City Council is aware, in each subsequent year an additional 15% of the levy would have to be eliminated with future reductions to take place. Since the property tax levy is reduced by \$12,000,000 the first year, the second year would require a 15% reduction of the remaining \$68,000,000, or an additional \$10,200,000 in year two. In year three, the amount of \$8,670,000 would have to be reduced from the levy of \$57,800,000. In year four, \$7,369,500 would be required to be reduced, making the net levy \$41,760,500. In year five, a reduction in the amount of \$6,264,075 would be required, making the net levy \$35,496,425. In year six there would have to be a reduction to allow us to come to the total figure of \$32,050,000.

It is possible over this period of time that a growth in the tax base rate could ameliorate somehow the reductions required, but if the tax base grew by \$100,000,000 it would only bring in additional revenue of \$2,500,000 which would in no way reduce the impact until year six.

The projections made are a logical extension of the impact of Proposition 2½ as currently written. The projection on reductions required in each year will be made in concert with the City Council at public hearings to be held on the issue with as much input from the Cambridge community as possible.

This information is presented for purposes of understanding the disastrous consequences that Proposition 2½ would have on the ability of the Cambridge municipal government to function. A thorough discussion of this issue on the 27th, I believe, will be informational for the members of the Council and the citizens of the City.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James L. Sullivan". The signature is written in dark ink and is positioned above the typed name and title.

James L. Sullivan  
City Manager

JLS/mbf  
Encs.

PROPOSITION 2½  
AN ILL-CONCEIVED PROPOSAL

JAMES L. SULLIVAN  
CITY MANAGER, CAMBRIDGE, MASSACHUSETTS

In 1775 the American Revolution started in the Massachusetts Bay Colony with the Battle of Lexington and Concord. This was preceded by Paul Revere's ride through the Villages and Towns of Middlesex County to alert the citizenry that the British were coming.

In 1978 -- 203 years later -- a new American Revolution commenced in California with the battle of the referendum question -- Proposition XIII. This was preceded by Howard Jarvis riding the airwaves and the highways of "The Golden State" to alert the taxpayers of California to the injustices of the taxation system of that state. As in the case of the Massachusetts citizenry rallying behind Paul Revere to overthrow the yoke of British rule, the taxpayers of California united behind Howard Jarvis to reject a system of taxation that collected more taxes than needed to support its governmental structures. Unfortunately, however, there the analogy of the two American Revolutions ends.

The need now is not to run off and do battle in every state of the Union and in Washington, D. C., but to carefully analyze the needs of 20th Century America to make sure that governments -- Federal, State and Local -- and governmental institutions and tax policies "establish justice, insure domestic tranquillity, provide for a common defense and promote the general welfare" of the citizens of this country.

The unfortunate aspect of California mismanaging its taxation system, providing for inordinate surpluses, enabling it to postpone the

inevitable, is that it has given credence to the claims of the proponents of Jarvis-Gann that there would be no serious disruption of services. This has stimulated similar tax reduction efforts in many states in this country whose taxation systems and state revenue distribution systems bear little or no resemblance to California. In a country that prides itself on its diversity -- and that diversity is nowhere more apparent than in the systems of State and Local Taxation -- it is difficult to imagine the application of a common yardstick for a reduction in taxation without a serious reduction in the provision of basic services.

Nobody can justify the abuses of the California system of taxation that collected more revenue than needed to support the system, but neither can anyone justify the premise that in most other parts of the country taxes can be reduced substantially without a substantive cut in basic services.

It is difficult, and in some instances foolhardy, for elected and appointed public officials, whether federal, state or local, to be opposed to tax reductions, and it is for this reason that Proposition XIII never has flourished in this country. The question, therefore, should not be addressed on the basis of opposition to tax reduction, but on the basis of the need for sufficient revenue to support governmental services.

The level of the need for revenue translates itself into a tax program, and the level of governmental services and their costs dictate the need for revenue. With this in mind it is necessary that public officials everywhere "level" with their constituents and help them to understand the "economics" of the Public Sector. The governmental services

provided should be developed by a consensus of the population to be served, and once that is determined the public should not be fooled by those who are in favor of programs without providing the revenue to support them.

On November 4, 1980, Massachusetts voters will go to the polls to vote on the Massachusetts version of Proposition XIII in California, the so-called Proposition 2½. The fact that Massachusetts does not have propositions but referendum questions does not stop the proponents from trying to use the California analogy. It is, therefore, necessary to provide the citizens of Massachusetts with the facts and not the generalities of Proposition 2½ as they would affect local government.

The tax system in Massachusetts is at best anachronistic. The only sources of revenue available to Massachusetts cities and towns in the form of taxation are the Real Estate Property Tax and the Auto Excise Tax, and because of the over-reliance on the Property Tax Massachusetts has the second highest per-capita property tax in the nation. What is not generally known and never stated is that local government in Massachusetts spends 3.1% less than the national average.

Massachusetts municipalities are all general purpose governments, and in Massachusetts it means that the property tax levied by the community must provide support for Education, Police, Fire, Public Works, Parks, Transportation, Financial Management, Regulatory Agencies, Libraries, General Government, Health, Human Services, Capital Expenditures for Plant and School Construction, County costs, Water and Sewage facilities, Traffic Engineering, Parking Facilities, Street Lights, and all maintenance costs for the Municipal Plant.

Many of the programs that are provided are required by State

Mandate and State regulations apply to many programs not mandated, such as the requirement for Collective Bargaining and, in the case of Police and Fire, binding arbitration.

In the case of the City of Cambridge the Municipal Budget is \$143,763,700 a year and it provides all of the services cited above, as well as operating a Municipal Hospital and City Infirmary. The Municipal Hospital and Infirmary are almost completely supported by fees and third party payments to a total in excess of 21 million dollars. The State provides total revenue distribution of 14.8 million dollars and the Real Estate Tax Levy is approximately 80 million dollars to support the rest of the system.

The Real Estate Tax Levy is the only source of tax revenue available to Cambridge, except for 2.7 million dollars in Auto Excise Taxes.

Proposition 2½ would limit the levying of property taxes to a maximum of 2½% of the true value of property. The result in Cambridge, with its true value of property established at 1 billion, 282 million dollars, would be an available property tax of 32 million dollars -- not the current 80 million levied -- or a reduction of 48 million dollars. Nowhere could this amount of money be eliminated without an insupportable cut in Municipal Services. To make matters worse, the cost for the following could not be reduced:

Pensions	\$8.3 Million
Debt & Interest	9.6 "
Blue Cross/Blue Shield	5.4 "
MBTA	5.4 "
MDC	2.58 "
County	1.17 "
Street Lights	<u>1.2</u> "
	\$33.65 Million

In other words, the basic costs of required payments exceeds the amount of taxes that would be available by over 1.5 million dollars, without the source of revenue for one municipal employee -- not a fireman - policeman - teacher - public works laborer - none -- and the City has over 4,000 employees.

In the case of the City of Boston the total budget is about 800 million dollars, and they levy about 440 million in property taxes. Proposition 2½ (so-called) would provide for 127.5 million in property taxes, requiring a reduction of 312.5 million dollars. Absolutely absurd!

Let me cite another example that demonstrates the absurdity and the unfairness of the proposal. The City of Chelsea is a city of 25,000 people and currently spends approximately 24 million dollars for all purposes to serve its citizens, or less than \$1,000 per capita. Under Proposition 2½ they would only be allowed to raise less than 3½ million dollars to provide all municipal services. On the other hand, the town of Weston with a population of 11,500 people, which currently spends about \$1,200 per capita, would be allowed to levy 11.3 million dollars to provide municipal services to its population. Where is the need greater and how is it possible for Chelsea to provide any services when their debt and interest payments alone exceed the amount that would be available?

These are only a few examples. The fact is that the magnitude of the problems would result in fiscal disaster to most of the large, older cities in the Commonwealth -- Lowell, Lawrence, Haverhill, Fall River, New Bedford, Brockton, Worcester, Springfield -- the list is virtually all-inclusive. It is the citizens in the major cities in the

Commonwealth who will suffer the most. One billion, two hundred million dollars in property taxes will be taken away from municipalities as a revenue source with no provisions to replace the lost revenue. It is the height of irresponsibility to propose such a program without considering its dire effects.

As a City Manager for over 20 years, most of that time serving in Massachusetts, I have long been a critic of the over-reliance on the property tax for the support of municipal services. There has been an unwillingness by the Massachusetts Legislature to address meaningful tax reform, and Massachusetts communities have suffered under the burden of the property tax being the catchall for all municipal services. However, to propose a tax reduction of the magnitude of Proposition 2½, without substituting additional revenue sources, is destructive of the municipal system particularly in the older and larger communities of the Commonwealth.

Property tax relief in the Commonwealth is essential but to support Proposition 2½ as a means to that goal can be compared to burning down your house because the roof leaks and should be repaired. To rely on the State Legislature to find an equitable solution to the need for replacing 1.2 billion dollars in taxes in a crisis atmosphere in less than six months seems to me the height of folly. True tax relief must be well thought out and carefully designed or the inequities in the Massachusetts tax system will be increased rather than eliminated.

I urge all citizens of Massachusetts to thoughtfully consider the true impacts of Proposition 2½. It would not result in tax relief but tax chaos.

PROJECTED 1ST YEAR IMPACT OF PROPOSITION 2½  
ON THE CITY OF CAMBRIDGE

Cut in Tax Revenue	\$12,000,000
	<u>2,700,000</u>
	\$14,700,000

School	14,700,000		School	
	<u>.41</u>		Tax	<u>98.79</u> = .41
	6,000,000			

\$18,000 x 334 teachers = 6,000,000

City	8,700,000			
\$18,000 x 100 firemen	=	\$1,800,000		
\$21,000 x 100 police	=	2,100,000		
\$12,500 x 175 laborers	=	2,200,000		
Health Centers	=	700,000		
Branch Libraries	=	400,000		
Community Dev. (taxes)	=	300,000		
Community Schools	=	600,000		
Public Celebrations	=	150,000		
YRB	=	200,000		
Travel and Training	=	100,000		
Administrative reductions	=	<u>150,000</u>		
		\$8,700,000		

Fixed Costs

Pension	8.3
Debt & Interest	9.6
Blue Cross/Blue Shield	5.4
MBTA	5.4
MDC	2.58
County	1.17
Street Lights	<u>1.2</u>
	33.65

80,000,000

12,000,000 15%

68,000,000

2,700,000 excise

65,300,000

33,650,000 fixed cost

31,650,000

Agenda # 8

F-387

Response to City Council Order No. 7 of  
October 20, 1980 relative to a mock budget  
hearing on the impact of Proposition 2½.

In City Council,

October 27, 1980

10/27/80

Referred to  
The Budget  
Hearing Session  
For This Evening  
Then  
Placed on File -