MMA | Massachusetts Municipal Association

A Perfect Storm: Cities and Towns Face Historic Fiscal Pressures

An Analysis of Fiscal Pressures on Massachusetts Municipalities

OCTOBER 2025

Cities and towns across Massachusetts provide many of our most essential public services, including everything from clean water and safe streets to high-quality schools and dependable emergency services. These are the quality-of-life services that impact the lives of residents every day.

Offering these vital services requires substantial expertise, consistent leadership, and adequate funding. But funding has become an especially acute challenge for municipalities all across Massachusetts, caught as they are between inflation-driven increases in costs and binding constraints on their ability to raise new revenue.

Fixing what ails Massachusetts municipalities, and creating the conditions for municipalities to thrive, requires an honest assessment of the challenges, along with careful attention to the distinct needs and capacities of different locales.

Virtually all cities and towns in Massachusetts face budgetary challenges, but the challenges confronting rural towns can be quite different from what you find in gateway cities or Boston suburbs.

The Massachusetts Municipal Association partnered with the Center for State Policy Analysis at Tufts University to plumb the key factors shaping municipal budgets and to identify the most effective, targeted solutions.

We found that:

- Rising costs and sluggish state aid are putting enormous pressure on local budgets across Massachusetts.
- A prohibition against local sales and income taxes, combined with a 2.5 percent cap on property tax increases, prevent municipalities from raising adequate revenue on their own to respond to community needs.
- Different municipalities are being affected in very different ways. For example, rural towns have been forced to curtail spending in key areas, like education. By contrast, gateway cities have boosted education spending, thanks to an infusion of targeted state aid, but are falling behind in virtually all other areas of local spending.

What follows is a fuller exploration of these core findings, including background on municipal finance in Massachusetts, and a detailed presentation of the different issues facing rural, urban, and suburban locales.

THE MANY RESTRICTIONS ON MUNICIPAL FINANCE

Massachusetts has a strict set of rules for how cities and towns fund fire departments, public schools, and other core services. Chief among them is that cities and towns don't get to set their own strategies for raising revenue.

Local income taxes are prohibited, and local sales taxes are restricted to very limited levies on hotels and meals. Motor vehicle excise taxes are a core part of local revenues, but they are subject to minimal growth and economic volatility.

This leaves the property tax as the overwhelming source of revenue for all Massachusetts municipalities. And even here there are strict limits put in place by a 1980 ballot question called Proposition 2½.[1] As the name suggests, the cardinal rule is that property tax revenue cannot increase by more than 2.5 percent from year to year (allowing for adjustments to reflect new and upgraded buildings).

There is a limited exception, where a city or town can raise property taxes by more than 2.5 percent in a given year to fund vital investments in things like new school buildings or to fill short-term budget shortfalls. But the relief is temporary and it requires a costly and uncertain public referendum.

> ***Real, inflation-adjusted spending on municipal operations grew at just 0.6 percent per year — far slower than the U.S. average.***

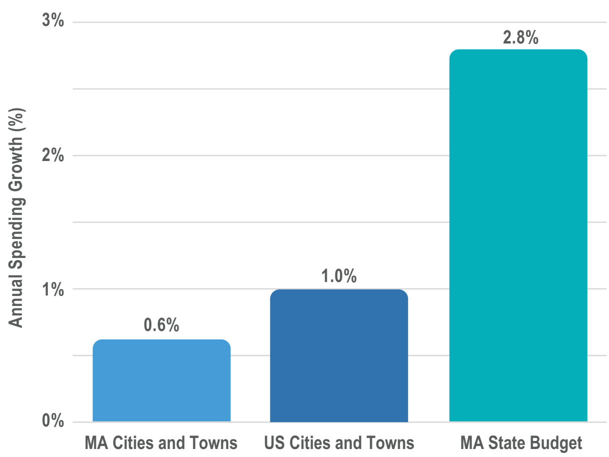
A comparison with cities and towns in other states highlights this constraint. Between 2010 and 2022 (the most recent year available), real, inflation-adjusted spending on current operations in Massachusetts municipalities grew at just 0.6 percent per year, which is slower than the U.S. average for local spending growth. It's also vastly slower than the growth in real spending through the state budget, which has risen at roughly 2.8 percent per year.

Proposition 2½ was intended to limit local spending, but real spending growth of 0.6 percent per year suggests the constraints may be too restrictive. This austere growth in spending has made it extremely difficult for cities and towns to attract staff, repair roads, and generally fund the essential services their residents demand.

FIGURE 1

Massachusetts Municipalities Have Been Frugal

Annual change in total operating spending, 2010-2022



U.S. Census Bureau, MassBudget's Budget Browser, CSPA calculations

1. See Appendix for more on this law.

One way cities and towns have sustained core services is with help from state lawmakers. For decades, the state has proved a vital ally and essential backstop for municipal needs, offering several invaluable streams of support, including for public schools, roads, and other government services.

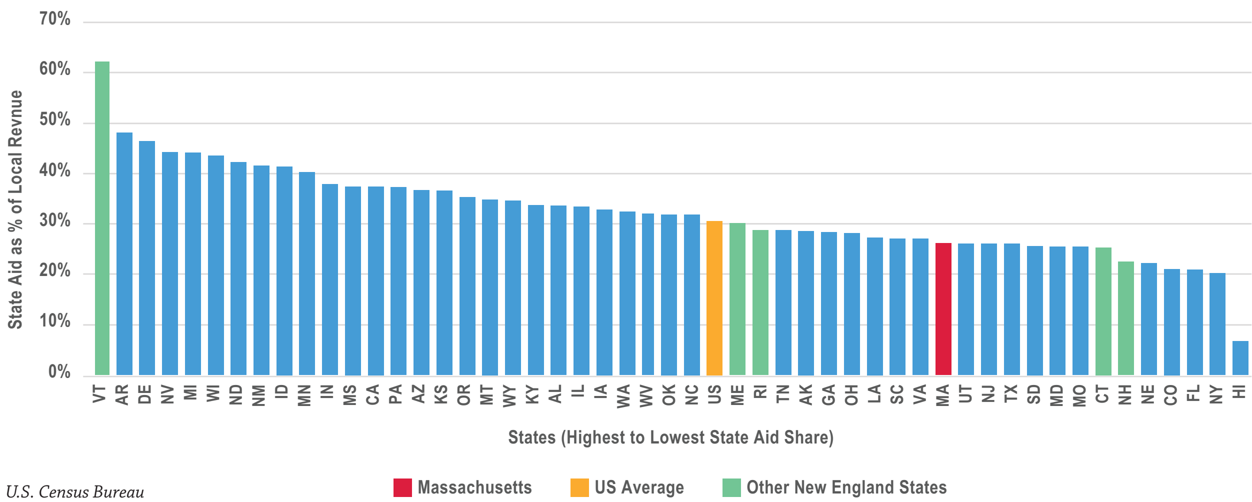
State aid has been a lifeline for cities and towns. But it's also true that, compared to other states, state aid in Massachusetts doesn't stand out as particularly generous.

Nationwide, cities and towns get about 31 percent of their revenue via state aid. Here in Massachusetts, it's 26 percent.

FIGURE 2

State Aid as Share of Local Revenue by State

Percentage of local government revenue from state government



U.S. Census Bureau

Also, a lot of the state money comes with its own restrictions, making it hard to flexibly deploy. That leaves one substantial but falling source of unrestricted state support, which gets the guttural shorthand UGGA, for Unrestricted General Government Aid.

A Tightening Vice

Beyond the core structural challenges facing cities and towns in Massachusetts — state aid that doesn't quite compensate for revenue restrictions imposed by state law — there are two key reasons that municipal budgets face particular strains right now:

- **Inflation** — The 2.5 percent cap on annual property tax increases doesn't include any kind of adjustment for inflation. Obviously a 2.5 percent increase in tax receipts is a lot more manageable in a low-inflation environment, when costs are growing 1-2 percent per year, as they did through the 2010s. When costs grow over 3 percent per year, as they have since COVID, cities and towns are effectively obligated to cut real spending every year.
- **Disappearing Federal Aid** — In the immediate aftermath of the COVID pandemic, the federal government provided substantial direct assistance to cities and towns, but that support has now ended and was always intended to be temporary.

Technical Note

One important caveat, before we dive more deeply into the distinct issues facing rural, suburban, and urban municipalities. We are focused chiefly on operating budgets, meaning the flow of annual revenue and annual spending in cities and towns.

There are other important pieces of the municipal finance puzzle, including capital investments and long-term pension liabilities. And these are separate in some ways, with their own distinct timeframes, rules, and regulations.

But the operating budget is the hub, as all the other activities ultimately show up on this annual ledger — whether in the form of bonds that need to be repaid or as retirement benefits that come due.

TALE OF THREE CITIES

Every city and town strives to build a sound budget — a plan for funding vital public services while keeping taxes manageable for residents. But the impediments and trade-offs vary mightily from place to place.

The rural towns of western Massachusetts are very different from the Boston suburbs, and none of those could be mistaken for a gateway city on the south coast.

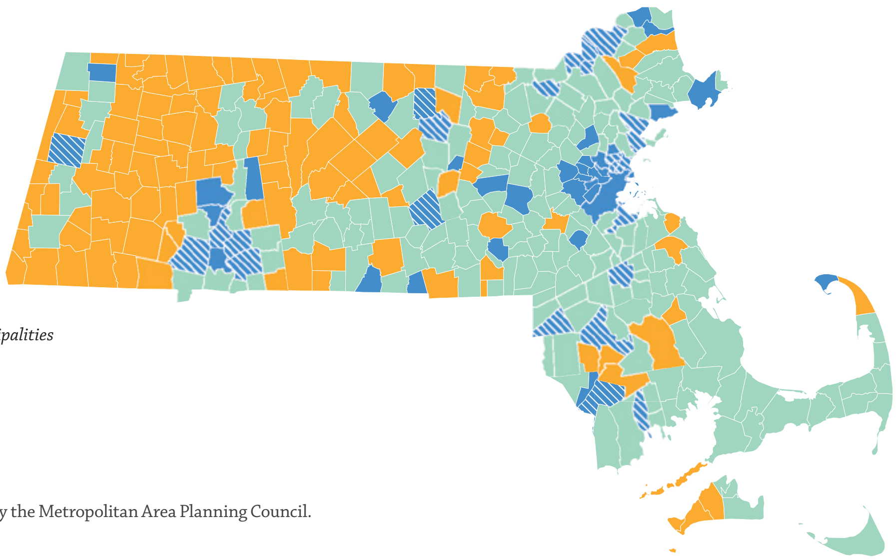
Accounting for these distinctions is essential to understanding the budgetary challenges faced by cities and towns. But having cut the data in dozens of different ways, we found that a huge amount of the underlying variation can be captured with a relatively simple collection of categories.[2]

- **Rural** towns, which includes a mix of more sparsely developed areas, primarily in western and central Massachusetts but also in other parts of the state.
- Mature **suburbs**, extending from greater Boston to the north shore and out to Cape Cod, as well as some areas in the central and western parts of the state.
- Inner core and **urban** areas, which combines Boston-adjacent communities with various cities around the state.
- **Gateway cities**[3], which is actually a subset of the urban areas, but with some distinct characteristics.

FIGURE 3

MA Municipalities: Community Categories

Rural
Suburban
Urban
Gateway (Urban subset)



Note: Gateway cities are a subset of urban municipalities

2. Adapted from a full taxonomy developed by the Metropolitan Area Planning Council.
3. See Appendix for definition.

To get a preliminary sense of the sometimes dramatic differences among these city and town types, consider Figure 4, which shows annual spending and revenue growth across a few key categories, from 2010 to 2024.

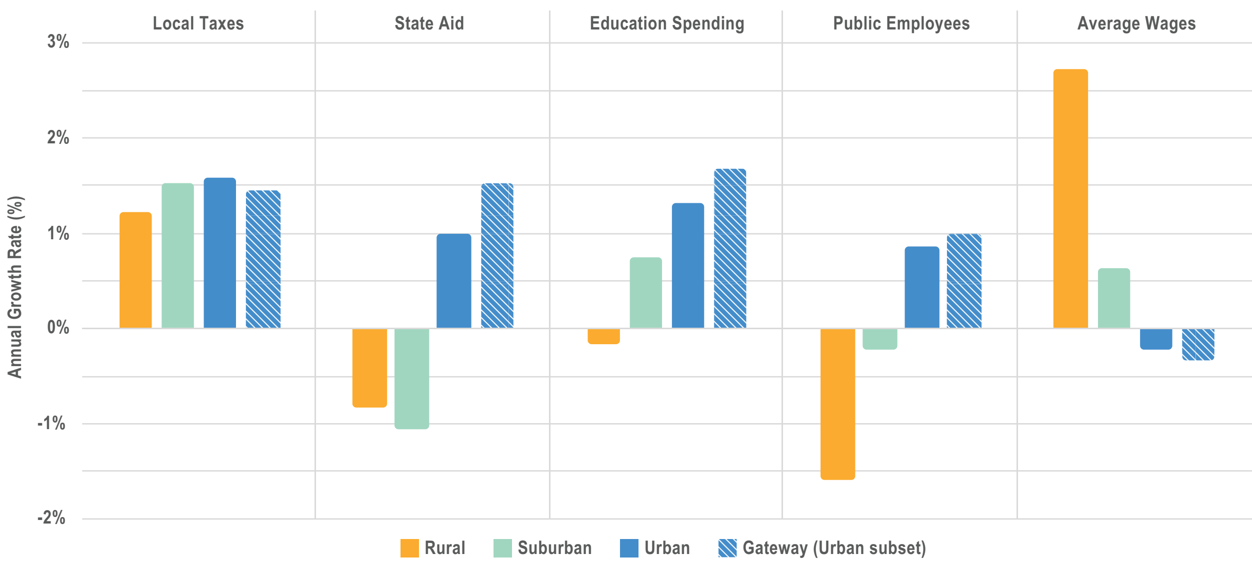
While tax collections have grown at roughly similar rates across all city and town types, huge divergences in state aid, education spending, and public employment highlight the vastly different budgetary pressures affecting rural towns, suburban enclaves, and gateway cities.

The dramatic, downward-pointing columns show rural and suburban towns have seen outright declines in real state aid, which has limited their ability to invest in education. And note how aggressively rural towns have had to raise salaries to keep their starkly shrinking public workforce from being truly hollowed out.

FIGURE 4

Budgetary Pressures Vary Dramatically Among City and Town Types

Annual growth rate, 2010–2024



Division of Local Services, CSPA calculations

There's a lot more to say about the distinct challenges facing municipalities of different sizes, and in different regions. But before we dig deeper, it's worth emphasizing the one key challenge that all Massachusetts municipalities seem to share, namely the decline in unrestricted state aid (UGGA).

> ***Since 2002, unrestricted state aid has fallen 25% overall — hitting every type of city and town across the Commonwealth.***

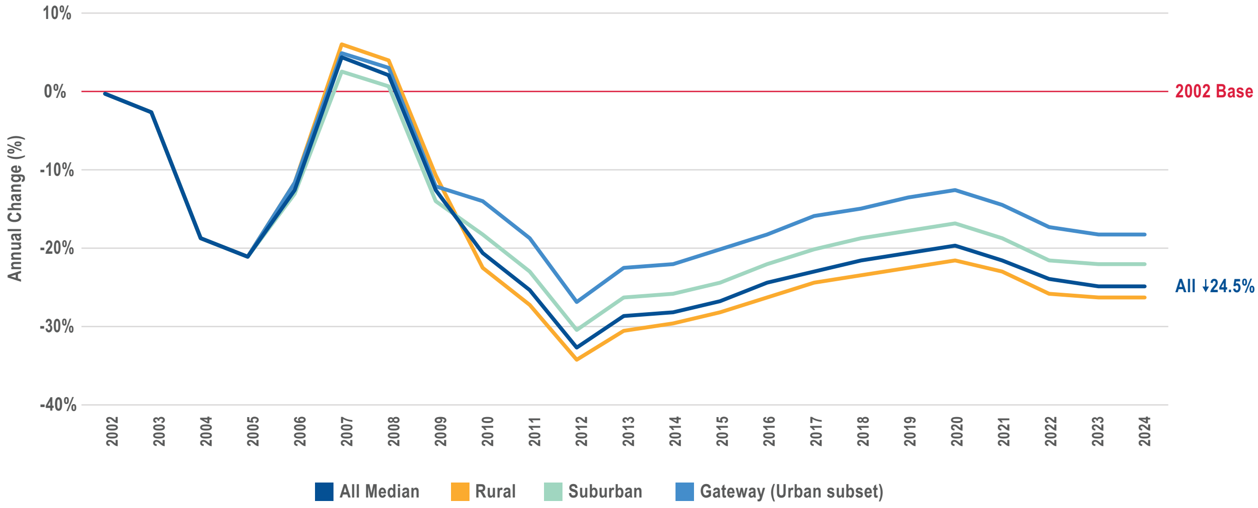
A Common Need: UGGA

Different as they are, virtually all municipalities in Massachusetts have seen similar dropoffs in unrestricted state support. Since 2002, when adjusted for inflation, UGGA has fallen 25 percent overall, and essentially that same 20-30 percent for every type of city and town across the Commonwealth.

FIGURE 5

Unrestricted Aid Has Fallen for Virtually All Municipalities

Percent change, 2002–2024



Division of Local Services; CSPA calculations

A decade after the true trough of the great recession, UGGA support has stalled at a relatively low level — despite many years of strong state revenue growth and healthy economic conditions.

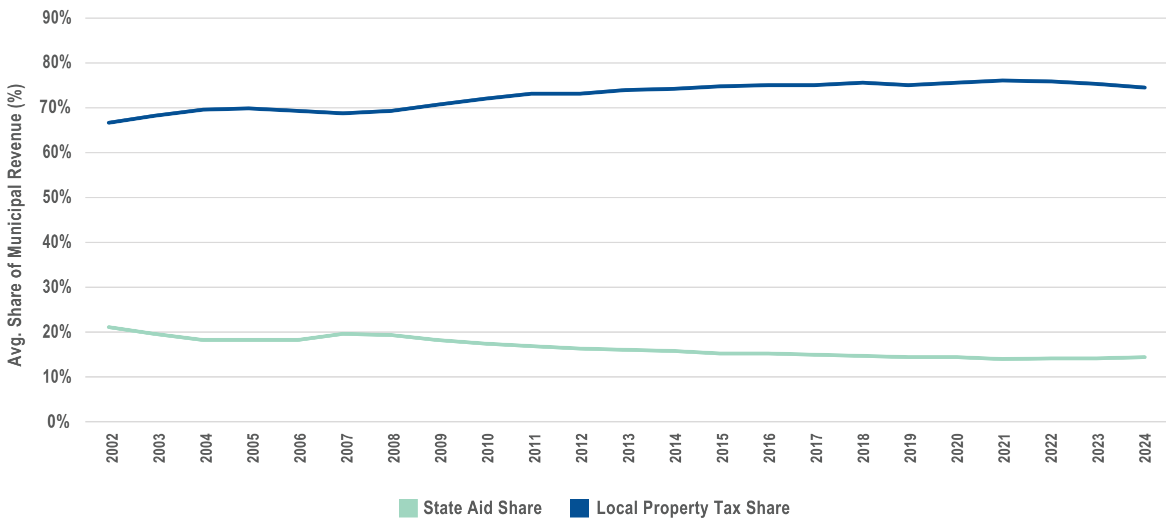
Losing UGGA dollars, in this way, is particularly difficult for stressed municipal budgets, because it's a rare stream of support that can be flexibly redirected to address evolving needs — whether that means extra road repairs after a pothole-cratering spring or additional tutoring for students struggling with pandemic learning loss.

> *Losing UGGA dollars hits hardest, because it's one of the few funds cities and towns can use flexibly.*

FIGURE 6

State Aid vs. Property Taxes as a Portion of Municipal Budgets

Share of municipal revenue, 2002–2024



Division of Local Services
Percentages do not sum to 100% because other revenue sources (federal aid, fees, etc.) are excluded.

Unequal Education Aid

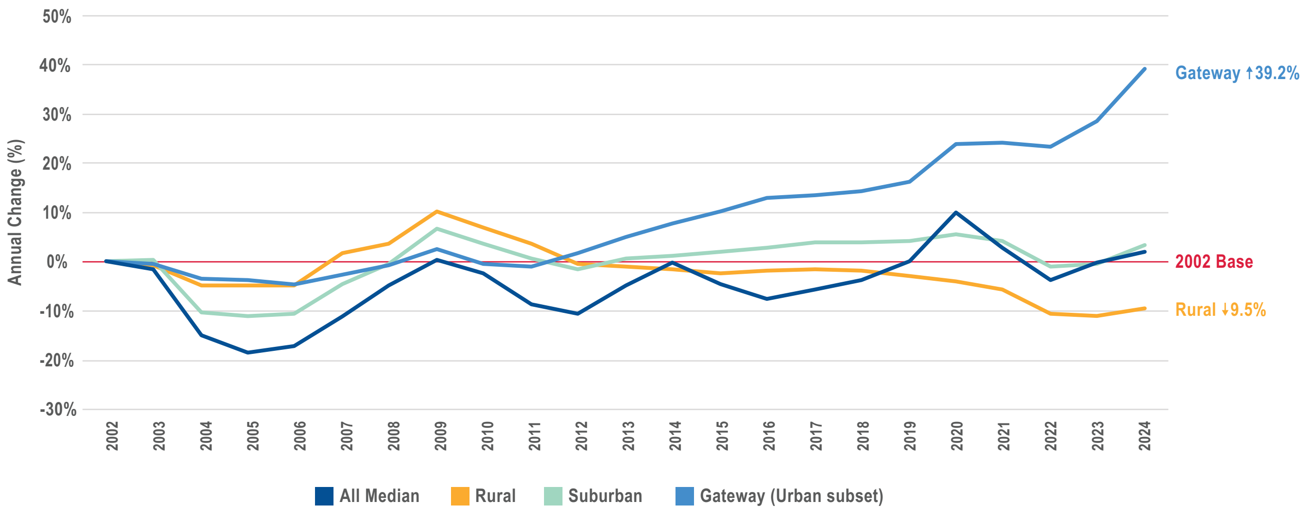
Overall aid for public education has been increasing in recent years, thanks in part to investments through the Student Opportunity Act. But it would be flatly inaccurate to assume that these infusions have compensated for declines in UGGA — or even less defensibly, that they have actually left cities and towns better off.

Increases in education aid have largely been limited to urban areas and gateway cities, as illustrated in Figure 4 (on p. 6). This is the continuation of a longstanding pattern in education funding through Chapter 70, the state's primary program. Even before the recent acceleration, gateway cities had seen a large and relatively steady increase in education-related aid. By contrast, the average municipality has seen basically no change over this same timeframe, and rural towns have lost education support.

FIGURE 7

Education Aid Inconsistent Across City and Town Types

Percent change, 2002–2024



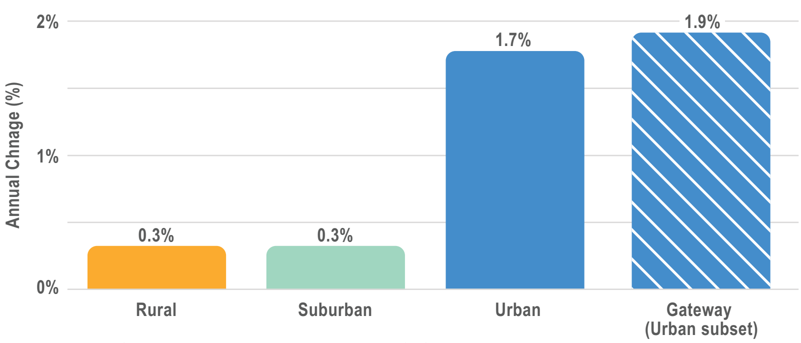
Division of Local Services; CSPA calculations

And while you might reasonably think that these gaps in education aid reflect population changes, with rural towns losing young people faster than cities, that doesn't seem to be a key driver. Figure 8 shows persistent gaps even after adjusting for the size of the school-age population.

FIGURE 8

Aid Differentials Persist on Per-Student Basis

Annual change in Chapter 70 aid per child, 2010–2023



Division of Local Services, U.S. Census Bureau, CSPA calculations

> ***The divergence in state aid has stark implications for local budgets.***

For cities and towns, the implications of this divergence in state aid are stark, because school spending is the single biggest part of most municipal budgets.

Impediments to Raising Local Taxes

Remember that Massachusetts imposes strict limits on the ability of cities and towns to raise property taxes, with a general cap of 2.5 percent per year (plus some additional to account for new construction).

So when state aid declines, and public services are threatened, cities and towns can't simply respond by raising more local revenue.

Overrides are one potential response. They function as a kind of escape hatch from the 2.5 percent growth cap, allowing cities and towns to increase property taxes above otherwise allowed levels to meet clearly specified needs like school funding, park beautification or general operating support.

But while overrides can be powerful tools for municipalities facing hard budget choices, they are expensive, slow, short-lived, and logistically out of reach for the majority of Massachusetts municipalities.

Start with the expensive and slow part. Overrides can't be passed through the normal policy-making channels typically used by city councils or town meetings. They require explicit public approval via referendum, which means a lengthy public outreach campaign with real costs and uncertain results.

And each effort is a one-off — a short-term fix for what is often a deeper mismatch between the services residents desire and the city or town's restricted ability to raise sufficient revenue.

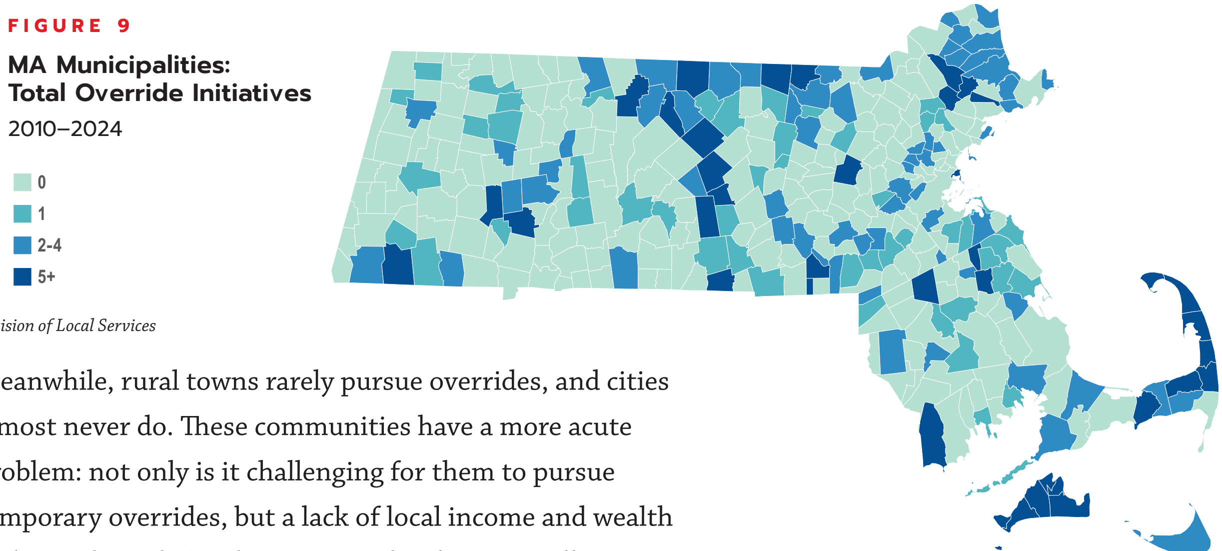
The bulk of cities and towns (nearly 200 out of 351) have pursued exactly zero overrides over the last 15 years, which shows how ill-suited the override process is for most municipalities.

Overwhelmingly, it's the suburban towns that have been able to pass overrides in recent years, helping them to maintain services when local needs exceed the state-imposed tax restrictions. But even among suburbs, overrides remain strangely clustered geographically, suggesting that suburbs need to build up a kind of local culture for overrides before they can be effectively used.

FIGURE 9

MA Municipalities: Total Override Initiatives

2010–2024



Division of Local Services

Meanwhile, rural towns rarely pursue overrides, and cities almost never do. These communities have a more acute problem: not only is it challenging for them to pursue temporary overrides, but a lack of local income and wealth makes it difficult for them to raise local taxes at all.

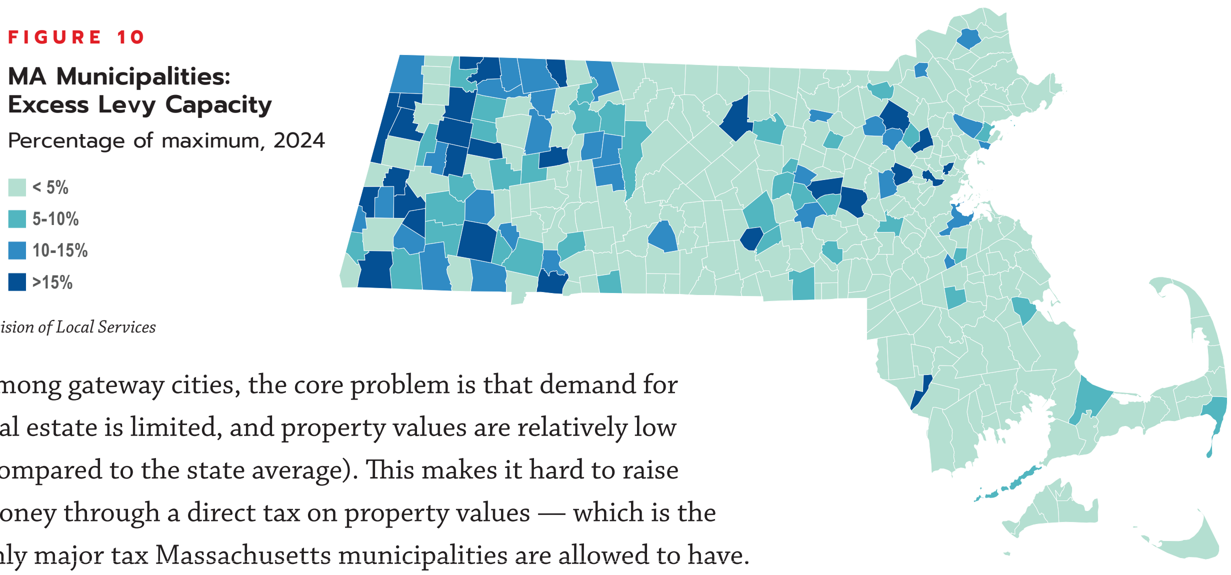
The tax cap set by Proposition 2½ is a ceiling, not a mandate. Cities and towns can always raise revenue by less than 2.5 percent if they find that more feasible. And this creates "excess levy capacity" that municipalities can make use of in future years (at least in theory).

Rural towns and gateway cities have far more of this excess levy capacity than their suburban neighbors. What this suggests is that they face local tax constraints even more severe than the already-strict 2.5 percent state rule. Figure 10 shows the nature of this constraint, which is actually quite different between rural towns and gateway cities.

FIGURE 10

MA Municipalities: Excess Levy Capacity

Percentage of maximum, 2024



Division of Local Services

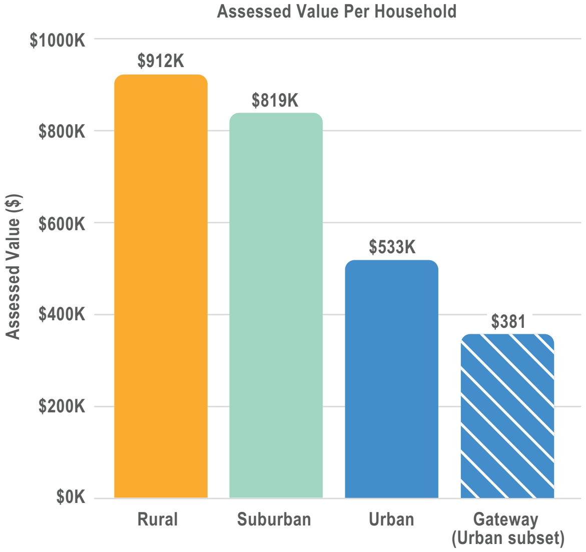
Among gateway cities, the core problem is that demand for real estate is limited, and property values are relatively low (compared to the state average). This makes it hard to raise money through a direct tax on property values — which is the only major tax Massachusetts municipalities are allowed to have.

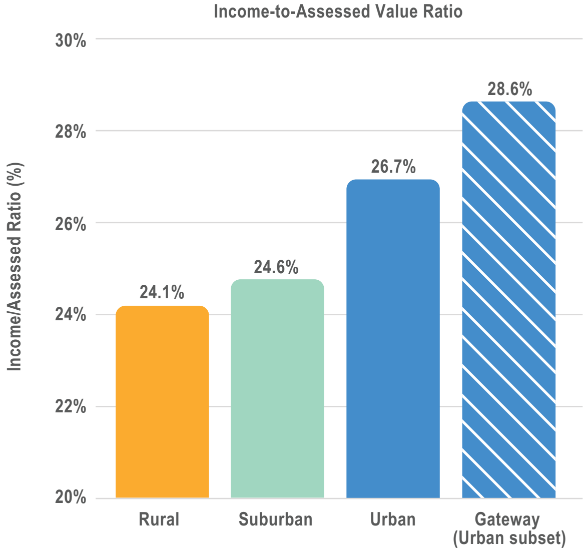
Rural towns face a different issue. Property values in these areas are actually strong enough to make property taxes a reliable source of revenue. But rural towns tend to have older (and fewer) residents and more retirees, who don't collect enough annual income to cover typical property tax bills. The result, again, is that rural towns struggle to raise enough local revenue to fund the kinds of services their residents want.

FIGURE 11

Rural Towns and Gateway Cities Lack Tax Capacity

Rural towns lack income; gateway cities lack land value





Division of Local Services, Census Bureau, CSPA calculations

SUMMING UP THE ISSUES

Put this all together and the true challenge of municipal finance becomes clear.

1. State aid in Massachusetts is less generous than the U.S. average.
2. Flexible state aid (through UGGA) has fallen for all cities and towns.
3. Given the 2.5 percent cap on local tax increases, the best tool for suburban towns is often an expensive and temporary override.
4. Rural towns and gateway cities lack the local income and wealth to respond at all.
5. While rising education aid has enabled substantial new investments across urban Massachusetts, it hasn't provided the same level of benefits to rural and suburban towns.

METHODOLOGICAL NOTES

Unless otherwise noted, details about municipal spending and revenue are drawn from the Massachusetts Division of Local Services Gateway. This includes information about local spending, taxation, state aid, overrides, assessed property values, Chapter 70 support, and more. Dollar values are adjusted for inflation using the Consumer Price Index, accessed through the St. Louis Federal Reserve's Fred platform and pegged to fiscal 2024. Results reflect unweighted (simple) averages across cities and towns, where each city and town is treated as an equal fiscal unit.

The division of municipalities into rural, suburban, and urban clusters is based on a taxonomy developed by the Metropolitan Area Planning Council, with "country suburbs" shifted into the rural category.

Spending comparisons across U.S. states rely on data from the 2010 and 2022 Census of State and Local Government Finance, issued by the U.S. Census Bureau. During our research window, 2022 was the most recent available release. Growth of state budgetary spending reflects data from the Massachusetts Budget and Policy Center's Budget Browser.

The American Community Survey provided local population numbers for our comparison of per capita education spending across cities and towns. It was also the source of data for total household income used to calculate the ratio of income to assessed value.

APPENDIX

Gateway Cities

Gateway cities are midsize urban centers that anchor regional economies and once served as centers of industry. They have been working to reinvent themselves, often in the face of economic and social challenges.

State law (Ch. 23A, Sec. 3A) defines a gateway city as a municipality with:

- Population greater than 35,000 and less than 250,000
- Median household income below the state average
- Rate of educational attainment of a bachelor's degree or above that is below the state average

There are 26 gateway cities in Massachusetts: Attleboro, Barnstable, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Revere, Salem, Springfield, Taunton, Westfield, Worcester.

Proposition 2½

Approved by Massachusetts voters in 1980, Proposition 2½ limits the amount of revenue a city or town may raise, or levy, from local property taxes each year to fund municipal operations.

The law (M.G.L. Ch. 59, Sec. 21C) places two constraints on the local levy:

1. A community cannot levy more than 2.5% of the total full cash value of all taxable property in the community (called the levy ceiling).
2. A community's allowable levy for a fiscal year (called the levy limit) cannot increase by more than 2.5% of the maximum allowable limit for the prior year, plus a factor for new growth (property added to the tax rolls). The 2.5% increase limitation applies to the levy limit, and not to individual property tax bills.

Proposition 2½ allows two types of voter-approved increases in taxing authority:

Override: An override increases the amount of property tax revenue a community may raise in the year specified and in future years. An override must be approved as a ballot question by a majority of voters in a municipal election. The override must be for a set dollar amount, and the money must be spent toward the identified purposes. An override is used to provide funding for municipal expenses likely to recur or continue into the future, such as annual operating and fixed costs.

Exclusion: An exclusion increases the amount of property tax revenue a community may raise for a limited or temporary period of time in order to fund specific projects. It does not increase the community's levy limit nor become part of the base for calculating future years' levy limits. The exclusion may be used to raise additional funds only for capital purposes, such as public buildings, public works projects, land and equipment acquisitions.

It's also worth noting that state law requires municipal budgets to be balanced each year.

The Voice of Massachusetts Cities and Towns

Representing 351 municipalities and the local officials who lead them

The MMA is the nonprofit, nonpartisan trade association for the municipal officials of Massachusetts. As policy experts, advocates, and connectors, we are collaborative and responsive — bringing local leaders together to:

- Articulate a clear and united municipal message
- Develop and advance shared policy goals
- Share information and best practices
- Work collectively to increase the efficiency and effectiveness of municipal service delivery

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