



To: Mayor Gary Christenson  
From: Ronald Hogan, Chief Strategy Officer  
Date: February 27, 2024  
Re: Required & Target Local Contribution Analysis

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This memorandum is a follow up to your request for an analysis of the required local contribution for Malden as compared to other gateway cities. As you know, this topic has been one of great interest for several years, and many of the concerns I expressed back in 2020 are playing out now. Below you will find some general commentary on the Target and Required Local Contribution formulas, as well as some analysis I have completed using data from the most recently completed fiscal year, which is 2023. Additional information is presented using the most recently available data applicable.

It of course is worth starting by acknowledging that there is no perfect approach to determining what a community can afford when it comes to school funding. There are many variables, and every community likely has its own feelings about what works and what doesn't work about the required local contribution and target local contribution calculations. That said, there are some metrics that I think highlight when a particular gateway community is really disadvantaged disproportionately and having done a similar analysis for several years in a row, I believe the data demonstrates that Malden stands out among a handful of communities left with a real struggle to deliver core basic city services after the requirement for school funding is met.

#### Background

As we all know, the various components of Chapter 70 are nuanced and complex. The work the legislative delegation did to pass the Student Opportunity Act went a long way in modernizing the approach to determining the actual costs involved in providing a quality education, and as a community, that shouldn't get lost. That said, our focus since then has been on the part of Chapter 70 that was out of scope, that is the component that determines what a community can afford to pay, the required and target local contributions.

### Required and Target Local Contributions

Each year, DESE calculates for each community the Target Local Contribution (TLC) and Required Local Contribution (RLC) figures. The TLC is the amount the formula determines a city can pay for its share of education costs for that particular year. It uses two relatively simple inputs; the Equalized Value of the property in the city/town, and the Total Income of the residents of the city/town. The calculations will pull the most recent data available for each component, and typically the Total Income data is a year or two older than the Equalized Value data. A percentage is applied to each component and combined to produce the TLC.

The RLC is a byproduct of the TLC. The goal is to recognize that many communities can't reach the TLC figure in one year, so the RLC uses the prior year RLC as a baseline, adds an amount based upon the municipal growth factor for the individual city or town, and then applies an additional 'below target' increment when the RLC yields a result less than the TLC and the shortfall is greater than 2.5%. In the case of Malden, the past three years (FY25, FY24, FY23) have resulted in an additional 'below target' increment of over \$3 million to our required local contribution.

While the tendency can be to focus more on the RLC figure and less on the TLC figure, the 'below target' increment added to the equation makes the outsized growth of the TLC a concern that is in fact real, and one that will continue to grow the magnitude of this problem.

### Equalized Value (EQV) Approach Limitations

On the surface, there are several challenges with the utilization of Equalized Value as a wealth determiner. There is simply too much variance from one city or town to the next in what a dollar of EQV ACTUALLY delivers for revenue, with limited to no ability to impact that at the local level. I'll expand on that separately below in a section specific to proposition 2 ½ and the role it plays in this. The meaningful result is that communities can have similar EQV figures but widely varying associated tax income, and little to no ability to drive additional income from that EQV. However, EQV will drive the RLC and TLC figures independent of what the actual revenue is. I'll focus on three subcomponents of EQV and the associated limitations:

- EQV vs Actual Revenue
- Limitations of Prop 2 ½
- The Commercial Advantage

### EQV vs. Actual Revenue

To highlight the wide range of tax revenue generated by a dollar of EQV, consider the case of Pittsfield, Malden, and Burlington.

| City Town  | Equalized Value 2023 | Tax Revenue 2023 |
|------------|----------------------|------------------|
| Pittsfield | \$4,240,000,000      | \$101,150,561    |
| Malden     | \$9,978,000,000      | \$105,368,863    |
| Burlington | \$9,008,541,000      | \$144,071,000    |

As you can see, Pittsfield, with less than half the EQV of Malden, generates almost the same tax revenue, while Burlington, with an EQV lower than Malden, generates almost \$40 million more in tax revenue. Under the current formulas, Malden would have the highest TLC and RLC despite the revenue differences. This dynamic is different for each city based upon a variety of factors the impact the revenue associated with EQV at the city level.

A second factor to be considered is the EQV and the impact it is having in driving the ‘below effort’ increment that is driving the outsized relative growth in Malden’s RLC. Tax revenue at the local level is a function of values and rates. Under proposition 2 ½, the two work together to determine the tax levy for a particular year. In a real estate environment with growing values, the offset to those growing values is a reduced rate, such that the net result is a 2.5% increase in the levy, absent new growth. However, the TLC only factors in the value side through the EQV component. Let’s examine the impact of just considering one side of the equation.

Between 2014 and 2022, Malden’s EQV increased by 91%. This increase would be captured in the TLC formula calculation and likely drive a below effort increment addition at the maximum level. However, during this time, tax rates were DECREASED by 25% to offset the value (EQV) increase such that the net result was in line with the requirements under proposition 2 ½. The TLC formula will disproportionately inflate the TLC by only considering the EQV side of this equation and drive below effort increment additions that are most impactful to communities such as Malden that are struggling to stay at the required NSS figure and therefore for whom these increments are real.

### The Impact of Proposition 2 1/2

A discussion on this topic wouldn’t be complete without talking about the limitations of proposition 2 ½ and the role that plays in dealing with the challenges from the current TLC and RLC formulas.

Following up on the comparison above, it should be noted that Pittsfield has much higher tax rates than Malden, both residential and commercial. This is an important point. However, they have never passed an override and in fact, no gateway city has passed an operational Prop 2 ½ override. Therefore, every community appears to be heavily influenced by history and where communities were at when Prop 2 ½ first was put in place.

Comparing tax rates is difficult because communities tend to have a split tax rate, commercial and residential, with communities shifting often a substantial portion of the tax burden to the commercial rates allows some communities to have an overall higher tax rate while insulating the more sensitive residential side from the impact of those rates. However, a fair analysis of the overall situation involves pointing out that Malden’s tax revenue as a % of assessed value is amongst the lowest in the state but requires voter approval for any change as Malden is taxing to the levy limit. Data below is for FY2024.

| Municipality | Maximum Levy Limit | Total Tax Levy | Override Capacity as a % of Levy Ceiling | Total Assessed Value | Tax Levy as % of Assessed Value |
|--------------|--------------------|----------------|--|----------------------|---------------------------------|
| Barnstable   | \$ 145,996,544     | \$ 145,242,793 | 77%                                      | \$ 24,524,518,817    | 0.590%                          |
| Revere       | \$ 113,715,482     | \$ 113,707,377 | 59%                                      | \$ 10,994,858,679    | 1.030%                          |
| Malden       | \$ 109,325,449     | \$ 109,264,402 | 58%                                      | \$ 10,505,789,000    | 1.040%                          |
| Peabody      | \$ 140,873,454     | \$ 122,510,800 | 51%                                      | \$ 11,386,051,494    | 1.080%                          |
| Lawrence     | \$ 97,589,770      | \$ 84,455,743  | 49%                                      | \$ 7,629,261,062     | 1.110%                          |
| Lynn         | \$ 161,187,834     | \$ 161,151,604 | 54%                                      | \$ 13,975,076,000    | 1.150%                          |
| Haverhill    | \$ 129,566,432     | \$ 123,093,875 | 51%                                      | \$ 10,497,584,042    | 1.170%                          |
| Methuen      | \$ 108,991,277     | \$ 108,331,374 | 52%                                      | \$ 9,028,341,715     | 1.200%                          |
| Quincy       | \$ 328,215,357     | \$ 290,892,948 | 42%                                      | \$ 22,680,112,532    | 1.280%                          |
| Lowell       | \$ 184,920,460     | \$ 172,422,044 | 43%                                      | \$ 12,957,100,095    | 1.330%                          |
| Salem        | \$ 125,749,807     | \$ 117,433,650 | 42%                                      | \$ 8,675,689,947     | 1.350%                          |
| Attleboro    | \$ 96,628,164      | \$ 96,612,078  | 50%                                      | \$ 7,086,432,072     | 1.360%                          |
| Brockton     | \$ 173,245,070     | \$ 173,187,607 | 45%                                      | \$ 12,601,493,444    | 1.370%                          |
| Chelsea      | \$ 79,219,207      | \$ 79,155,027  | 45%                                      | \$ 5,778,945,892     | 1.370%                          |
| Everett      | \$ 172,197,362     | \$ 110,509,989 | 15%                                      | \$ 8,057,645,573     | 1.370%                          |
| Fall River   | \$ 135,767,827     | \$ 133,158,722 | 46%                                      | \$ 9,734,326,731     | 1.370%                          |
| Taunton      | \$ 128,129,090     | \$ 128,107,901 | 44%                                      | \$ 9,114,552,753     | 1.410%                          |
| New Bedford  | \$ 157,307,008     | \$ 152,551,213 | 40%                                      | \$ 10,574,289,999    | 1.440%                          |
| Leominster   | \$ 93,446,959      | \$ 87,031,610  | 38%                                      | \$ 5,998,043,425     | 1.450%                          |
| Fitchburg    | \$ 65,395,698      | \$ 65,387,686  | 41%                                      | \$ 4,415,103,714     | 1.480%                          |
| Worcester    | \$ 405,536,919     | \$ 381,789,495 | 27%                                      | \$ 22,228,700,212    | 1.720%                          |
| Chicopee     | \$ 110,483,923     | \$ 101,680,517 | 21%                                      | \$ 5,598,542,263     | 1.820%                          |
| Westfield    | \$ 97,398,336      | \$ 88,367,933  | 18%                                      | \$ 4,729,795,432     | 1.870%                          |
| Springfield  | \$ 265,112,017     | \$ 256,048,299 | 15%                                      | \$ 12,548,427,300    | 2.040%                          |
| Pittsfield   | \$ 109,992,764     | \$ 109,166,941 | 9%                                       | \$ 4,822,885,672     | 2.260%                          |
| Holyoke      | \$ 64,786,904      | \$ 63,087,897  | 2%                                       | \$ 2,651,077,152     | 2.380%                          |

To further illustrate the impact of this data, were Malden to be yielding revenue from assessed value at a ratio like Everett or Chelsea, the Malden budget would be over \$30 million higher than it is today.

### The Commercial Advantage

While there is no direct advantage relative to EQV when it comes to commercial development versus residential, the indirect advantages are substantial.

A commercial tax base provides an opportunity for communities to shift a portion of the tax burden to a use that generally can afford it more while also providing a tax base that requires substantially less use of municipal services such as schools, police or fire. A review of tax rates for cities that have a substantial commercial base will show the benefit of the typical shift that is done. There are built in advantages that some cities have relative to commercial vs residential growth which drive the type of development that occurs,

location, proximity to highways, and land availability amongst them. With focus statewide on the housing shortage, it's important to point out the impacts of residential focused development vs commercial, which are furthered below in the commentary in the income component of the formula.

### Income Factor Component

The inclusion of income as a component to determining the ability to pay is perhaps on the surface less problematic when comparing gateway cities in that all tend to be denser than non-gateway cities and therefore a similar dynamic applies. However, even among gateway cities, small differences in income add up to big differences in local effort from that income, with no direct income derived locally. There's no denying the difficulty in connecting the ability to generate income at a municipal level to pay for school funding with the total income of the residents of the city.

Perhaps the most significant limitation of the income component is the negative impact it has on residential heavy communities. As mentioned previously, a heavy commercial tax base has several advantages, while adding \$0 to the income component of the RLC formula.

Lastly, it's worth mentioning that the inclusion of this component may be a disincentive to dense housing projects. In fact, my analysis is that dense market rate housing projects may generate zero net revenue long term when you factor in the increase in the target contribution and before even factoring in an increase in school enrollment.

### **Metrics For Evaluation**

Recognizing that every approach has its pros and cons and therefore will have its 'winners and losers', the question becomes, how do you evaluate the effectiveness of the current required and target local contribution formulas, and how do you identify where the result truly disadvantages a community and its ability to deliver other city services to a point that action should be taken? It's fair to recognize that an approach can work overall, but still need to accommodate those situations whereby a series of variables can yield an unacceptable outcome for a small subset of cities or towns.

In reviewing the data to arrive at some shareable conclusions, I focus on two metrics that, while not perfect, when taken together do an excellent job of highlighting why Malden is at such a disadvantage. I limit my analysis to gateway cities both for practical reasons, as comparing 351 cities and towns is unwieldy, but more importantly, because the characteristics that make each city a gateway city makes them ideal for comparative purposes. Fiscal year 2023 is used for comparison purposes as it's the last completed fiscal year, and reporting is available across the DOR Databank.

### *Required/Target Contribution as a Percent of Revenue*

This approach focuses on evaluating both the RLC and TLC figures as a percentage of available revenue. In this illustration, we use tax revenue plus local receipts plus unrestricted state aid as available revenue to meet the required and target contributions.

The average gateway city is required to utilize 24.37% of available revenue for the RLC, and 29.98% of available revenue for the TLC. A full listing of all gateway cities follows.

### **Required/Target Local Contribution as a % of Available Revenue**

| <b>City/Town</b>       | <b>Required Local Contribution<br/>as % of Avail Revenue</b> | <b>Target Local Contribution<br/>as % of Avail Revenue</b> |
|------------------------|--|--|
| Malden                 | 35.76%   | 43.82%   |
| Peabody                | 35.41%   | 41.86%   |
| Attleboro              | 34.92%   | 36.71%   |
| Quincy                 | 33.10%   | 36.05%   |
| Methuen                | 32.13%   | 37.30%   |
| Barnstable             | 31.57%   | 36.35%   |
| Leominster             | 31.03%   | 33.22%   |
| Haverhill              | 30.62%   | 37.92%   |
| Lynn                   | 27.86%   | 33.72%   |
| Revere                 | 27.72%   | 34.95%   |
| Salem                  | 27.26%   | 32.13%   |
| Westfield              | 26.58%   | 27.95%   |
| <b>Average Gateway</b> | <b>24.37%</b>  | <b>29.98%</b>  |
| Worcester              | 24.16%   | 26.75%   |
| Pittsfield             | 23.99%   | 25.51%   |
| Brockton               | 23.97%   | 30.86%   |
| Everett                | 23.67%   | 26.19%   |
| Taunton                | 22.71%   | 26.47%   |
| Lowell                 | 22.42%   | 28.97%   |
| Fitchburg              | 22.28%   | 26.83%   |
| Chicopee               | 20.53%   | 21.78%   |
| Fall River             | 19.44%   | 26.44%   |
| Chelsea                | 17.01%   | 23.64%   |
| New Bedford            | 15.28%   | 24.15%   |
| Holyoke                | 13.45%   | 22.85%   |
| Springfield            | 12.00%   | 19.87%   |
| Lawrence               | 9.53%  | 31.25%   |

### *Funds Remaining to Deliver Other City Services & Fund Beyond Net School Spending Min.*

This approach is intended to recognize that like education costs, most other city services are driven at least somewhat substantially by population size. The size of a city's fire

department, police department, public works department, etc. would all be expected to correlate somewhat closely with the population being served. Gateway cities share common traits in the demographics of the population being served and the level of services required to address the same.

This next calculation looks at what is left per capita after the required or target contributions are met. It is in many ways a way to normalize population differences. The RLC and TLC as a percent of revenue may be high for a particular community, but if the population being served for all other city services is low by comparison, then the higher contribution level wouldn't put as much strain on the ability to deliver other city services. At the same time, the required contribution as a percentage of revenue may be lower than average but still leave inadequate resources on a per capita basis to deliver other city services in a high population gateway city. Therefore, both metrics taken together are the best way to see the complete picture.

| City/Town              | Required Local Remaining Funds Per Capita | Target Local Remaining Funds Per Capita |
|------------------------|---|---|
| Lawrence               | \$ 1,395                                  | \$ 1,060                                |
| Malden                 | \$ 1,418                                  | \$ 1,240                                |
| Lynn                   | \$ 1,485                                  | \$ 1,364                                |
| Brockton               | \$ 1,570                                  | \$ 1,427                                |
| Haverhill              | \$ 1,595                                  | \$ 1,427                                |
| Fall River             | \$ 1,603                                  | \$ 1,464                                |
| Attleboro              | \$ 1,661                                  | \$ 1,615                                |
| Methuen                | \$ 1,709                                  | \$ 1,578                                |
| Leominster             | \$ 1,713                                  | \$ 1,658                                |
| Fitchburg              | \$ 1,720                                  | \$ 1,619                                |
| Lowell                 | \$ 1,727                                  | \$ 1,582                                |
| Worcester              | \$ 1,743                                  | \$ 1,683                                |
| Peabody                | \$ 1,781                                  | \$ 1,603                                |
| Revere                 | \$ 1,810                                  | \$ 1,629                                |
| <b>Average Gateway</b> | <b>\$ 1,867</b>                           | <b>\$ 1,729</b>                         |
| New Bedford            | \$ 1,884                                  | \$ 1,687                                |
| Holyoke                | \$ 2,009                                  | \$ 1,791                                |
| Westfield              | \$ 2,055                                  | \$ 2,017                                |
| Springfield            | \$ 2,119                                  | \$ 1,930                                |
| Pittsfield             | \$ 2,213                                  | \$ 2,168                                |
| Quincy                 | \$ 2,227                                  | \$ 2,129                                |
| Chicopee               | \$ 2,252                                  | \$ 2,217                                |
| Taunton                | \$ 2,290                                  | \$ 2,179                                |
| Salem                  | \$ 2,367                                  | \$ 2,208                                |
| Barnstable             | \$ 2,487                                  | \$ 2,313                                |
| Everett                | \$ 2,553                                  | \$ 2,469                                |
| Chelsea                | \$ 2,570                                  | \$ 2,365                                |



### A Quick Snapshot Comparison

Comparisons of gross Chapter 70 dollars can be difficult as factors such as enrollment size and population being served play a key role in the foundation budget size and by extension Chapter 70 aid. Comparisons on required contribution by city on the other hand are straight forward when compared to cities with similar revenue. Below shows Malden as compared to four other gateway cities close in geographic proximity and with revenue levels that provide for reasonable comparisons.

|                       | <b>Malden</b> | <b>Revere</b> | <b>Everett</b> | <b>Chelsea</b> | <b>Salem</b>  |
|-----------------------|---------------|---------------|----------------|----------------|---------------|
| Population            | 65,074        | 59,075        | 48,557         | 38,889         | 44,819        |
| Enrollment            | 6,803         | 7,735         | 7,437          | 7,089          | 4,139         |
| Available Revenue     | \$143,666,285 | \$147,955,477 | \$162,399,855  | \$120,432,559  | \$145,815,256 |
| Required Contribution | \$51,377,517  | \$41,009,518  | \$38,446,657   | \$20,484,593   | \$39,750,153  |
| Target Contribution   | \$62,961,000  | \$51,712,000  | \$42,532,000   | \$28,466,000   | \$46,845,000  |

### Challenges In Addressing The Issue

The first and most obvious challenge is in recognizing that there is no perfect approach that takes into account the nuances of 351 cities/towns, and that any significant change that results in some communities doing better and some doing worse than the current formula is going to pit cities and towns against one another in a way that's not healthy and will in all likelihood make achieving consensus certainly difficult in the short term. It is worth noting that if you were starting from scratch, an approach that considered actual revenue and population would be worth exploring, but we aren't starting from scratch. I'm a realist and think getting to that level of change is a long-term initiative that wouldn't provide Malden with the relief we need short term. Therefore, we will instead focus on an approach that identifies the outliers in the current approach and ways to mitigate the same.

### A Short Term Fix Proposal

A long-term solution will require significant time and collaboration. We should support Senator Lewis's request that a committee be formed to study this issue in depth. I believe our entire state delegation supports this recommendation. However, Malden requires a more immediate temporary solution to avoid short term damage to our community. I propose the following approach for an immediate impact.

- Focus only on gateway cities, recognizing the common traits that make them gateway cities and the unique challenges of the same.



- Establish a maximum % of available revenue threshold after which some type of circuit breaker aid kicks in
  - The formula would always be looking back at the most recently completed fiscal year for revenue.
  - I suggest 30% as a threshold as it narrows the outliers and limits the scope.
    - At this level, you are still well below the average or typical gateway city in terms of the percentage of the budget going to fund the RLC.
- Calculate a ‘supplemental aid’ amount that bridges the gap between 30% and the current years required local contribution.
- Offset the ‘supplemental aid’ amount with the amount the city/town has available under its levy limit.
  - If a community is not taxed to the levy limit, it’s difficult to expect additional state aid first.

My analysis shows that eight communities would show as being above the 30% threshold. However, four of these communities have excess levy capacity that is greater than the difference between 30% and the RLC as a percent of available revenue. This narrows the impact to four cities for a total cost of approximately \$18 million. On the surface this price tag is substantial, yet it’s only so because it represents a conservative view of the inequity created by the current formula, and the actual impact it’s having on a small number of communities.

There is of course no solution without its challenges. For our community, this pressure from the required local contribution as demonstrated by some of the metrics shared is having a real and profound impact on our ability to deliver other basic city services and to even fund our schools at the minimum level required. The impact is well outside of the average or typical gateway city. We need a short-term fix as we study the long-term solution.