

Information on Proposition 2½ **(Reprinted from *New Officials Finance Forum Handbook*)**

Proposition 2½ was enacted in 1980. This law places constraints on the property tax levy raised by cities and towns. The property tax levy is the revenue a community can raise through real and personal property taxes and is the largest source of revenue for many Massachusetts municipalities. Proposition 2½ established two types of constraints or limits: the *levy limit* and the *levy ceiling*.

The *levy limit* is the maximum amount of property taxes that a community can raise in a given year. Each year the levy limit is calculated based on the previous year's levy limit, not the actual amount levied in the previous year. Therefore, choosing not to levy up to the levy limit in one year does not affect the following year's levy limit. The levy limit is calculated by adding the automatic 2½ percent increase and new growth to the previous year's levy limit. The levy limit is below, or at most, equal to the levy ceiling.

One way that the levy limit increases is by the addition of *new growth*. New growth reflects certain increases in the tax base and becomes a permanent part of the levy limit base. Assessors are required to submit information on new growth in the tax base for approval by the Department of Revenue as part of the tax rate setting process. There are three basic categories of new growth including (1) properties that have increased in assessed valuation since the prior year because of development or other changes, (2) exempt real property returned to the tax roll and new personal property, and (3) new subdivision parcels and condominium conversions. New growth does not include market value increases.

The *levy ceiling* places a constraint on the community's levy limit. The community's levy limit cannot exceed the levy ceiling. The levy ceiling equals 2½ percent of the full and fair cash value of all taxable real and personal property in the community as certified by the Commissioner of Revenue. The full and fair cash value of the property in a community usually changes each year. This change occurs as properties are added to or removed from the tax roll and market values change. It results in a change in the levy ceiling.

There are a couple of ways that a community can levy more than its limit. One way is to successfully vote an *override*. An override is a voted increase in the levy limit. The amount of the override becomes a permanent part of the levy limit base. An override cannot increase the levy limit beyond the levy ceiling. Override questions are placed on the ballot by a majority vote of the selectmen or city council with the mayor's approval (if required by law). Override referenda must specify the purpose of the override and list a dollar amount on the ballot. A majority vote of approval by the electorate is needed to successfully pass the override. Usually, overrides are used to fund operating and other recurring costs. Similarly, an *underride* is a voted permanent reduction in the levy limit base. A majority vote of approval by the electorate is needed to pass an *underride*.

A second way for a community to levy more than its levy limit is to successfully vote a *debt exclusion* or *capital outlay expenditure exclusion* for a capital project or acquisition. A debt

exclusion creates a temporary increase in the levy limit to fund the payment of debt service costs for capital projects funded by borrowing. The additional amount for the debt service is added to the levy limit for the life of the debt. A capital outlay expenditure exclusion creates a temporary (one year) increase in the levy limit to fund capital projects. The exclusion is added to the levy limit only for the year during which the project is being funded. State reimbursements are subtracted from the amount of the exclusion. Exclusions do not become part of the base upon which the levy limit is calculated for future years. Exclusions may result in the levy temporarily exceeding the levy ceiling. Exclusion questions are placed on the ballot by a two-thirds vote of the selectmen or city council with the mayor's approval (if required by law). A majority vote of the electorate is required to implement an exclusion.

Proposition 2½ does not restrict the amount that a community's actual levy can be increased or decreased from year to year as long as the levy is within the bounds set by the levy limit. A community may choose not to levy up to its levy limit in a given year. The difference between the actual levy and the levy limit is called *excess levy capacity*. A community may have excess levy capacity in one year and, in the following year, levy up to the full amount of its new levy limit. The community does not lose its capacity to levy up to the levy limit in future years by choosing to levy less than the limit in any one given year.

Further information on Proposition 2½ can be found in the DLS pamphlets *Levy Limits: A Primer on Proposition 2½ and Proposition 2½ Ballot Questions: Requirements and Procedures* available on our website at www.mass.gov/dls, under Publications and Forms.