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Budget Woes Trickle Down

Hard-Hit State and Local Governments Say Bush And Congress Left Them to Make Cuts, Raise Taxes

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FALL RIVER, Mass. -- To hear the political rhetoric, you might think Bunnie Kydd made out like a bandit on taxes this year. Her president has stumped the country to tout his \$350 billion federal tax cut. Her governor, Mitt Romney (R), just closed a \$3 billion budget gap while keeping a campaign pledge not to raise a penny in new state taxes.

So why does Kydd, a retired nurse, say her taxes are going up so much that, at 70, she may have to sell her house to pay them? And why do most of her fellow patrons at Al Mac's Restaurant -- "Justly Famous Since 1910" in this working-class city -- say that their taxes also are going up?

"We've been bamboozled by politicians," Kydd said to general agreement on a recent lunch break.

It feels that way in many towns and cities from border to border, as Washington and the states push fiscal crises of historic proportions from one level of government down to the next. While cutting federal taxes, President Bush and Congress left billions of dollars of federal education, health care and homeland security obligations to states. Governors and legislators -- already struggling to fix record budget deficits, mostly without raising taxes -- cut spending deeply in almost every area, including local aid. With nowhere else to send the bill, local governments are cutting services and, in many cases, raising property taxes.

Here in Fall River, a mostly immigrant city where the median annual income is just under \$30,000, the trickle-down fiscal crisis means \$4.5 million less in state aid over the next year for police, fire, libraries, trash pickup and other basic services. Like his president and governor, Mayor Edward M. Lambert Jr. (D) abhors tax increases, and he has sliced 145 city jobs, including 61 in police and fire protection. But with ongoing costs such as health care soaring, he came up \$3.3 million short of a balanced budget.

Now he and the city council are raising property taxes 8 percent, or \$335 per household.

"The governor says it's not right to raise taxes, but apparently it's okay as long as someone else raises them," Lambert said. "What are our choices? There are none."

Faced with total deficits approaching \$100 billion this budget season, governors and legislatures in more than half the states have pared the once-sacred state role of aiding local governments with cash for everything from policing to patching potholes, mowing ball fields, lighting streets, even zapping mosquitoes. Since poorer cities tend to rely more on state aid, the burden in many cases is landing on those least able to pay it.

A survey being conducted by the National League of Cities found that 27 of 36 states responding so far have significantly reduced local aid for the fiscal year that began July 1. Nebraska localities took a 40 percent reduction, atop 25 percent last year. Many Minnesota cities face 25 percent cuts. In California, which missed the July 1 budget deadline to close a record \$38 billion deficit, lawmakers were moving to cut more than \$1 billion in local aid. With states predicting more budget crises in 2005, the process is

likely to continue.

Cuts, Increases -- or Both?

Local officials in many states have not yet decided how to make up the difference -- with service cuts, tax increases or both. In Maryland, 13 of 24 counties have raised taxes for 2004, citing statewide cuts of about \$175 million in non-school aid as a major factor. Montgomery County raised energy, telephone and income taxes, and Prince George's raised income and park and planning property taxes. Northern Virginia officials cited state cuts in law enforcement subsidies as a key source of pressure on property taxes.

"The problems are being dumped in our laps," said Montgomery County Executive Douglas M. Duncan (D), blaming the state's cuts for a good part of the average homeowner's increase of \$469 this year. Asserting that the county cannot bear more tax increases, he said, "If we lose another \$40 or \$50 million from the state, we'll basically have to stop providing some services to the community."

The pattern nationwide reflects the scale of state fiscal crises and the determination of most governors and legislatures to balance budgets without raising taxes. The only other options are to use accounting gimmicks or cut once-inviolable functions such as education, Medicaid and local aid. The vast majority of states are now doing both.

In ways, local governments are better prepared than states for the fiscal storm, because their prime revenue source is property taxes, and property values are rising even as income tax revenue -- the prime funding source for most states -- has plunged.

But University of Wisconsin economist Andrew M. Reschovsky, a scholar of fiscal policy, said this shifts the burden toward those least able to pay, because property taxes tend to take a larger share of lower-income people's paychecks, while income taxes -- which were cut throughout the 1990s -- hit high earners hardest.

Rising assessments also are fueling calls for property-tax limits in wealthier suburbs nationwide. Officials say the result would be layoffs and program cuts.

Michael J. Widmer, executive director of the Massachusetts Taxpayers Foundation, a research institute funded by major businesses, said that pushing the fiscal crisis onto local governments could undermine the economic stimulus Bush and governors hope to deliver.

"We're going to see thousands of layoffs and higher property taxes at the local level, which will hit the very people living on tight budgets," Widmer said. "This will have a negative economic impact, and the issue is being hidden behind the argument that we don't want to hurt working families by raising taxes."

Massachusetts is a good place to witness the trickle-down fiscal crisis, because the state strictly limited property tax increases two decades ago, leaving towns and cities especially dependent on state aid.

During the fiscal joyride of the 1990s, when the stock market was in the stratosphere and state tax revenue mushroomed, local aid rose statewide by more than \$3 billion. Most of the increase was earmarked for state-mandated school improvements, however, not for police, fire and other basic services.

"State legislatures are the best partners in the world when we have the dough," said Massachusetts House Speaker Thomas M. Finneran (D). "We spread it around, and it's great politics. It's like oxygen to the members."

But the partnership changed almost overnight, with the stock market collapse, the recession and the Sept. 11, 2001, terrorist attacks. Personal income tax revenue in Massachusetts dropped almost 20 percent in one year, the steepest decline of any state except California. Even so, Finneran emphasized, lawmakers avoided cutting local aid for two years, in part by raising taxes \$1.2 billion in 2002. That fed a voter backlash that helped elect Romney on a no-new-taxes platform last November.

The same day, Massachusetts voters came close to abolishing the state income tax outright, defeating its proposed repeal by 54 percent to 46 percent.

In the budget that was enacted June 30, the Democratic-controlled legislature stuck by Romney's no-new-taxes dictum. One result was a \$304 million cut in local aid, along with cuts in social services that one Democratic legislative aide described as "so deep we don't want to live in a state that would cut them more."

Finneran said local officials are unfairly criticizing aid cuts, quickly forgetting the legislature's difficult vote last year to raise taxes.

"We've depleted all the options. The wolf is at the door," he said. "It's what I call lifeboat time. Everybody is in the lifeboat staring at the available water and available bread and saying, 'Where's my share?'"

Massachusetts cities and towns are barred from increasing property taxes more than 2.5 percent a year without voter approval. The state's municipal league reports that more than 60 localities are holding elections this year to override the state limits, mostly because of the local aid cuts.

"The rich uncle died and we're not in the will," lamented Mayor Robert J. Dolan of Melrose, a Boston commuter suburb of 28,000 that relies on state aid for 30 percent of its budget. His town lost more than \$4 million in aid over 18 months.

Dolan -- who cut \$20,000 from his own salary -- asked voters last month to override the limits and raise property taxes about \$600 a year on average to avert steep cuts in public schools and basic services. They refused, by a 3-1 ratio, triggering layoffs of 35 teachers and class-size increases from 18 to 25 in elementary school, 22 to 27 in middle school and 22 to 30 in high school.

"The president says, 'Leave no child behind,' but that's all we're doing," Dolan said.

By contrast, voters in nearby Reading, another upper-middle-class suburb, narrowly overrode the limits after years of reducing police coverage, library hours and public health nurses and deferring school maintenance to the point that water pipes burst in the high school this year, flooding the classroom of the state teacher of the year. Meanwhile, post-Sept. 11 security measures added \$500,000 to the cost of a new town water system -- a cost officials once hoped Washington would subsidize.

"The millions that were supposed to be available to local governments aren't there because the federal government can't afford it," town manager Peter Hechenbleikner said. "Yet they just reduced taxes again."

Deciding Whom to Blame

Gerry McDonald, 70, a retired nursing home administrator who fought the property tax increase, said it had forced him to take a part-time job as a greeter at Lowe's. He also said he was grateful for the federal tax cut: It will help him pay his extra \$580 in property taxes.

Back in Fall River, it was unclear whom people blame for their higher tax burden. As rents rise, landlords blame the mayor. The mayor blames the governor. In a full day of interviews, voters split almost evenly between blaming Romney, Lambert and the overall economy. In this heavily Democratic city, no one blamed the president.

"The doctor may order you to have an injection, but when it hurts, you blame the nurse who gives it to you," said Frank Baptista, founder, producer and director of "Voice of the Immigrant," the region's most popular Portuguese radio program that nowadays is bombarded with angry calls about tax increases.

At Al Mac's Restaurant, Charlotte Sousa, a Macy's manager, said her landlord recently raised the rent on her one-bedroom apartment from \$350 a month to \$500. "She said her taxes went up, the water went up, so my rent went up. I said, 'Oh my God, there goes my paycheck.' "

The federal tax cut will not help Sousa much. Her daughter is grown, so she will not benefit from a new child tax credit that helps many working-class parents. According to an analysis by H&R Block of the effect on various income groups, her savings will total \$50 this year.

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