MMA | Massachusetts Municipal Association

Navigating the Storm: Charting a Course Toward Fiscal Stability

Recommendations from the Massachusetts Municipal Association

DECEMBER 2025

Cities and towns across Massachusetts deliver many of the essential public services that residents rely on every single day. But providing these services demands essential and stable resources.

As our "Perfect Storm" findings detail, municipalities across the Commonwealth are confronting a convergence of relentless cost pressures, rigid revenue limits, and eroding state aid. The result is a vise-like squeeze on municipal spending in Massachusetts, with a spending growth rate well below the average for municipalities across the country.

Positioning our municipalities to thrive in the future will require a clear-eyed understanding of the challenges facing local governments, and a recognition that these difficulties vary across the state. The "Perfect Storm" analysis demonstrated the underlying need for thoughtful, targeted policy recommendations that can support municipalities in meeting today's needs and preparing for tomorrow's.

This is an urgent issue not only for local taxpayers, but also for the Commonwealth as a whole. Ultimately, the success of Massachusetts depends on the fiscal strength of its cities and towns. When municipalities are stable and resilient, the Commonwealth is better positioned to grow, innovate, and support its residents. This is an issue of **competitiveness** and **affordability**.

This report's recommendations are rooted in the data and analysis of the "Perfect Storm" findings. They outline a **strategic path forward to promote municipal fiscal stability**, including:

- **Restoring adequate and reliable state aid**
- **Providing property taxation flexibility**
- **Prioritizing key accounts while expanding local revenue options and modernizing municipal practices**

Together, these investments and reforms would reinforce the financial backbone of all 351 cities and towns, preserve essential public services, and reaffirm the vital partnership between the Commonwealth and its municipalities.

RESTORING ADEQUATE AND RELIABLE STATE AID

Support for municipalities is a cornerstone of the Commonwealth's commitment to strong communities. From the creation of the Massachusetts State Lottery in the 1970s to the historic investments of the Student Opportunity Act, the Commonwealth has recognized that municipal budgets depend on a reliable state-local partnership. This partnership, built on predictable and flexible state aid, has allowed cities and towns to keep neighborhoods safe, support economic development, maintain public spaces, and operate effective municipal services.

The past two decades, however, have demonstrated how vulnerable that partnership can be, particularly during economic downturns. And today, the heart of this storm is an increasingly strained revenue structure that leans ever more heavily on the local property tax base. It is within this context that reinvesting in flexible state aid is not simply prudent policy, but an urgent necessity.

> ***Reinvesting in flexible state aid is no longer prudent policy — it's an urgent necessity.***

A Rising Tide to Lift All Boats

State aid has always served as a stabilizing force for local governments. When Massachusetts established its lottery system, the intent was clear: to generate a steady stream of resources that would flow directly to communities. Over time, lottery proceeds became intertwined with broader local aid distributions, still supporting essential operations in every city and town.

The successor program to direct lottery funding is Unrestricted General Government Aid, or UGGA. Unlike programs tied to specific services or mandates, UGGA provides communities with the freedom to allocate resources where local needs are greatest. It recognizes that municipal leaders best understand the unique priorities of their residents — whether funding public safety efforts, addressing deferred maintenance, or keeping senior centers, health departments, and public works running effectively.

UGGA functions as the Commonwealth's most universal municipal investment. Every city and town receives it, and every community — whether a dense urban center, a small rural town, a gateway city, or a coastal suburb — benefits. UGGA is a foundational and equalizing force in the state-local partnership.

The result is that UGGA serves as a rising tide for all 351 cities and towns. In years when UGGA increases meaningfully, communities can maintain staffing, avert service reductions, and preserve core operations. But when UGGA doesn't keep up with costs — or worse, when it is reduced — the consequences cascade across all municipal budgets, leaving cities and towns scrambling to backfill services with very limited local revenue options.

A Lasting Impact of the Great Recession

Our "Perfect Storm" findings detail the degradation of UGGA over the past few decades, especially when adjusted for inflation. But few events have reshaped local finances as profoundly as the Great Recession, which stemmed from the 2008 global financial crisis. Between fiscal 2008 and fiscal 2011, the entirety of the Massachusetts state budget, including UGGA, faced deep cuts as state revenues collapsed and policymakers sought rapid budget solutions.

Communities had little ability to absorb these reductions. While the Commonwealth eventually regained its fiscal strength, unrestricted local aid never returned to its pre-recession course. The gap created during fiscal 2008-2011 became a long-term *structural hole* in the municipal revenue base. In fact, *even without adjusting for inflation*, **Unrestricted General Government Aid just returned to fiscal 2008 levels in the *most recent* (fiscal 2026) state budget, 18 years after the reductions.**

Bucking the Headwinds

Today, communities are shouldering a greater share of the load for provisioning essential services, even as their cost pressures accelerate and their local revenue growth slows. Figure 1 shows that, relative to total local tax collections, UGGA has fallen since 2007 from a high of **11.5 percent of total local taxes to 5.4 percent in 2024**. Between fiscal 2007 (the last full pre-Great Recession budget) and fiscal 2024, UGGA has averaged approximately 6.78% of total local taxes statewide.

FIGURE 1

UGGA's Share of Local Taxes Has Declined Significantly

Ratio of UGGA vs. total local taxes in selected fiscal years

FISCAL YEAR	UGGA	TAXES	RATIO
2007	$1.30 billion	$11.32 billion	**11.5%**
2013	$0.90 billion	$14.53 billion	**6.2%**
2019	$1.10 billion	$18.82 billion	**5.8%**
2024	$1.27 billion	$23.59 billion	**5.4%**

Source: Massachusetts Division of Local Services

> ***The decline in UGGA relative to local taxes underscores growing pressure on property taxpayers.***

This concerning trend has resulted in a deepening dependence on local property tax collections, which further complicates housing affordability in our cities and towns and the Commonwealth's competitiveness. And despite important and desperately needed UGGA investments in recent years, funding still has not accounted for the structural hole in the municipal revenue base. As a result, local budgets continue to grapple with a deficit created nearly two decades ago.

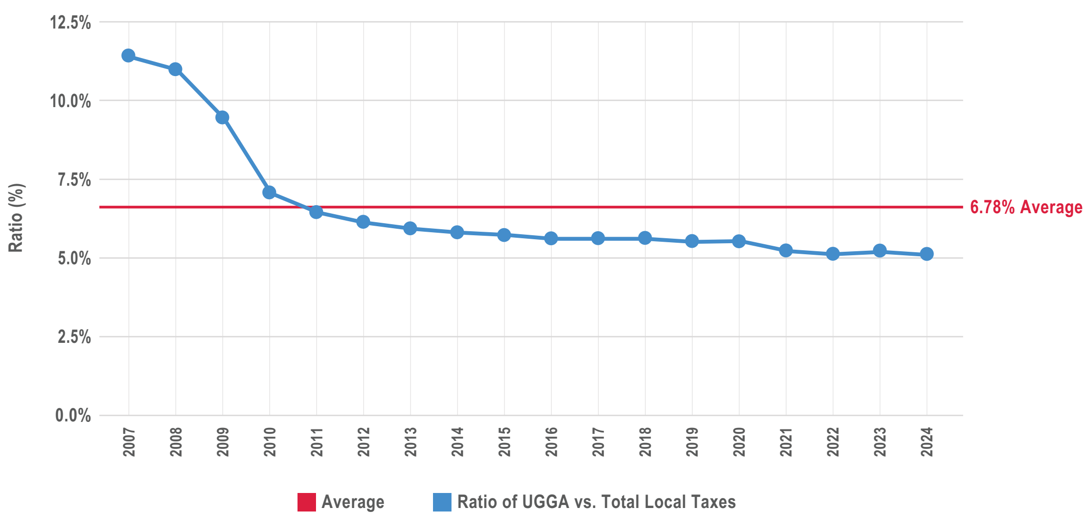
Tackling this trajectory head-on will not only help municipal budgets, but it will also provide critical local tax relief to residents. One method would be to pursue a full restoration of fiscal 2007 levels, adjusted for inflation. Another could target the pre-recession UGGA ratio of 11.5% relative to total local taxes.

Between fiscal 2007 (the last full pre-Great Recession year) and fiscal 2024, UGGA has averaged approximately 6.78% of total local taxes statewide.

FIGURE 2

UGGA's Share of Local Taxes Has Fallen Below Its Long-Term Average

Annual ratio vs. the 6.78% long-term average, 2007–2024



Source: Massachusetts Division of Local Services

In order to restore and stabilize the historical partnership between state and local government, **the MMA is recommending that the Commonwealth target restoring funding to the 6.78 percent figure**, representing the average since the Great Recession reductions. **Reaching the 6.78 percent benchmark in fiscal 2027 would require roughly an additional $356 million in funding for UGGA.**

351 for 351 Cities and Towns

While anchoring on the 6.78 percent benchmark of $356 million, it is also important to root this sizable investment in the importance of each and every city and town, as well as the universality of UGGA funding.

With this in mind, and given the symbolic importance of a renewed commitment to municipal fiscal health, the MMA proposes a significant and restorative investment: **$351 million for 351 cities and towns.**

The fiscal strength of all 351 cities and towns is central to the Commonwealth's success.

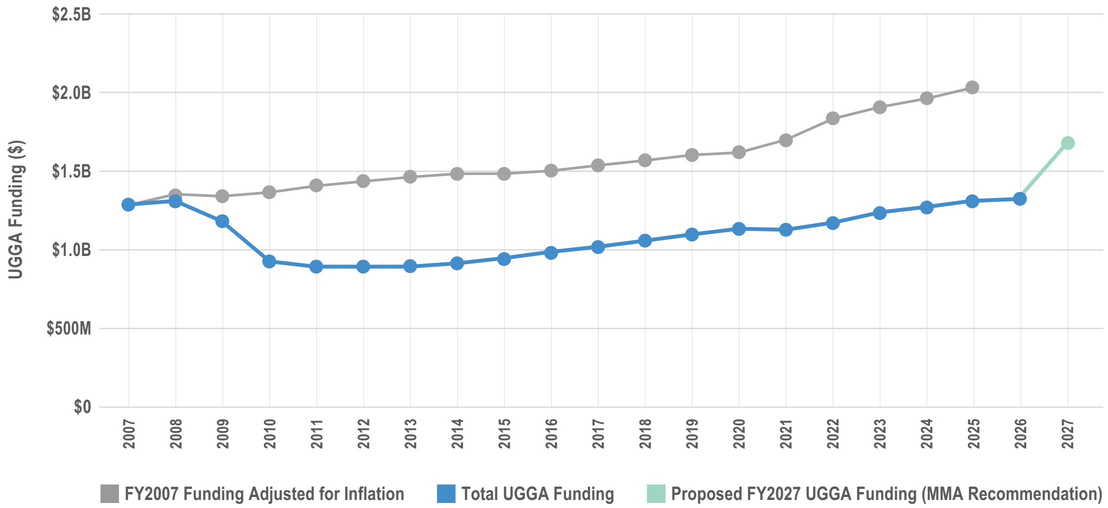
This initiative would provide $351 million in new total UGGA funding, representing an increase of **26.5 percent above fiscal 2026 level**s — a transformational reinvestment aimed squarely at closing the structural post-Great Recession funding gap.

Such an investment would provide immediate and meaningful relief for local budgets statewide, and local taxpayers. It would strengthen public safety, public health, public works, and community services in every corner of the Commonwealth. It would help municipalities stabilize budgets strained by rising costs and uncertain revenues. And it would restore a measure of balance to a state-local fiscal partnership that has drifted out of alignment for more than a decade.

FIGURE 3

UGGA Funding Has Not Kept Pace With Inflation Since the Great Recession

Total UGGA funding vs. inflation-adjusted FY2007 benchmark, 2007–2027



Source: Massachusetts Division of Local Services and U.S. Bureau of Labor Statistics (CPI)

Reinvesting in UGGA is the most direct and immediate way to strengthen the foundation of municipal government. The proposed **$351 million investment** would not only help restore historical balance, it would reaffirm the Commonwealth's enduring commitment to its cities and towns.

Over the long term, fixing UGGA to a certain target share of total local tax collections could provide future stability and reliability, since state rules and assessment norms make local tax collections very stable. In order to address current structural challenges, however, the Commonwealth must reinvest boldly and first seek a rising tide to lift all cities and towns.

PROPERTY TAXATION FLEXIBILITY

Our "Perfect Storm" findings identified the constraints of Proposition 2½ as unreasonable in an environment of inflationary pressures and cost drivers (health insurance, energy, construction, among others) increasing well above 2.5 percent. Aside from the local property tax, cities and towns have very few places to turn for revenue in order to keep up with inflation and maintain key municipal services — and those revenue options are not equally available among all types of municipalities. The law provides an avenue of relief, but, practically speaking, an override vote — an arduous and costly process in itself — is simply a non-starter in a majority of communities. Overrides are also a stopgap measure, not a long-term solution.

Our recommendations, below, examine the mechanics embedded within Proposition 2½ and property taxation, and explore flexibilities that would allow the law to operate in a manner that acknowledges today's economic realities.

Support Voter-Driven, Multi-Year Levy Solutions

- Permit **Multi-Year Overrides**, which would allow voters to authorize a structured override that phases in over multiple years. The ballot question would set both the total dollar amount and a defined implementation schedule, reducing abrupt tax shocks while giving local governments breathing room.
- Allow an **Adjustable Levy Cap** to permit municipalities, via referendum, to adjust the 2.5% levy limit upward, either to a specific economic indicator (e.g., the Consumer Price Index) or some other locally appropriate rate. Such a change could be permanent or temporary, depending on local decision-making.

> ***Giving communities flexible, voter-driven tools would bring property taxation in line with today's economic realities.***

By putting these adjustments into the hands of voters, residents would retain direct agency while municipal officials could gain much-needed flexibility.

Reform Property Classification and Ease Exemptions

The following policy recommendations would empower cities and towns with more direct authority within property taxation flexibility for classification of the use of property, as well as more robust means-tested exemptions for target populations.

- **Expand Local Classification Flexibility** to allow municipalities to more easily reclassify property based on use (residential, commercial, industrial) and revenue generation. This can help align tax policy and total resources with local economic development goals.
- **Delegate Flexibility for CIP Rate Shifts** to enable municipalities to provide larger shifts between Commercial-Industrial-Personal (CIP) rates and residential rates in a given year.
- **Expand Exemptions for Targeted Populations** to increase the ease and frequency for local-option exemption programs, particularly for vulnerable populations (e.g., seniors, veterans), through means-tested exemption policies.

PRIORITIZE KEY ACCOUNTS, EXPAND LOCAL REVENUES AND ALLEVIATE ADMINISTRATIVE BURDENS

As our "Perfect Storm" findings indicate, the prohibition against local sales and income taxes, and a 2.5% cap on property tax increases, prevent municipalities from raising adequate revenue on their own to respond to community needs. With this in mind, the MMA's final recommendations group critical considerations as we support a pathway to fiscal sustainability — prioritizing key funding programs from the Commonwealth, providing tools and revenue, and pursuing long overdue modernizations to municipal practices.

Emphasize Key Accounts and Municipal Aid Programs

It's critical that attention remain on key accounts and programs for essential municipal services. To achieve meaningful progress, these foundational state resources and reimbursements must be fully funded by the Commonwealth. The result will be to provide an even more meaningful, and sustainable, fiscal impact to our communities.

> ***Fully funding key state accounts would deliver meaningful, sustainable relief for every community.***

- Support continued investments in **Chapter 70 School Aid** to implement the Student Opportunity Act, while pursuing ongoing reforms to minimum new aid levels for districts and to the local contribution.
- Fully fund the **special education circuit breaker, charter mitigation funding**, and all **school transportation accounts**. This will ensure reliable, equitable programs without significantly shifting the financial burden to municipalities.
- Provide increases to **Rural School Aid**, in alignment with recommendations from the Commission on the Long-Term Fiscal Health of Rural Districts.
- Fully fund **PILOT (Payment-In-Lieu-of-Taxes)** for state-owned land, fully recognizing that cities and towns provide municipal services to state facilities that are exempt from the local property tax.

Local Option Revenues

In addition to flexibility within Proposition 2½, municipalities should be given more **local-option revenue tools**, which would diversify municipal revenue, reduce reliance on narrow tax bases, and tie certain resources to community priorities.

- Raise the **meals tax ceiling** to generate more dining-and-retail revenue.
- Increase the **lodging (hotel) tax**.
- Introduce a **local-option surcharge** on motor vehicle excise bills, giving a flexible source tied to vehicle ownership.
- Authorize a **real estate transfer fee** (or deed excise) dedicated to **local affordable housing trusts**, linking property market activity to housing affordability investments.

Modernize Municipal Practices and Reduce Administrative Burdens

Beyond funding, the structures by which municipalities receive aid and deliver services require an update. Reform here could reduce costs and improve efficiency by removing unnecessary or outdated administrative burdens.

- Pass the **Municipal Empowerment Act**, a multifaceted package of reforms and local options intended to cut costly red tape, enhance local revenue-raising options, and improve local government efficiency.
- Incentivize **regionalization efforts** through additional grants, technical assistance, and pilot programs, which would promote more efficient and effective delivery of services.
- Pursue lasting **reform to municipal liabilities and legacy costs**, including in health care and pensions.

CLOSING

As the backbone of the state's economy and quality of life, the 351 cities and towns of Massachusetts deliver the essential services that residents rely on every single day. But their ability to do so is imperiled by a convergence of relentless cost pressures, rigid revenue limits, and eroding state aid.

This report outlines a strategic path forward to promote municipal fiscal stability, including:

Restoring adequate and reliable state aid

Providing property taxation flexibility

Prioritizing key accounts while expanding local revenue options and modernizing municipal practices

Together, these investments and reforms are intended to reinforce the financial standing of all 351 cities and towns, preserve essential public services, and reaffirm the vital partnership between the Commonwealth and its municipalities.

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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