



# State Policies and Laws that Affect How Much Revenue Can Be Raised

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# Sources of Municipal Revenue

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- Property Tax Levy
- State Aid
- Local Receipts
- Grants
- Transfers from Special Funds



# State Policies and Laws that affect how much Revenue can be raised.

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- **Property Taxes**

- Why Tax Property?
- Why Not Tax Property?
- Proposition 2 ½
- Tax-exempt Property

- **Car Excise Taxes**

- **Fees**

- **Proposals to Change Proposition 2 1/2**



## Why Tax Property?

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- Historic method understood by the citizens
- People can choose their house and community; taxes and services are part of that choice
- Local control of how tax money is spent
- Enforceable - real estate cannot move
- Stable and predictable
- Broad based tax
- Mildly progressive
- Other major forms of taxation not available at local level



## Why NOT Tax Property?

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- Real estate bills are highly visible
- No perceived relationship between the tax and the benefit received
- Unrealized capital gain - perceived as unfair by individuals who do not plan to sell
- Inequities persist in the system
- Weak connection between property tax and income



## Proposition 2 ½

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- The tax revolt of the 1970's (continuing today) was against
  - taxes in general
  - property taxes specifically
  - tax **increases** with no increase in benefits or with no control on spending



## What is Proposition 2 ½?

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- Passed by Initiative Petition
- Limits both the total tax levy and the rate of annual increase



## Levy Ceiling

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The total property taxes raised cannot exceed 2 ½ % of the total valuation of all taxable property in the community.

Total Property Assessment	\$4,000,000,000
Levy Ceiling	\$ 100,000,000



## Levy Limit

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- The total amount of property taxes raised by a community can increase by only 2½% per year, plus new growth (estimated taxes from new construction).
- The 2 ½ % limit is on it is the total dollar amount of the municipality's taxes, not the tax rate or the tax on any individual household.

## Levy Limit

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	Year 1	Year 2
<b>Last Year Tax Levy</b>	<b>\$30,000,000</b>	<b>\$31,250,000</b>
<b>Plus 2 ½ %</b>	<b>\$750,000</b>	<b>\$781,250</b>
<b>New Growth</b>	<b>\$500,000</b>	<b>\$400,000</b>
<b>Levy Limit</b>	<b>\$31,250,000</b>	<b>\$32,431,250</b>



## Ways to Increase Tax Levy Above 2 ½% Limits

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- Override
- Capital Outlay Expenditure Exclusion
- Debt Exclusion

## Override

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	Year 1	Year 2
<b>Last Year Tax Levy</b>	<b>\$30,000,000</b>	<b>32,250,000</b>
<b>Plus 2 ½ %</b>	<b>\$750,000</b>	<b>\$806,250</b>
<b>New Growth</b>	<b>\$500,000</b>	<b>\$400,000</b>
<b>Override</b>	<b>\$1,000,000</b>	
<b>Levy Limit</b>	<b>\$32,250,000</b>	<b>\$33,456,250</b>

## Debt Exclusion

	Year 1	Year 2
<b>Last Year Tax Levy</b>	<b>\$30,000,000</b>	<b>\$31,250,000</b>
<b>Plus 2 ½ %</b>	<b>\$750,000</b>	<b>\$781,250</b>
<b>New Growth</b>	<b>\$500,000</b>	<b>\$400,000</b>
<b>Sub Total</b>	<b>\$31,250,000</b>	<b>\$32,431,250</b>
<b>Debt Exclusion</b>	<b>\$300,000</b>	<b>\$275,000</b>
<b>Levy Limit</b>	<b>\$31,550,000</b>	<b>\$32,456,250</b>



## Other Provisions of Proposition 2 1/2

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- No unfunded state mandates
- School budgets set by municipality
- No binding arbitration
- Motor vehicle excise reduced to \$25 per thousand
- Renter's deduction



# Car Excise Tax

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- Prior to Prop 2 ½ \$66 per \$1,000
- Declines as value of vehicle declines
- Proposals to change it:
  - change the rate (\$25 per \$1,000)
  - make the depreciation steeper



## Tax Exempt Property

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### Constitutional exemption

- Religious, medical, educational, cultural
- Significant amount of property in many communities
- Services extend beyond town lines yet tax impact is in host town



# PILOT's

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- Payments in Lieu of taxation
- Can be negotiated
- No state requirement
- State undervalues its property

## Impact of Tax Exempt Property

	Town A	Town B
<b>Levy Limit</b>	<b>\$31,250,000</b>	<b>\$31,250,000</b>
<b>Total Assessed Value</b>	<b>\$4,000,000,000</b>	<b>\$4,000,000,000</b>
<b>Tax Exempt Property</b>	<b>0</b>	<b>\$1,000,000,000</b>
<b>Total Taxable Property</b>	<b>\$4,000,000,000</b>	<b>\$3,000,000,000</b>
<b>Tax Rate per Thousand</b>	<b>\$7.81</b>	<b>\$10.42</b>



## Why Change Proposition 2 ½?

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- No economic basis
- Inflation greater than 2 ½ %
- Served its purpose
- High rate of overrides
- Reduced ability to benefit from booms
- Reduced economic flexibility
- Disparities between communities



## Mass Combined State/Local Revenue

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	<b>1978</b>	<b>2002</b>
<b>Property Taxes</b>	<b>40.9%</b>	<b>26.6%</b>
<b>Charges &amp; Fees</b>	<b>14.0%</b>	<b>27.2%</b>
<b>Total</b>	<b>54.9%</b>	<b>53.8%</b>



# Local Receipts

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- Water and sewer usage charges
- Trash disposal
- Licenses
- Fines and liens
- Hotel room tax
- Rentals



## Limitations on Fees

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### State criteria

- Must be easy to collect and account for
- Consumer may choose not to use
- Can only recover actual costs

### League criteria

- Should not be highly regressive



## Changing Proposition 2 1/2

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Remember, the solution must

- Not increase disparities
- Be accessible to all communities
- Be progressive
- Improve economic flexibility
- Maintain local control



## Proposals for Changing 2 ½

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- Eliminate altogether
- Change percentage
- Exempt items from limit
- Make override process easier
- Add circuit breakers
- Revise State/Local fiscal relationship
- Allow new local option taxes
- Suggestions?



## Community Preservation Act

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- Local option tax, communities must vote it in with individual restrictions
- A surcharge on the property tax of up to 3%
- Piggybacks on property tax, not a new source of revenue
- Earmarked funds



# Sources

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# Sources (2)

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