On November 4, 1980 the voters of Massachusetts overwhelmingly voted in favor of an extremely complex referendum question, the so-called Proposition 2½, which is now law in the Commonwealth. During the campaign the proponents of 2½ urged the voters "to vote for tax reform" and "to send a message to the Legislature". The citizens of Massachusetts, overburdened with the second highest property taxes in the nation, responded to the proponents and by a vote of 62% to 37% State-wide supported the property tax and excise tax reduction effort. It would appear now that whatever message that was sent to the Legislature was garbled and that tax reform will not seriously be considered by the Legislature until the citizens of the cities and towns perceive the dire consequences of their vote.

The difficulty in interpreting the message of 2½ means that cities and towns in the Commonwealth must prepare their budgets now to conform to the requirements of the law and that will require serious, disruptive, and destructive decisions to be made. Unless some form of intervention is authorized by the Legislature there will be chaos in the large cities of the Commonwealth where the burden on municipal services is the greatest. These communities which house many of the poor and are the location for many tax-exempt properties - such as hospitals, educational institutions and government buildings - will be unable to provide adequate police, fire, schools, street maintenance or snow and trash removal under the current provisions of the law. Older cities frequently have higher community service needs and costs. These include public transportation, fire and police protection, special school needs such as busing, bilingual education, and services for their larger proportion of elderly and needy, such as hospitals and social service programs.

What is required of the Cambridge City Government and how is it possible to conform to the requirements of 2½? I will attempt to provide a reasonable analysis of the requirements, but it is clearly evident that without some intervention by the State Legislature to provide additional revenue or additional revenue sources to Cambridge it will be impossible to conform to the requirements over the next few years and even in Year One practically impossible.

To place the matter in perspective -- Cambridge currently levies 80 million dollars worth of property taxes and 2.7 million dollars worth of excise taxes. The community will be required to reduce property taxes by 40 million dollars and excise taxes by 1.8 million. This can not be done without virtually eliminating the entire City government for, while we will still be permitted to levy property taxes of 40 million and excise taxes of $900,000, our fixed costs of government almost equal that amount today -- MBTA costs - MDC - COUNTY - DEBT & INTEREST - PENSIONS - STREET LIGHTS - and it is unlikely that these costs will go down; in fact, it is inevitable that they will go up. In addition, inflation is running at a 15% increase per year and these costs must be accommodated. Cambridge thus, if there is no intervention in the requirements of 2½, will be destroyed in a few years for it will not have the revenue to pay any employees. This will also hold true for most other large cities of the Commonwealth. I am certain that this was not the message that those who voted for 2½ intended to deliver.

Because of the required reduction in local tax effort cities and towns in the Commonwealth will lose approximately 50% of their General Revenue Sharing funds because of the Federal formula. In addition, other Federal funds are jeopardized because of the reduction of maintenance of local tax effort involved with 2½.

As a result of the loss of available tax revenue the ability of Cambridge to borrow money for needed capital improvements is virtually eliminated. At the present time no action has been taken on bond ratings by the rating bureaus as they are closely monitoring the Massachusetts fiscal picture, but given the constraints of 2½ no prudent investor would be interested in Massachusetts municipal bonds and unless some action is taken to provide additional revenue sources bond ratings will be suspended or reduced substantially.

In the fiscal year that starts July 1, 1981, the City of Cambridge must reduce from its current levy 12 million dollars worth of property taxes and will lose 1.8 million in revenue from the excise tax and must make up the shortfall in revenue on the excise tax for the six-month period of January to July, 1981, which is estimated to be $900,000.

Thus, Cambridge will suffer a revenue loss in the next fiscal year of 14.7 million dollars. This figure does not take into consideration any required increases in budgets due to salary adjustments or inflation. Therefore, in real terms the reduction is closer to 25 million dollars in the first year of 2½. How is it possible to accomplish this magnitude of reduction? The answer simply is that it is impossible without dramatic, drastic, destructive and massive layoffs of School and Municipal employees. The Municipal and School Budgets are 75 to 80 percent of the cost of personnel. The other areas are those uncuttable items of fixed costs such as Debt and Interest, Pension, MBTA, Counties, etc. and expense items such as supplies, and heat and electricity whose costs continue to grow.

The magnitude of the budget cuts required in the first year, unless alternative revenue sources are found, will mean the termination of approximately 1000 school and municipal employees all across the employment spectrum. This is intolerable and unjustified but required to meet the law. Therefore, Cambridge should exert every effort to implement the true message of 2½ which was to reduce the overburdened property tax and shift the burden to other revenue sources. To accomplish this we need in some instances the authorization of the State Legislature, for it is the only taxing authority in the Commonwealth which can authorize new tax sources. At the present time it limits cities and towns to the collection of property taxes and excise taxes.

Because we need the approval of the Legislature and have no guarantees as to what they will approve, we should submit a series of bills individually that allow for a number of new tax sources. In each and every case the bills should request the Legislature to allow a referendum to be conducted in the City to seek the approval of the Citizens of Cambridge for any action which takes place. The people of Cambridge should be permitted by the Legislature and the City Council to determine the destiny of their City Government and School Department and the level of service to be provided. This can not be done unless the bills are filed. If this is not done then the other communities in the Commonwealth which voted for 2½ will have decided the level of service to be provided in Cambridge which voted against the imposition of 2½ by a vote of 62% to 37% or 24,000 against to 14,000 for.

The bills that should be filed should at least include:

1. Permission to hold a referendum in Cambridge to levy a 1% business tax on the payrolls of companies and institutions in Cambridge.
2. Permission to hold a referendum in Cambridge to levy a 1% local sales tax on goods sold in Cambridge.
3. Permission to hold a referendum in Cambridge to levy property taxes on 50% of the value of the property taxes of higher educational institutions.

The City Council should also file a bill to request permission to hold a referendum in the Spring of the year to allow Cambridge to be exempt from the provisions of 2½ if a majority of the Citizens so vote.

These bills at least should be filed and, if permission is granted by the Legislature for any or all of them, then the City Council can determine the nature and the manner of their presentation to the public.

The Citizens of Cambridge are entitled to have the opportunity to vote on the level of services to be provided in Cambridge and how they wish to fund them. This is what the Council will be doing if they file these bills -- giving the citizens of Cambridge an opportunity to be heard.

In the near future I will be presenting to the City Council for its consideration a number of revenue-raising items which will deal with specific budgets. We, therefore, will be comprehensively dealing with the spirit of Proposition 2½. First, preparing a budget that complies with the requirements of 2½ regardless of how stringent the requirements and, secondly, seeking revenue sources from both state and local sources to reduce the impacts of the cuts required and, finally, giving the citizens of the community an opportunity to participate in the decisions that affect them and deciding on the level of taxation to be levied.

2.

CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
Tel. 498-9011

EXECUTIVE DEPARTMENT
JAMES L. SULLIVAN
City Manager

January 12, 1981

To the Honorable, the City Council:

I herewith submit an analysis of the effects of Proposition 2½ on Cambridge with recommended actions to the City Council.

Respectfully submitted,

James L. Sullivan
City Manager

JLS/mbf
Enc.

Agenda # 2 35

Analysis of the effects of Proposition 2½ on Cambridge with recommended actions to the City Council.

In City Council,

January 12, 1981

1/12/81

Placed on File -